КЫРГЫЗ БАНКЫ

ANNUAL REPORT 2021

Bishkek-2022

Annual Report of the National Bank of the Kyrgyz Republic for 2021
Part 2. Financial Statements

The report of the National Bank of the Kyrgyz Republic for the year of 2021 is prepared in accordance with Articles 54 and 55 of the Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" No.206 of December 16, 2016.

The consolidated financial statements of the National Bank for the year ended on December 31, 2021 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No. *2022-П-15/23-1-(ВД) of April 15, 2022*.

The separate financial statements of the National Bank for the year ended on December 31, 2021 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No. *2022-П-15/23-2-(ВД) of April 15, 2022*.

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INDEPENDENT AUDITORS' REPORT

To the Management Board of the National Bank of the Kyrgyz Republic

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting principles disclosed in Note 2 of the consolidated financial statements.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of the National Bank for the year of 2021 but does not include the consolidated financial statements and our auditors' report thereon.

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the financial reporting principles disclosed in Note 2 of the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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

Ashley Clarke
Attorney

Aida Asyrandieva
Executive Director of KPMG Bishkek LLC
Certified Auditor of the Kyrgyz Republic,
Auditor's Qualification Certificate
serial A, No. 0232 of 13 November 2014

18 April 2022

Consolidated Statement of Financial Position as at 31 december 2021

(in thousands of Soms)

	Note	31 December 2021	31 December 2020
ASSETS			
Gold	6	50 159 119	84 129 763
Cash on hands, due from banks and other financial institutions	7	134 282 112	78 505 097
Loans to banks and international organisations	8	6 248 840	8 623 357
Loans to customers	9	6 339 365	5 758 941
Investments measured at fair value through other comprehensive income	10	72 482 525	73 855 532
Investments at amortised cost	11	9 099 364	2 967 212
Investments in associates	12	344 582	501 860
Property, plant and equipment	13	2 328 640	2 243 550
Right-of-use assets	14	106 626	224 906
Intangible assets		209 281	275 731
Non-current assets held for sale	15	687 416	425 173
Non-monetary gold and gold reserves	16	35 413 597	13 511 515
Deferred tax assets	31	5 380	-
Income tax prepaid		93	93
Other assets	17	4 480 843	3 290 661
Total assets		**322 187 783**	**274 313 391**
LIABILITIES			
Banknotes and coins in circulation	18	139 554 512	134 316 687
Financial derivative liabilities		15 539	-
Due to banks and other financial institutions	19	39 110 292	25 600 754
Due to the Government of the Kyrgyz Republic	20	22 730 726	16 748 525
Customer accounts	21	4 402 860	4 528 679
Debt securities issued	22	18 400 171	11 493 091
Loans received		-	322 830
Liabilities to the IMF in respect of SDR allocations	23	30 258 833	9 994 865
Lease liabilities	14	128 557	319 451
Deferred tax liabilities	31	2 551	15 196
Other liabilities	24	442 962	246 401
Total liabilities		**255 047 003**	**203 586 479**
EQUITY			
Charter capital	25	2 000 000	2 000 000
Obligatory reserve		8 325 042	7 476 561
Revaluation reserve for foreign currency and gold		44 149 006	53 572 573
Revaluation reserve for investments measured at fair value through other comprehensive income		(102 317)	16 666
Retained earnings		11 998 053	6 909 129
Total equity attributable to equity holders of the National Bank		**66 369 784**	**69 974 929**
Non-controlling interest		770 996	751 983
Total equity		**67 140 780**	**70 726 912**
Total liabilities and equity		**322 187 783**	**274 313 391**

Bokontaev K.K.
Chairman of the National Bank

15 April 2022

City of Bishkek, The Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

15 April 2022

City of Bishkek, The Kyrgyz Republic

The notes on pages 18-94 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss for the year ended 31 december 2021

(in thousands of Soms)

	Note	Year ended 31 December 2021	Year ended 31 December 2020
Interest income	26	2 396 348	2 093 942
Interest expense	26	(1 420 448)	(1 147 557)
Net interest income	**26**	**975 900**	**946 385**
Fee and commission income		213 342	149 729
Fee and commission expense		(79 967)	(44 607)
Net fee and commission income		**133 375**	**105 122**
Charge for expected credit losses on interest bearing assets	27	(349 695)	(940 173)
Net realised gain on foreign currencies and gold operations	28	15 053 973	9 467 742
Net gain/(loss) on financial instruments at fair value through profit or loss		28 607	(49 527)
Charge of provision for other assets and contingent liabilities	27	(88 053)	(56 354)
Share of profit of associates		73 081	38 442
Other income		600 271	433 432
Net non-interest income		**15 318 184**	**8 893 562**
Operating income		**16 427 459**	**9 945 069**
Banknotes and coins production expenses		(434 774)	(404 385)
Administrative expenses	29	(2 127 732)	(1 714 976)
Other expenses		(259 595)	(307 720)
Operating expenses		**(2 822 101)**	**(2 427 081)**
Profit before income tax		**13 605 358**	**7 517 988**
Income tax expense	31	(9 920)	(9 008)
Profit for the year		**13 595 438**	**7 508 980**
Profit/(loss) attributable to non-controlling interest		17 663	(24 088)
Profit attributable to the National Bank		**13 577 775**	**7 533 068**

Bokontaev K.K.
Chairman of the National Bank

15 April 2022

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Alybaeva S.K.
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15 April 2022

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The Kyrgyz Republic

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Consolidated Statement of Comprehensive Income for the year ended 31 december 2021

(in thousands of Soms)

	Year ended 31 December 2021	Year ended 31 December 2020
Profit for the year	**13 595 438**	**7 508 980**
Items that may be reclassified subsequently to statement of profit or loss		
Revaluation reserve for foreign currency and gold:		
- net gain on revaluation of assets and liabilities in foreign currencies and gold	5 122 030	45 291 005
- net gain on foreign currencies and gold transferred to profit or loss	(14 545 597)	(8 870 337)
Net (loss)/gain from changes in fair value of investments measured at fair value through other comprehensive income, including impairment during the period	(119 178)	13 331
Other comprehensive (loss)/income for the year, net of income tax	**(9 542 745)**	**36 433 999**
Total comprehensive income for the year	**4 052 693**	**43 942 979**
Attributable to:		
- the National Bank	4 035 225	43 966 848
- non-controlling interest	17 468	(23 869)
	4 052 693	**43 942 979**

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15 April 2022

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The Kyrgyz Republic

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15 April 2022

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The Kyrgyz Republic

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Consolidated Statement of Cash Flows for the year ended 31 december 2021

(in thousands of Soms)

	Note	Year ended 31 December 2021	Year ended 31 December 2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1 884 738	2 138 084
Interest paid		(1 382 146)	(1 021 842)
Fee and commission received		202 694	154 729
Fee and commission paid		(79 925)	(44 607)
Realised gain on foreign exchange operations		505 786	546 052
Net profit on other financial instruments		28 607	14 745
Other income		333 207	304 118
Payroll expenses		(1 123 346)	(845 804)
Banknotes and coins production expenses		(902 986)	(631 063)
Administrative expenses excluding payroll expenses		(708 169)	(682 377)
Cash flows used in operating activities before changes in operating assets and liabilities		**(1 241 540)**	**(67 965)**
(Increase)/decrease in operating assets			
Gold		35 156 809	(8 955 136)
Due from banks and other financial institutions		(21 962 511)	17 611 796
Investments measured at fair value through other comprehensive income		2 782 077	(30 395 196)
Loans to banks and international organisations		2 185 211	(1 645 295)
Loans to customers		(757 482)	(1 291 813)
Non-current assets held for sale		6 148	20 104
Non-monetary gold and gold reserves		(24 327 409)	(6 781 784)
Other assets		1 685 358	(2 085 475)
Increase/(decrease) in operating liabilities			
Banknotes and coins in circulation		5 237 824	28 258 636
Financial derivative liabilities		15 539	(76 753)
Due to banks and other financial institutions		14 866 769	1 250 569
Due to the Government of the Kyrgyz Republic		(1 818 849)	(6 234 584)
Customer accounts		24 050	748 464
Debt securities issued		5 393 968	4 933 730
Other liabilities		(11 791)	(163 087)
Cash flows from/(used in) operating activities		**17 234 171**	**(4 873 789)**
Income tax paid		(19 184)	(2 698)
Net cash from/(used in) operating activities		**17 214 987**	**(4 876 487)**

The notes on pages 18-94 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 december 2021 (continued)

(in thousands of Soms)

	Note	Year ended 31 December 2021	Year ended 31 December 2020
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of shares of subsidiary		-	(158 000)
Cash received as a result of consolidation of subsidiary		9 433	48 805
Purchases of property, plant and equipment and intangible assets		(303 627)	(364 083)
Proceeds from disposal of property, plant and equipment		3 653	-
Purchases of investments measured at amortised cost		(6 685 050)	(2 939 403)
Proceeds on redemption of investments at amortised cost		802 960	64 352
Interest received on investments measured at amortised cost		280 868	11 314
Dividends received		10 358	33 824
Net cash used in investing activities		**(5 881 405)**	**(3 303 191)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans received	23	20 424 704	21 667
Repayment of loans received		(321 667)	-
Lease payments	14	(74 726)	(57 167)
Dividends paid		(3 484)	(14 136)
Net cash from/(used in) financing activities		**20 024 827**	**(49 636)**
Net increase/(decrease) in cash and cash equivalents		**31 358 409**	**(8 229 314)**
Effect of changes in exchange rates on cash and cash equivalents		1 738 880	9 604 483
Cash and cash equivalents at the beginning of the year		**53 451 318**	**52 076 149**
Cash and cash equivalents at the end of the year	**7**	**86 548 607**	**53 451 318**

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15 April 2022

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15 April 2022

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The Kyrgyz Republic

The notes on pages 18-94 form an integral part of these consolidated financial statements.

CONTENT

Consolidated Statement of Changes in Equity for the year ended 31 december 2021

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments measured at fair value through other comprehensive income	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total
Balance at 1 January 2021	**2 000 000**	**7 476 561**	**53 572 573**	**16 666**	**6 909 129**	**69 974 929**	**751 983**	**70 726 912**
Profit for the year	-	-	-	-	13 577 775	13 577 775	17 663	13 595 438
Other comprehensive income								
Net loss from changes in fair value of investments measured at fair value through other comprehensive income	-	-	-	(118 983)	-	(118 983)	(195)	(119 178)
Net gain on revaluation of assets and liabilities in foreign currencies and gold	-	-	5 122 030	-	-	5 122 030	-	5 122 030
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(14 545 597)	-	-	(14 545 597)	-	(14 545 597)
Total comprehensive income for the year	**-**	**-**	**(9 423 567)**	**(118 983)**	**13 577 775**	**4 035 225**	**17 468**	**4 052 693**
Transactions recorded directly in equity								
Distribution of prior year profit to the state budget (Note 25)	-	-	-	-	(7 636 330)	(7 636 330)	-	(7 636 330)
Transfer to obligatory reserve (Note 25)	-	848 481	-	-	(848 481)	-	-	-
Dividends paid (Note 25)	-	-	-	-	(3 484)	(3 484)	-	(3 484)
Transfer of provision for depreciation of property, plant and equipment	-	-	-	-	(2 101)	(2 101)	-	(2 101)
Total amounts of transactions recorded directly to equity	**-**	**848 481**	**-**	**-**	**(8 490 396)**	**(7 641 915)**	**-**	**(7 641 915)**
Adjustment arising from change in non-controlling interest in subsidiaries - OJSC Keremet Bank and OJSC Guarantee Fund	-	-	-	-	1 545	1 545	1 545	3 090
Balance at 31 December 2021	**2 000 000**	**8 325 042**	**44 149 006**	**(102 317)**	**11 998 053**	**66 369 784**	**770 996**	**67 140 780**

The notes on pages 18-94 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 december 2021 (continued)

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments measured at fair value through other comprehensive income	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total
Balance at 1 January 2020	**2 000 000**	**7 476 561**	**17 151 905**	**3 553**	**1 984 421**	**28 616 440**	**163 592**	**28 780 032**
Profit for the year	-	-	-	-	7 533 068	7 533 068	(24 088)	7 508 980
Other comprehensive income								
Net gain from changes in fair value of investments measured at fair value through other comprehensive income	-	-	-	13 113	-	13 113	218	13 331
Net gain on revaluation of assets and liabilities in foreign currencies and gold	-	-	45 291 005	-	-	45 291 005	-	45 291 005
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(8 870 337)	-	-	(8 870 337)	-	(8 870 337)
Total comprehensive income for the year	**-**	**-**	**36 420 668**	**13 113**	**7 533 068**	**43 966 849**	**(23 870)**	**43 942 979**
Transactions recorded directly in equity								
Distribution of prior year profit to the state budget (Note 25)	-	-	-	-	(2 565 273)	(2 565 273)	-	(2 565 273)
Dividends paid (Note 25)	-	-	-	-	(14 136)	(14 136)	-	(14 136)
Transfer of provision for depreciation of property, plant and equipment	-	-	-	-	1 310	1 310	-	1 310
Total amounts of transactions recorded directly to equity	**-**	**-**	**-**	**-**	**(2 578 099)**	**(2 578 099)**	**-**	**(2 578 099)**
Adjustment arising from change in non-controlling interest in subsidiaries - OJSC Keremet Bank and OJSC Guarantee Fund	-	-	-	-	(30 261)	(30 261)	612 261	582 000
Balance at 31 December 2020	**2 000 000**	**7 476 561**	**53 572 573**	**16 666**	**6 909 129**	**69 974 929**	**751 983**	**70 726 912**

Bokontaev K.K.
Chairman of the National Bank

15 April 2022

City of Bishkek The Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

15 April 2022

City of Bishkek The Kyrgyz Republic

The notes on pages 18-94 form an integral part of these consolidated financial statements.

CONTENT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(in thousands of Soms)

1 GENERAL INFORMATION

(a) Organisation and operations

The National Bank of the Kyrgyz Republic (the "National Bank") is a legal successor of the State Bank of the Kyrgyz Republic which was renamed by the Law "On the National Bank of the Kyrgyz Republic" dated 12 December 1992 as the National Bank of the Kyrgyz Republic. On 16 December 2016, the Jogorku Kenesh (Parliament) of the Kyrgyz Republic adopted the new Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity", which currently regulates the activities of the National Bank.

The principal goal of the National Bank is to achieve and maintain stability of prices in the Kyrgyz Republic. To achieve this goal the National Bank is entrusted to perform the following functions: determine and implement the monetary policy for the country; foster well-functioning and effective payment system and interbank transfers; issue and supply banknotes and coins for circulation; manage international currency reserves; license, regulate and supervise operations of the commercial banks and financial institutions in accordance with the legislation. The National Bank also acts as a fiscal agent of the Government of the Kyrgyz Republic.

The National Bank's registered office is: 168, Chui ave., Bishkek, Kyrgyz Republic, 720001.

As at 31 December 2021 and 2020, the National Bank has 5 oblast branches and one representative office operating throughout the Kyrgyz Republic.

As at 31 December 2021 and 2020, the total number of the National Bank's employees is 753 and 705, respectively.

The National Bank is the parent company of the group (the "Group"), which includes the following organisations:

	Percentage of voting shares (%)		
Name	**31 December 2021**	**31 December 2020**	**Activity**
OJSC Keremet Bank	97,45	97,45	Banking services
OJSC Company Guarantee Fund	91,22	85,91	Guarantee issue services
CJSC Kyrgyz Cash Collection	100,00	100,00	Valuables transportation services

On 10 November 2021, to support business entities and promote further development of their operations through increasing access to the financial resources in conditions where there is a need to mitigate the negative consequences of COVID-19 pandemic, the National Bank purchased shares of the seventh issue of OJSC Guarantee Fund for the amount of KGS 2 500 000 thousand. Based on results of placement of the seventh issue of shares of the OJSC Guarantee Fund, the share of the National Bank in the charter capital was 91,22%.

On 8 December 2021, to support the material base of CJSC Kyrgyz Cash Collection for implementation of the public and social tasks, including an uninterrupted provision of services of ATM replenishment and delivery of cash to the regions of Kyrgyzstan, the National Bank made decision to increase the charter capital of the CJSC Kyrgyz Cash Collection through the third issue of the CJSC Kyrgyz Cash Collection 's shares for the amount of KGS 500 000 thousand. Based on results of the third issue the CJSC Kyrgyz Cash Collection charter capital was KGS 720 000 thousand. The share of the National Bank in the charter capital is 100%.

As at 31 December 2021 and 2020, the National Bank also owns an investment in CJSC Interbank Processing Center (49,42%).

These consolidated financial statements were approved by the Management Board of the National Bank on 15 April 2022.

1 GENERAL INFORMATION (CONTINUED)

(b) Business environment

The Kyrgyz Republic is undergoing significant political, economic and social changes. As an emergency market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result, operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. The Kyrgyz Republic's high degree of integration with the economies of the countries in the region results in the exposure of the Kyrgyz Republic economy to the influence of unstable situations in international capital markets.

In early 2022, the geopolitical situation affected the Kyrgyz economy.

The Group considers negative development scenarios and is ready to adapt its operational plans accordingly. The National Bank continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

The consolidated financial statements reflect management's assessment of the impact of the Kyrgyz Republic business environment on the operations and the financial position of the Group.

The actual impact of future economic conditions may differ from their management's assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance with IFRS with certain exceptions

In accordance with the Law of the Kyrgyz Republic "On National Bank of the Kyrgyz Republic, Banks and Banking Activity" the National Bank determines for itself the accounting policy and methods of accounting. These consolidated financial statements have been designed to present fairly the consolidated financial position of the National Bank and its subsidiaries and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with the principal modifications as described below:

– Gold as defined in note 3a is revalued based on the market value and if the total net unrealised result from the mark to market of gold and foreign currency assets and liabilities revaluation is a gain, this is recognised as other comprehensive income directly in equity. Where the total net unrealised result from the mark to market of gold and foreign currency assets and liabilities revaluation is a loss, it is recognised in the consolidated statement of profit or loss except to the extent that it reverses a previous net unrealised gain, otherwise it is recognised as other comprehensive income directly in equity. At the time of derecognition of gold and foreign currency assets and liabilities, the cumulative gain or loss previously recognised in equity is transferred to the consolidated statement of profit or loss on the basis of the weighted-average cost method.
– To perform the role and functions of the central bank, investments measured at fair value through other comprehensive income (Note 10) and nostro accounts with foreign banks and international financial institutions (Note 7) are classified as "held for cash collection and sale", despite the absence of any recent sales (Note 3f (i)).

2 BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance with IFRS with certain exceptions (continued)

- Expected credit losses (ECL) on nostro accounts and term deposits in foreign countries with foreign banks and international financial institutions (Note 7) are calculated on the basis of the Regulation “On Classification of Financial Assets and Liabilities and Calculation of ECL Allowance for Financial Assets of the National Bank of the Kyrgyz Republic” (Note 3(f)(iv)), under which the National Bank, under certain circumstances may use its professional judgement to determine the ECL amount.
- Allocation of the profit for the year is recognised after completion of the independent external audit and approval of the annual report by the Management Board of the National Bank, and recognition of prepayment as an asset before the approval.

These consolidated financial statements have been designed to present fairly the consolidated financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank, which was approved by the Management Board of the National Bank on 25 December 2020 as amended, with the latest amended being made on 17 December 2021, and which the National Bank considers to be appropriate to the nature of the central bank activity.

These consolidated financial statements have been prepared on the assumption that the Group will continue its operations in the foreseeable future.

(b) Basis for measurement

These consolidated financial statements have been prepared in accordance with the historic cost principle, with the exception of gold as defined in Note 3 (a) and certain financial instruments measured at fair value.

(c) Functional and presentation currency

Items included in the consolidated financial statements are measured in the currency of the primary economic environment in which the Group operates (“the functional currency”). The functional currency of the Group is the Kyrgyz Som, which, being the national currency of the Kyrgyz Republic, best reflects the economic substance of the majority of the operations conducted by the Group and related circumstances affecting their operations. Kyrgyz Som is also the presentation currency of these consolidated financial statements.

Financial information is presented in soms and rounded to the nearest thousand.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting for gold

(i) Gold

Gold comprises gold on deposits with foreign banks and gold bullion with Good Delivery status. Gold is an investment asset formed to implement the monetary policy and generate investment income.

Gold is accounted for at the market value in the consolidated financial statements. Market value is determined by reference to the London Bullion Market Association Gold Price PM at the day preceding the reporting date. Where the total net unrealised result on revaluation of gold is a gain, it is recognised directly in other comprehensive income in equity. Where the total net unrealised result on a revaluation of gold is a loss, it is it is recognised in the consolidated statement of profit or loss except to the extent that it reverses a previous net unrealised gain, otherwise it is recognised as other comprehensive income directly in equity. Realised gains and losses on gold are subsequently recognised in the consolidated statement of profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Accounting of gold (continued)

(ii) Non-monetary gold and gold reserves

Non-monetary gold is represented by bullion that is not in compliance with standards of the London Bullion Market Association.

Gold reserves comprise gold bullion, which meets the requirements of the Good Delivery international quality standard of London Bullion Market Association and other generally recognised international standards; bullion that have qualitative characteristics of Good Delivery international quality standard but are not certified by London Bullion Market Association, and gold in non-standard bullions, plates, granules or other types, purchased to form the gold reserves, for production and other purposes, and to expand operations with precious metals and develop the precious metals market.

Non-monetary gold and gold reserves are intended to form the Group's reserves within the framework of the development prospects of the domestic precious metals market. They do not participate in active investment operations of the Group and do not form the Group's investment assets in gold.

Non-monetary gold and gold reserves are classified as inventory and are measured at the lower of cost and net realisable value.

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Group 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 is determined. Where the total net foreign currency differences arising on retranslation is a gain, it is recognised as other comprehensive income in equity. Where the total net foreign currency differences arising from revaluation is a loss, it is presented in the statement of profit or loss except to the extent that it reverses a previous net unrealised gain, otherwise it is recognised as other comprehensive income directly in equity. 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. Realised gains and losses on foreign currencies are recorded in the consolidated statement of profit or loss.

Foreign exchange rates

Foreign exchange rates used by the Group in preparing the consolidated financial statements as at 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
US Dollar/som	84,7586	82,6498
Euro/som	95,7857	101,3204
Special Drawing Rights/som	118,6705	117,9311
Canadian Dollar/som	66,0967	63,6223
Australian Dollar/som	61,3829	62,2998
Great British Pound Sterling/som	113,6214	111,0892
Chinese Renminbi/som	13,3134	12,5477
Russian Rouble/som	33,7146	1,1188
Troy ounce gold/som	153 061,3178	156 009,7625

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Cash and cash equivalents

To determine cash flows, cash and cash equivalents include cash on hand in foreign currencies and unrestricted balances (nostro accounts) held with banks with original maturities within three months which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments.

Cash on hand in the national currency is deducted from the amount of banknotes and coins in circulation.

(d) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the National Bank and companies controlled by the National Bank and its subsidiaries. Control is achieved when the National Bank:

- Has power over the investee;
- Has rights/is exposed to variable returns from its involvement with the investee; and
- Has the ability to use its power over the investee to affect its variable returns.

The National Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the National Bank obtains control over the subsidiary and ceases when the National Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the National Bank gains control until the date when the National Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income is distributed between the National Bank and non-controlling interests. Total comprehensive income of subsidiaries is distributed between the National Bank and the non-controlling interests, even if this leads to a negative balance of non-controlling interests.

Non-controlling interest. Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the National Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from the share capital of the parent organisation.

(e) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values (1) of the assets transferred by the Group; (2) liabilities incurred by the Group to the former owners of the acquiree and (3) the equity interests issued by the Group in exchange for control of the acquiree. All acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Business combinations (continued)

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another IFRS.

The investment in OJSC Keremet Bank was measured at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets at the date control was acquired.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

(f) Financial assets

Financial assets and financial liabilities are recorded in the consolidated statement of financial position of the Group when the Group becomes a party to the contract in respect of the relevant financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using settlement date accounting.

(i) Classification and measurement of financial assets

All recognised financial assets included in the scope of application IFRS 9, after initial recognition, should be measured at amortised cost or at fair value in accordance with the business model of the Group for management of financial assets and characteristics of the contractual cash flows, except for nostro accounts with foreign banks and international financial institutions and investments measured at fair value through other comprehensive income, which are classified in accordance with the Regulation " On Classification of Financial Assets and Liabilities and Calculation of ECL Allowance for Financial Assets of the National Bank of the Kyrgyz Republic."

In particular:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost.
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVOCI.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(i) Classification and measurement of financial assets (continued)

- All other debt instruments (e.g. debt instruments measured at fair value or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group makes the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis: Specifically:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- The Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

<u>Financial assets measured at amortised cost</u> The business model of holding an asset to collect the contractual cash flows implies that the financial assets are managed to collect principal and interest payments over the life of the financial instrument. Within this business model, holding the financial asset till maturity is the priority, but early sale is not prohibited.

Financial assets measured at amortised cost include the following assets:

- Term deposits in foreign banks, term deposits in international financial institutions and cash on hand in foreign currencies (Note 7);
- Loans to banks and international organisations (Note 8);
- Loans to customers (Note 9);
- Securities of the Government of the Kyrgyz Republic, including treasury bills of the Ministry of Finance of the Kyrgyz Republic (Note 11); and
- Accounts receivable (Note 17).

After initial measurement, financial assets at amortised cost are measured using the effective interest method less any impairment losses.

<u>Financial assets at fair value through other comprehensive income</u> The business model of holding an asset both to collect the contractual cash flows and to sell the financial asset assumes that purpose of managing the financial asset is both obtaining contractual cash flows and selling the financial asset. Under this business model, the receipt of cash from the sale of the financial asset is a priority, which is distinguished by a higher frequency and volume of sales compared to the business model ‘Holding an asset to obtain the contractual cash flows’.

Financial assets at fair value through other comprehensive income include the following assets:

- Nostro accounts with foreign banks and international financial institutions (Note 7);
- Investments in state (sovereign) and agency debt instruments, as well as debt instruments of international financial institutions (Note 10).

The balance of nostro accounts with foreign banks and international financial institutions is maintained to manage liquidity. Payments from nostro accounts with foreign banks and international financial institutions are made to support the current operations of the National Bank for the performance of its functions.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(i) Classification and measurement of financial assets (continued)

The main goal when managing investments in state (sovereign) and agency debt instruments, as well as debt instruments of international financial institutions is to ensure liquidity and security of international reserves. Investments in state and agency debt obligations, as well as debt securities of international financial institutions, may be sold early in the financial markets to perform the functions of the National Bank. As a result, management have determined that these items are held under a business model to collect and sell and are therefore measured at FVOCI.

The fair value of financial assets measured at FVTOCI is determined under IFRS 13 *Fair value measurement* ("IFRS 13").

The fair value gains or losses of financial assets measured at FVOCI are recognised in other comprehensive income, until these assets are derecognised, when accumulated profits or losses previously reflected in equity are transferred to profit or loss.

Financial assets at fair value through profit or loss. All other financial assets which are not classified at FVTOCI or amortised cost are measured at FVTPL.

The fair value of financial assets is measured under IFRS 13 Fair value measurement ("IFRS 13").

Gains or losses at fair value for financial assets at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

Reclassification. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy described below in section 'Modification and derecognition of financial assets'.

(ii) Accounts receivable under reverse sale and repurchase agreements for securities and accounts payable under sale and repurchase agreements

In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repo and reverse repo agreements are used by the Group as an element of liquidity management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus accumulated interest. These agreements are accounted for as financing transactions. Financial assets sold under repo agreements are accounted for as secured financing transactions, with the securities retained in the consolidated financial statements and the counterparty liability is recorded as received deposit secured by assets as part of depository instruments in banks.

Assets acquired under reverse repos are recorded in the consolidated financial statements as funds placed on a deposit, which is pledged by securities or other assets and are classified as due from banks and/or loans extended.

The Group enters into repo agreements for securities and secured lending transactions for which it receives or transfers collateral in accordance with normal market practice. In accordance with the standard terms and conditions of repurchase transactions in the Kyrgyz Republic and other CIS countries, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities upon settlement of the transaction.

The transfer of securities to counterparties is only reflected in the consolidated statement of financial position when the risks and rewards of ownership are also transferred.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(iii) Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss include derivative financial instruments and include interest rate swaps, currency interest rate swaps and credit default swaps. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each reporting date. Resulting gains/losses are immediately recognised in profit or loss.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

(iv) Measurement of ECL for assets

General approach to recognition of expected credit losses. The Group recognises allowances for expected credit losses (ECL) in respect of following financial instruments that are not measured at fair value through profit or loss:

- Due from banks and other financial institutions (Note 7);
- Loans to banks and international organisations (Note 8);
- Loans to customers (Note 9);
- Investments measured at fair value through other comprehensive income (Note 10);
- Investments measured at amortised cost (Note 11);
- Other financial assets (Note 17); and
- Financial guarantees issued (Note 30).

No impairment loss is recognised on equity instruments.

With the exception of purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through an impairment allowance at an amount equal to:

- 12-month expected credit losses, i.e. lifetime expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage 1);
- full lifetime expected credit losses, i.e. lifetime expected credit losses that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

The National Bank recognises an allowance of the full value of credit losses expected over the entire term of a financial instrument, in the event of a significant credit risk increase from the moment the instrument was initially recognised. In all remaining cases, provisions for expected credit losses equal the amount of credit losses expected in the coming 12 months.

For purchased or originated credit-impaired financial assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Following formula is used to calculate ECL:

ECL = EAD * LGD * PD, where

ECL – expected credit loss;

EAD – exposure at default;

LGD – loss given default;

PD – probability of default.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(iv) Measurement of ECL for assets (continued)

Approach to identifying significant increase in credit risk. If there are facts of a significant increase in credit risk since the initial recognition, the Group monitors all financial assets, loan commitments and financial guarantee contracts that are subject to impairment requirements. In the event of a significant increase in credit risk, the Group will measure the loss allowance based on loan lifetime rather than 12-month ECL. In relation to financial assets with a significant increase in credit risk, the term "Stage 2 assets" is used.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

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

More detailed information on estimation of expected credit losses, criteria for significant increase of credit risk and credit impairment for each group of financial assets is given below.

Estimation of expected credit losses for due from banks and other financial institutions

Impairment indicators are determined based on the ratings of international rating agencies (Moody's Investors Service, Fitch Ratings, Standard & Poor's - hereinafter Moody's, Fitch, S&P, respectively), analysis of financial statements of the Group's counterparties and other information, which indicates change in their credit risk.

Approach to identifying significant increase in credit risk. Indicators of significant increase of credit risk for these assets are as follows:

- Deterioration of the long-term counterparty rating below Baa2 (BBB) according to the classification of one or more rating agencies indicated above compared to the rating upon initial recognition;
- Assignment of points to a commercial bank, below a certain level, when calculating limits for counterparties in accordance with the policy of determining limits for counterparties of the Group;
- Incurring annual net losses by the counterparty for 2 (two) consecutive years or more;
- Delay in fulfilment of obligations to transfer currency in accordance with the payment order of the Group or overdue of the principal and/or interest over 3 (three) days;
- Information on large amounts of fines, legal proceedings and other negative information obtained from reliable sources that may affect the counterparty's credit risk during the future reporting period.

Indicators of credit impairment of due from banks and other financial institutions are:

- Default, i.e. the inability or failure of the counterparty to fulfil its obligations;
- Delay in fulfilment of obligations over 30 days;
- A contractor's request for debt restructuring;
- Assignment to the counterparty of the rating D/Default, partial/selective default (RD/SD) by one or several rating agencies;

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(iv) Measurement of ECL for assets (continued)

- Other negative information obtained from reliable sources, which is an indicator of the significant financial difficulties of the counterparty, which does not allow him to fulfil obligations under an agreement with the Group.

<u>Estimation of expected credit losses for due from banks and other financial institutions</u>

Account description	ECL formula	Inputs into formula
1. Nostro accounts with foreign banks and international financial institutions	ECL = EAD x LGD x PD	EAD = Average counterparty balance for the preceding 12 months before the reporting date
		LGD = 0.6 for sovereign banks and 0.75 for commercial banks
		PD = Moody's Investor Service
2. Deposits in banks and other financial institutions and current accounts held under intergovernmental agreements	ECL_Banks = (EAD_banks x LGD_banks x PD_banks)	EAD_banks = Weighted average EAD on current accounts of intergovernmental agreements and deposits in commercial banks.
		LGD = 0.6 for sovereign banks and 0.75 for commercial banks
		PD_banks = derived from Moody's data* *PD banks is adjusted by a coefficient derived from factors comprising GDP Growth Forecast, Output Gap, Provision rate, Unexpected Change. The factor includes significant management judgement and unobservable inputs. Based on conditions as at the financial statement issuance date, there was no impact on PD as a result of this adjustment coefficient.

EAD for nostro accounts is equal to the average balance of the current account (calculated as the average value of account balances at the end of each month over the past 12 months), converted to Soms at the official exchange rate of the National Bank as at the reporting date.

EAD for term deposits in foreign banks, term deposits in international financial institutions is equal to the future discounted value of contractual cash flows on assets (principal and interest), converted to Soms at the official exchange rate of the National Bank as at the reporting date.

Loss given default is the share of difference between cash flows, which are due to the Group in accordance with the contract, and cash flows, which National Bank expects to receive in case of default of the counterparty. LGD vary from nil to 100% and are calculated using the following formula:

$$LGD = 100\% - RR, \text{ where}$$

RR (recovery rate) is an indicator of the share of the refund in case of default of the counterparty or instrument according to rating agencies.

The average cumulative default rates, published and updated by the international rating agency Moody's, are used as the probability of default (PD). Similar rates from the rating agency S&P are used as an alternative. If the counterparty does not have a rating agency both from Moody's and S&P, a similar rating from Fitch is used.

If factors arise that may significantly affect the level of credit risk of assets in a foreign currency, the calculation of expected credit losses may be adjusted based on the judgement of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(iv) Measurement of ECL for assets (continued)

Adjustment for calculation of expected credit losses is made only if the probability of default (PD) calculated on the basis of data provided by the international rating agencies, based on the judgement of the National Bank, does not sufficiently take the effect of market conditions on the level of credit risk of bank placements into consideration. No such adjustments were made during the reporting period.

Factors that may significantly affect the level of credit risk of financial assets include the deterioration of macroeconomic conditions in the global economy and other negative changes in the environment that lead to the deterioration of the financial condition of the holders of assets of the National Bank.

The criterion for a significant deterioration of macroeconomic conditions in the world is the reduction of economic activity to or below the level of periods of global financial and economic shocks of crisis years.

Estimation of expected credit losses for securities of the Government of the Kyrgyz Republic

Approach to identifying significant increase in credit risk. Indicator of significant deterioration in credit risk for securities of the Government of the Kyrgyz Republic is a decrease in the sovereign rating of the Kyrgyz Republic by 2 (two) or more levels in accordance with scale of an international rating agency within one year (in the last 12 months).

Indicator of credit impairment of securities of the Government of the Kyrgyz Republic is breach of contractual obligations for a period of more than 30 days without taking into account the officially granted period of deferment of payments.

Calculation of expected credit losses on securities of the Government of the Kyrgyz Republic.

EAD for the securities of the Government of the Kyrgyz Republic is equal to the present value of the principal amount balance of securities and interest receivable in future.

LGD for securities of the Government of the Kyrgyz Republic is calculated based on the sovereign rating of the Kyrgyz Republic.

To determine the PD of securities of the Government of the Kyrgyz Republic, weighted cumulative default rates are used, corresponding to the sovereign rating of the Kyrgyz Republic.

Estimation of expected credit losses for government securities of other countries

Approach to identifying significant increase in credit risk. Indicator of significant increase in credit risk for government securities of other countries is a decrease in the sovereign rating of these countries by 2 (two) or more levels in accordance with scale of an international rating agency compared to the rating upon initial recognition.

Indicators of credit impairment of government securities of other countries are:

- Default, i.e. the inability or failure of the counterparty to fulfil its obligations;
- Delay in fulfilment of obligations over 30 days;
- A contractor's request for debt restructuring;
- Assignment to the counterparty of the rating D/Default, partial/selective default (RD/SD) by one or several rating agencies;
- Other negative information obtained from reliable sources, which is an indicator of the significant financial difficulties of the counterparty, which does not allow him to fulfil obligations under an agreement with the National Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(iv) Measurement of ECL for assets (continued)

Calculation of expected credit losses on government securities of other countries.

EAD for the government securities of other countries is equal to the discounted value of contractual cash flows on assets (principal and interest), converted to Soms at the official exchange rate of the National Bank as at the reporting date. The discount factor for discounting contractual cash flows on placements with banks is the effective interest rate on the financial asset.

Losses at default are the share of difference between cash flows, which are due to the National Bank in accordance with the contract, and cash flows, which the National Bank expects to receive in case of default of the counterparty. LGD vary from nil to 100% and are calculated using the following formula:

LGD =100% - RR, where

RR (recovery rate) is an indicator of the share of the refund in case of default of the counterparty or instrument according to rating agencies.

The average cumulative default rates, published and updated by the international rating agency Moody's, are used as the probability of default (PD). Similar rates from the rating agency S&P are used as an alternative. If the counterparty does not have a rating agency both from Moody's and S&P, a similar rating from Fitch is used.

Estimation of expected credit losses for loans to banks and international organisations

At initial recognition a loan is assigned low risk of default, i.e. the loan is included in Stage 1 loans, except for loans of last resort and loans to maintain liquidity issued to a bank, which was defined as unreliable under the risk-based supervision system of the National Bank, PD for which is determined as being equal to 100%.

Approach to identifying significant increase in credit risk. If value of PD of a bank or financial institution in the reporting period is among the banks with the highest PD throughout the banking system of the Kyrgyz Republic over the past 60 months, this fact is regarded as a significant increase in credit risk of the bank.

Indicator of credit impairment of a loan issued is the failure to fulfil contractual obligations for following periods:

- For overnight loans and 7-day loan – for a period of more than one day without taking into account the officially granted grace period;
- For other loans, with the exception of liquidity loan issued to unreliable bank – for a period of more than 30 days without taking into account the officially granted period of deferment of payments.

Calculation of expected credit losses on loans to banks and other financial institutions.

EAD for loans issued is equal to the present value of the principal amount of the loan and interest on loans receivable in the future.

LGD for loans issued depends on the structure of the collaterals, and the following formula is used:

$$LGD = \frac{EAD - [\sum_{i=1}^{n} Collateral_i * (1 - Disc\_factor_i)]}{EAD}, \text{ where}$$

EAD – exposure at default;

Collateral_i – value of a specific type of collateral;

Disc_factor_i – discount factor corresponding to a specific type of collateral.

PD for loans issued is calculated on the basis of a specialised model, which is based on trend of borrowers' financial ratios and trend of the main macroeconomic indicators of banks and financial institutions that received loans.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(iv) Measurement of expected credit losses for assets (continued)

Estimation of expected credit losses for loans to customers

Loans to customers are assets with fixed or determinable payments that arise when the Group provides funds to borrowers directly and without intending to sell receivables.

Loans with a fixed maturity granted by the Group are initially recognised at fair value plus transaction costs incurred. In cases when the fair value of the funds provided differs from the fair value of the loan, for example, when a loan is issued at below market rates, the difference between the fair value of the funds provided and the fair value of the loan is recognised as a loss upon initial recognition of the loan and is included in the consolidated statement of profit or loss and the consolidated statement of other comprehensive income as a loss on assets placed at below-market rates. The subsequent measurement of the carrying value of the loans is made using the effective interest method. Loans that do not have a fixed maturity are accounted for using the effective interest method, based on the expected maturity.

Approach to identifying significant increase in credit risk. Indicators of significant increase in credit risk for loans to customers that have the same risk weights in determining a significant increase in credit risk are:

- assets overdue for 31-90 days inclusive;
- a restructured loan at the time of restructuring and till the end of recovery period;
- identified fraud on the part of the borrower;
- borrower's involvement in legal proceedings;
- loss of work (actual and expected inability of the borrower to repay debt).

In this case the rehabilitation period is a period after two restructurings of a loan, which consists of two stages:

- Stage 1: 12-month period from the date of restructuring, excluding a grace period according to the loan repayment schedule; in this case, if loan repayment is overdue for 1 day and more, the count of the 1st period starts anew.
- Stage 2: 24-month period after expiry of Stage 1.

Upon expiry of Stage 2 a loan is considered to be "recovered".

Indicators of impairment of loans to customers. The Group treats a loan as defaulted and therefore classifies it into stage 3 (loans with credit risk) for the calculation of expected credit losses, if there are the following indications:

- the borrower is past due more than 90 days on any material credit obligation to the Bank;
- the borrower is unlikely to pay its credit obligations to the Bank in full, without sale of collateral, regardless of any past due amount or the number of overdue days;
- a restructured loan before the expiry of the recovery period with 31 and more days past;
- bankruptcy status;
- death of the borrower.

The definition of default is appropriately adapted to reflect the different characteristics of different types of assets. Overdrafts are considered overdue if a customer has breached the established credit limit or has been notified of a limit that is lower than the current amount of debt.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(iv) Measurement of expected credit losses for assets (continued)

Calculation of expected credit losses on loans to customers. PD represents the likelihood that a borrower will not fulfil its financial obligations during the next 12 months or during the remaining term.

Lifetime PD is calculated by applying the maturity date to the current 12-month probability of default. The repayment history shows how default portfolios evolve from initial recognition over the life of a loan. The repayment history is based on historical data and is assumed to be the same for all assets within the portfolio and credit rating range. This is confirmed by historical analysis.

LGD is determined based on factors that influence recovery after default. They depend on the type of loan:

- For secured loans, they are primarily based on the type of collateral and the projected value of the collateral, historical discounts to market/carrying amount due to forced sales, period of foreclosure and observable restoration costs;
- For unsecured loans, default losses are usually set at 100%.

EAD is the assessment of risk at the date of default in the future, taking into account expected changes in risk after the reporting date, including repayment of principal and interest.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specific payments to recover losses incurred by the guarantee holder due to the fact that the borrower fails to make timely payments in accordance with the terms of the debt instrument.

Obligations for financial guarantee contracts entered into by the Group are initially measured at fair value, and subsequently (if management does not classify them as FVTPL) are recorded at the highest of the following values:

- Amount of the impairment allowance determined in accordance with IFRS 9; and
- Amount initially recognised less any accumulated income recognised in accordance with the Group's revenue recognition policy, if necessary.

Financial guarantee contracts that are not classified as FVTPL are presented as an estimated liability in the consolidated statement of financial position, and the results of the revaluation are recorded as other income in the consolidated statement of profit or loss.

The Group did not classify any financial guarantee contracts as FVTPL.

Loan commitments at a below market rate

Loan commitments at a below-market rate are initially measured at fair value, and then (if not classified as FVTPL) are valued at the highest of the following values:

- Amount of the impairment allowance determined in accordance with IFRS 9; and
- Amount initially recognised less any accumulated income recognised in accordance with the Group's revenue recognition policy, if necessary.

Loan commitments at a rate lower than the market rate that are not classified as FVTPL are presented in the consolidated statement of financial position as estimated liabilities, and the results of revaluation are recorded as other income in the consolidated statement of profit or loss. The Group did not classify any commitments to extend loans at a rate below the market rate as FVTPL.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(v) Presentation of allowance for ECL in the consolidated statement of financial position

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

- For financial assets at amortised cost: as a deduction from the gross carrying amount of the assets.
- For debt instruments measured at fair value through other comprehensive income (FVTOCI): no impairment allowance is recognised in the consolidated statement of financial position as the carrying amount is at fair value. However, the impairment allowance is included as part of the revaluation amount in the revaluation reserve for investments.
- For commitments to extend loans and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined impairment 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 impairment allowance over the gross amount of the drawn component is presented as a provision.

(vi) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified the Group assesses whether this modification results in derecognition. Modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers qualitative and quantitative factors. If the difference in present value is greater than 10% the Group deems the modified terms are substantially different from the original contractual terms leading to derecognition.

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(vi) Modification and derecognition of financial assets (continued)

If the Group repurchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets that are deemed to be uncollectible after all measures on collection of debt have been undertaken.

(g) Impairment of 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 reversed is only reversed 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 in the consolidated financial statements.

(h) Investments in associates

Investments in the associates of the Group are accounted for using the equity method, according to which the investments are initially measured at cost, and then their value is adjusted to reflect the change in the investor's share in the net assets of the investee after the acquisition. The investor's profit or loss includes the investor's share in the profit or loss of the investee, and the investor's other comprehensive income includes the investor's share of the investee's other comprehensive income.

Dividends received from the investee as a result of the distribution of profits reduce the carrying amount of the investment.

The Group discontinues recognising its share of further losses when the Group's cumulative share of losses of an investee equals or exceeds its interest in that investee.

(i) Property, plant and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses in the consolidated financial statements. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment (continued)

(iii) Depreciation

The estimated useful lives are as follows:

Buildings	75 years;
Constructions	20 years;
Furniture and equipment	7 years;
Computer equipment	7 years;
Motor vehicles	7 years;
Land improvements	10 years.

(j) Intangible assets

Acquired intangible assets are stated in the consolidated financial statements at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses and expenses to bring to use the specific software are included in the cost of the relevant intangible asset.

Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are no more than 5 years.

(k) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

If the Group has adopted a plan to sell the controlling shareholding of a subsidiary, all assets and liabilities of that subsidiary shall be reclassified as held for sale in accordance with the above criteria, regardless of whether the Group retains non-controlling interests in the former subsidiary after the sale.

If the Group has adopted a sales plan in respect of disposal of a financial investment or part of a financial investment in an associate or joint venture, that financial investment or part thereof shall be classified as held for sale, provided that the conditions set out above are met. The Group ceases to apply the equity method to the part classified as held for sale.

The remaining portion of investments in an associate or joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group ceases to apply the equity method at the time of disposal if the disposal results in the loss of significant influence of the Group on the associate or joint venture.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their residual value at the time of such classification and fair value less costs to sell.

(l) Financial liabilities

Financial liabilities are recorded in the consolidated statement of financial position of the Group when the Group becomes a party to the contract in respect of the relevant financial instrument. The Group recognises regular way acquisitions and sales of financial liabilities using settlement date accounting.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial liabilities (continued)

All financial liabilities of the Group are measured at amortised cost.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that 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 rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

(m) Banknotes and coins in circulation

Banknotes and coins are recorded in the consolidated statement of financial position at their nominal value. Banknotes and coins in circulation are recorded as a liability. Banknote and coins in national currency held in the vaults and cash offices are not included in the currency in circulation.

Expenses on production of banknotes and coins issued into circulation include expenses for security, transportation, insurance and other expenses. Expenses on production of banknotes and coins are recognised upon their issuance into circulation and are recorded as a separate item in the consolidated statement of profit or loss.

(n) Charter capital and reserves

The National Bank has a fixed amount of charter capital. Increases and decreases of the amount of charter capital are implemented through amendments to the Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity". Charter capital is recognised at cost.

The obligatory reserve has been created through the capitalisation of a portion of net profit upon its distribution to the state budget as established by the Law. The obligatory reserve is recognised at cost.

(o) Taxation

In accordance with legislation of the Kyrgyz Republic, the National Bank is exempt from income tax. All other compulsory payments to the budget, which are assessed on the National Bank's activities, are accrued and paid in accordance with the Tax Code of the Kyrgyz Republic. Taxes that the National Bank pays as a tax agent are included as a component of administrative expenses in the consolidated statement of profit or loss.

Subsidiaries and associates are payers for all types of taxes.

The amount of income tax includes the amount of current tax and the amount of deferred tax. Income tax is recognised in profit or loss in full, with the exception of amounts related to transactions recorded in other comprehensive income, or to transactions with owners reflected directly in capital accounts, which are accordingly reflected in other comprehensive income or directly in the capital. Current income tax is calculated on the basis of the estimated taxable profit for the year, taking into account income tax rates in effect at the reporting date, as well as the amount of liabilities resulting from the specification of income tax amounts for previous reporting years.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Taxation (continued)

Deferred tax assets and liabilities are 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 assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are 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.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Income and expense recognition

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognised in ‘Net interest income’ as ‘Interest income’ and ‘Interest expense’ in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income / interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

(q) Fiduciary assets

The National Bank provides agency services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the National Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

4 ADOPTION OF NEW AND REVISED IFRSS

A number of new standards and interpretations are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

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

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

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES

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

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

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES (CONTINUED)

Significant increase in credit risk. As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL (for Stage 1 assets) or lifetime ECL (for Stage 2 or Stage 3 assets). An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group, in addition to other factors, takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The appropriateness of the credit risk characteristics is monitored on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used. The Group uses various models and assumptions in measuring the ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Fair value of Social Mortgage Loans

The Group's management believe that Social Mortgage Loans product of the OJSC Keremet Bank has a distinct nature and represents a separate segment of the mortgage lending market. As a result, loans issued under the terms of the Social Mortgage loan product were issued as part of a normal transaction and, as such, the consideration given is considered to represent fair value as at the date of recognition.

Sources of uncertainty in the estimates

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario. When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (PD). PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

6 GOLD

	31 December 2021	31 December 2020
Gold		
Gold in deposits with foreign banks and in bullion	50 159 119	84 129 763
	50 159 119	**84 129 763**

Gold comprises gold deposits with foreign banks and gold bullion. Gold meets the standards of London Bullion Market Association.

Concentration of gold on deposits in foreign banks

As at 31 December 2021 the National Bank placed gold in deposits with foreign banks with a credit rating of AA (2020: the National Bank did not place gold in deposits with foreign banks).

7 CASH ON HAND, DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	23 063 873	21 805 101
- rated from A- to AA+	8 516 959	8 244 000
- rated from B- to BBB+	1 649 988	1 187 782
- not rated	22 622	98 168
Total nostro accounts with foreign banks included in cash equivalents	**33 253 442**	**31 335 051**
Loss allowance	(6 192)	(69)
Total nostro accounts with foreign banks	**33 247 250**	**31 334 982**
Term deposits with foreign banks		
- rated from AA- to AA+	15 940 100	8 081 829
- rated from A- to A+	11 072 756	13 348 197
- rated from B- to BBB+	3 137	3 058
- not rated	2 367 627	2 588 552
Total term deposits with foreign banks	**29 383 620**	**24 021 636**
Loss allowance	(8 853)	(8 516)
	29 374 767	**24 013 120**
Account with the International Monetary Fund (IMF)	31 796 843	10 357 826
Accounts with the Bank for International Settlements (BIS)		
- Term deposit with BIS	18 364 935	1 040 728
- Nostro accounts with BIS	16 530 835	8 218 244
Total accounts in the BIS and the IMF	**66 692 613**	**19 616 798**
Loss allowance	(5)	-
	66 692 608	**19 616 798**
Cash on hand in foreign currencies	4 967 487	3 540 197
	134 282 112	**78 505 097**

Concentration of due from banks and other financial institutions

As at 31 December 2021, the National Bank has balances with five banks and other financial institutions rated from AAA to AA- (2020: four banks and other financial institutions rated from AAA to A-), whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2021 is KGS 106 401 908 thousand (2020: KGS 47 442 567 thousand).

Movement in the allowance for expected credit losses is disclosed in Note 27.

7 CASH ON HAND, DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

	31 December 2021	31 December 2020
Nostro accounts with foreign banks included in cash equivalents	33 253 442	31 335 051
Account with the IMF	31 796 843	10 357 826
Nostro account with BIS	16 530 835	8 218 244
Cash on hand in foreign currencies	4 967 487	3 540 197
Cash and cash equivalents in the consolidated statement of cash flows	**86 548 607**	**53 451 318**

None of cash and cash equivalents are past due.

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS

	31 December 2021	31 December 2020
Loans issued to resident commercial banks	2 380 361	3 978 933
Loans issued to international organisations	2 750 682	2 750 682
Loans issued to commercial banks owned by the Government of the Kyrgyz Republic	1 676 727	2 268 675
	6 807 770	**8 998 290**
Loss allowance	(558 930)	(374 933)
Loans issued net of loss allowance	**6 248 840**	**8 623 357**

Interest received during the year on loans issued to commercial banks owned by the Government of the Kyrgyz Republic was KGS 99 196 thousand (2020: KGS 89 632 thousand). Movement in the allowance for expected credit losses is disclosed in Note 27.

Analysis of collateral

The following table provides information on collateral securing loans issued to resident commercial banks and international organisations by types of collateral as at 31 December 2021 and 2020, excluding the effect of overcollateralisation.

	31 December 2021	% of loan portfolio	31 December 2020	% of loan portfolio
Deposits in foreign currencies	3 543 478	57	3 659 356	42
Loans to customers	1 665 520	27	2 832 648	33
State securities	895 297	14	2 131 353	25
Unsecured	144 545	2	-	-
	6 248 840	**100**	**8 623 357**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral. The fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral.

Concentration of loans extended

As at 31 December 2021 and 2020 the National Bank does not have loans issued to commercial banks whose balances exceed 10% of its own equity.

9 LOANS TO CUSTOMERS

Loans to customers provided by OJSC Keremet Bank as at 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Loans to legal entities		
Corporate loans	2 806 778	2 989 415
Small and medium enterprises (SME)	1 798 024	1 281 871
Total loans to legal entities	**4 604 802**	**4 271 286**
Loans to individuals		
Mortgage loans	2 423 941	2 008 877
Consumer loans	293 840	158 139
Total loans to individuals	**2 717 781**	**2 167 016**
Net investment in finance lease	**379 370**	**509 588**
Gross loans to customers	**7 701 953**	**6 947 890**
Loss allowance for expected credit losses	(1 362 588)	(1 188 949)
	6 339 365	**5 758 941**

Loans to customers were recognised at fair value as at the date of acquisition of control by the National Bank over its subsidiary OJSC Keremet Bank.

In 2019, OJSC Keremet Bank introduced a new loan product Social Mortgage aimed at supporting public sector employees in acquiring their own housing at affordable interest rates. The product provides financing to public sector employees who meet the criteria established by OJSC Keremet Bank. The priority in financing is given to employees engaged in the public sector - education, science, healthcare, social protection, culture, art, information and communication, physical education and sports, budgetary institutions (state bodies, local self-government bodies and institutions funded from the republican or local budget).

Social mortgage is provided for the purchase of residential real estate to individuals - social workers aged 21 years and up to 65 years (at the time of full repayment of the loan) for up to 15 years at 7.5-9.5% per annum in the amount of KGS 350 thousand to KGS 3 000 thousand. Management believe that this loan product has a distinct nature and represents a separate segment of the mortgage lending market. As a result, loans provided under the terms of the Social Mortgage loan product were issued as part of a normal transaction and, as such, the consideration given is considered to represent fair value as at the date of recognition.

In addition, a subsidiary of OJSC Keremet Bank sells certain non-current assets held for sale to customers by instalments. Under the terms of the contract, the risks and rewards associated with ownership of the assets are transferred to the buyer at the time of conclusion of the contract of sale by instalments. Accordingly, the Group must derecognise these non-current assets held for sale and recognise the financial asset as the Group becomes a party to the contract, under which it obtains the right to future cash flows. Upon initial recognition, the Group recognises a financial asset at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset.

CONTENT

9 LOANS TO CUSTOMERS (CONTINUED)

The components of net investments in finance lease as at 31 December 2021 are as follows:

	31 December 2021	31 December 2020
Finance lease receivables:		
Less than 1 year	232 534	220 268
From 1 to 5 years	217 481	393 404
More than 5 years	2 543	4 329
Minimum lease payments	**452 558**	**618 001**
Less: unearned finance income	(73 188)	(108 413)
	379 370	**509 588**
Net investments in finance lease analysed as:		
Short-term	179 977	155 945
Long-term	199 393	353 643

The table below provides the analysis of carrying amount of loans to customers by types of collateral:

	31 December 2021	31 December 2020
Loans secured by real estate and related rights	6 118 899	5 626 423
Loans secured by other collateral	62 692	25 917
Loans secured by vehicles	4 382	10 332
Loans secured by deposits and cash	1 087	37 108
Unsecured loans	152 305	59 161
Total loans to customers	**6 339 365**	**5 758 941**

The amounts in the table above represent the cost of loans and do not necessarily represent the fair value of collateral. Estimates of the market value of collateral are based on the assessment of collateral as at the date of issue of the loan. As a rule, they are not updated unless loans are assessed as individually impaired.

The table below provides the analysis of gross loans to customers by sectors of the economy:

	31 December 2021	31 December 2020
Analysis by economy sector:		
Trade	2 769 569	2 472 118
Mortgage	2 803 311	2 528 324
Industry and production	523 922	373 404
Construction	250 536	445 460
Consumer sector	250 451	137 364
Agriculture	162 666	59 874
Transport	127 726	62 494
Social services	24 463	1 142
Harvesting and processing	2 721	2 547
Communication	-	2 777
Other	786 588	862 386
	7 701 953	**6 947 890**
Loss allowance for expected credit losses	(1 362 588)	(1 188 949)
	6 339 365	**5 758 941**

9 LOANS TO CUSTOMERS (CONTINUED)

	31 December 2021		
	Gross loans	Loss allowance for expected credit losses	Loans net of loss allowance for expected credit losses
Not overdue	**6 604 218**	**(670 113)**	**5 934 105**
Overdue:			
- up to 30 days	152 471	(20 025)	132 446
- from 31 to 60 days	35 965	(3 758)	32 207
- from 61 to 90 days	7 663	(2 934)	4 729
- from 91 to 180 days	29 451	(8 852)	20 599
- from 181 to 360 days	872 185	(656 906)	215 279
Total overdue	**1 097 735**	**(692 475)**	**405 260**
Total loans to customers	**7 701 953**	**(1 362 588)**	**6 339 365**

	31 December 2020		
	Gross loans	Loss allowance for expected credit losses	Loans net of loss allowance for expected credit losses
Not overdue	**5 427 496**	**(467 295)**	**4 960 201**
Overdue:			
- up to 30 days	45 092	(5 108)	39 984
- from 31 to 60 days	4 500	7 719	12 219
- from 61 to 90 days	11 559	(4 671)	6 888
- from 91 to 180 days	209 961	(110 989)	98 972
- from 181 to 360 days	1 249 282	(608 605)	640 677
Total overdue	**1 520 394**	**(721 654)**	**798 740**
Total loans to customers	**6 947 890**	**(1 188 949)**	**5 758 941**

10 INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2021	31 December 2020
Debt instruments		
State securities		
Government of Canada Treasury bills	1 390 414	5 916 233
Treasury bills of the Kyrgyz Republic	880 336	916 690
Government of Great Britain Treasury bills	-	999 866
Total government securities	**2 270 750**	**7 832 789**
Debt securities of international financial institutions	35 973 583	41 145 896
Agency securities with credit rating AAA	34 238 192	24 876 847
Total debt instruments	**72 482 525**	**73 855 532**

As at 31 December 2021 and 2020 investments measured at fair through other comprehensive income are not past due.

11 INVESTMENTS AT AMORTISED COST

	31 December 2021	31 December 2020
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	9 167 177	3 021 258
Loss allowance	(67 813)	(54 046)
	9 099 364	**2 967 212**

Movement in the allowance for expected credit losses is disclosed in Note 27.

12 INVESTMENTS IN ASSOCIATES

The movement of investments in associates is as follows:

	Carrying amount
31 December 2019	**885 297**
Reclassification of investments in associates into investments in subsidiaries	(564 999)
Acquisition of shares of subsidiary	158 000
Share of profits of associates	23 562
31 December 2020	**501 860**
Elimination of investment in subsidiary due to consolidation	(220 000)
Share of profits of associates	62 722
31 December 2021	**344 582**

Investments in subsidiaries and associates	Type of activity	Share of ownership, %	31 December 2021	Share of ownership, %	31 December 2020
OJSC Keremet Bank	Bank services	97,45	-*	97,45	-*
OJSC Guarantee Fund	Warranty Services	91,22	-*	85,91	-*
CJSC Kyrgyz Cash Collection	Transportation of valuables	100,00	-*	100,00	220 000*
CJSC Interbank Processing Center	Processing services	49,42	344 582**	49,42	281 860**
			344 582		**501 860**

* Investments in subsidiaries OJSC Keremet Bank, OJSC Guarantee Fund and CJSC Kyrgyz Cash Collection were eliminated on consolidation in these consolidated financial statements.

** Ownership interest represents the indirect shareholding of the National Bank, taking into account the ownership interest in the subsidiary OJSC Keremet Bank.

All subsidiaries and associates of the National Bank are registered and operate in the Kyrgyz Republic.

On 10 November 2021, to support business entities and promote further development of their operations through increasing access to the financial resources in conditions where there is a need to mitigate the negative consequences of COVID-19 pandemic, the National Bank purchased shares of the seventh issue of OJSC Guarantee Fund for the amount of 2 500 million som. Based on results of placement of the seventh issue of shares of the OJSC Guarantee Fund, the share of the National Bank in the charter capital was 91,22%.

On 8 December 2021, to support facilities and resources of CJSC Kyrgyz Cash Collection for the implementation of state and social objectives including ensuring an uninterrupted provision of services of ATM replenishment and delivery of cash to the regions of Kyrgyzstan, the National Bank decided to increase the charter capital of the CJSC Kyrgyz Cash Collection through the third issue of shares for the amount of 500 million som. Based on results of the third issue of shares, the charter capital of the CJSC Kyrgyz Cash Collection was 720 million som. The share of the National Bank in the charter CJSC Kyrgyz Cash Collection of the Company is 100%.

CONTENT

13 PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2021	**1 077 537**	**502 696**	**793 585**	**81 187**	**450 528**	**2 905 533**
Additions	33 981	100 991	25 633	71 926	217 714	450 245
Disposals	(219)	(50 072)	(80 117)	(17 663)	(42 472)	(190 543)
Movements	223 984	5 589	2 278	-	(232 372)	(521)
Reclassification	(8 873)	-	-	-	-	(8 873)
Balance at 31 December 2021	**1 326 410**	**559 204**	**741 379**	**135 450**	**393 398**	**3 155 841**
Depreciation						
Balance at 1 January 2021	**(126 900)**	**(100 285)**	**(396 074)**	**(38 724)**	**-**	**(661 983)**
Depreciation for the year	(48 099)	(97 098)	(124 024)	(41 902)	-	(311 123)
Disposals	219	49 730	80 111	15 845	-	145 905
Balance at 31 December 2021	**(174 780)**	**(147 653)**	**(439 987)**	**(64 781)**	**-**	**(827 201)**
Carrying amount						
At 31 December 2021	**1 151 630**	**411 551**	**301 392**	**70 669**	**393 398**	**2 328 640**

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2020	**870 111**	**519 251**	**822 842**	**71 661**	**362 573**	**2 646 438**
Additions	2 213	18 811	66 919	11 506	116 176	215 625
Disposals	(1 519)	(39 093)	(96 186)	(3 133)	(218)	(140 149)
Movements	179 210	3 727	10	736	(28 003)	155 680
Revaluation	27 522	-	-	-	-	27 522
Reclassification	-	-	-	417	-	417
Balance at 31 December 2020	**1 077 537**	**502 696**	**793 585**	**81 187**	**450 528**	**2 905 533**
Depreciation						
Balance at 1 January 2020	**(113 295)**	**(42 923)**	**(358 980)**	**(27 998)**	**-**	**(543 196)**
Depreciation for the year	(25 156)	(95 003)	(132 680)	(13 859)	-	(266 698)
Disposals	1 239	37 649	95 586	3 133	-	137 607
Movements	8	(8)	-	-	-	-
Revaluation	10 304	-	-	-	-	10 304
Balance at 31 December 2020	**(126 900)**	**(100 285)**	**(396 074)**	**(38 724)**	**-**	**(661 983)**
Carrying amount						
At 31 December 2020	**950 637**	**402 411**	**397 511**	**42 463**	**450 528**	**2 243 550**

During 2021, property, plant and equipment transferred to intangible assets amounted to KGS 15 192 thousand (2020: none).

During 2021 and 2020, there were no capitalised borrowing costs associated with the acquisition or construction of property, plant and equipment.

CONTENT

14 RIGHT-OF-USE ASSETS

	Buildings and other property	Equipment	Total
Cost			
Balance at 1 January 2021	**275 024**	**69 850**	**344 874**
Additions	4 727	-	4 727
Disposal	(4 504)	-	(4 504)
Modification*	(60 898)	-	(60 898)
Balance at 31 December 2021	**214 349**	**69 850**	**284 199**
Accumulated depreciation			
Balance at 1 January 2021	**(110 000)**	**(9 968)**	**(119 968)**
Depreciation for the year	(52 056)	(8 725)	(60 781)
Disposal	3 176	-	3 176
Balance at 31 December 2021	**(158 880)**	**(18 693)**	**(177 573)**
Carrying amount			
Balance at 1 January 2021	**165 024**	**59 882**	**224 906**
At 31 December 2021	**55 469**	**51 157**	**106 626**

* In 2021 amendments were made to the lease contract of the head office of OJSC Keremet Bank, in particular a fine for early termination in the amount of USD 1 000 thousand was excluded from the terms of the agreement and monthly lease payments were reduced from USD 60.5 thousand to USD 54.45 thousand.

The Bank recognised a proportionate decrease in the carrying amount of the right-of-use assets based on the remaining period in the amount of KGS 60 898 thousand. The lease liability was adjusted by discounting the remaining lease payments and the effect of the modification amounted to KGS 127 222 thousand.

In the course of operating activities, OJSC Keremet Bank leases several assets including buildings and ATM machines. The average lease term for buildings is 4 years, for ATM machines – 5 years.

Title to the ATM machines is transferred to OJSC Keremet Bank at the end of the lease term. The lease obligations of OJSC Keremet Bank are secured by the lessors' title to the leased assets for such leases.

Part of the leases for buildings expired in the current financial year. The completed contracts were replaced by new leases with identical underlying assets. As a result, in 2021 assets worth of KGS 4 727 thousand were added to right-of-use assets (in 2020: KGS 13 414 thousand).

Lease liabilities:

	31 December 2021	31 December 2020
Maturity analysis:		
Year 1	89 790	93 178
Year 2	26 249	89 295
Year 3	19 690	83 925
Year 4	522	102 537
Total minimum lease payments	**136 251**	**368 935**
Less: interest expense	(7 694)	(49 484)
Total	**128 557**	**319 451**
By type:		
Current	84 502	71 159
Non-current	44 055	248 292

The total cash outflow for the lease included in the consolidated statement of cash flows is KGS 91 252 thousand, including KGS 16 526 thousand for operating activities and KGS 74 726 thousand for financing activities.

CONTENT

15 NON-CURRENT ASSETS HELD FOR SALE

	31 December 2021	31 December 2020
Non-residential premises	348 498	199 536
Houses	203 563	157 554
Apartments	115 793	28 829
Land	14 136	165
Other	5 426	39 089
	687 416	**425 173**

Non-current assets held for sale consist of collateral accepted by OJSC Keremet Bank to repay loans to customers and unused buildings of the branches of OJSC Keremet Bank that have ceased operations and for which sale decisions were made.

The Group estimates fair values less cost to sell of non-current assets held for sale based on prices of analogues in the market applying negotiation, location and condition discounts.

During 2021, OJSC Keremet Bank disposed of assets of KGS 192 892 thousand. The consideration for these assets was received in the form of finance lease agreements in the amount of KGS 39 979 thousand, which were recognised as part of loans to customers.

16 NON-MONETARY GOLD AND GOLD RESERVES

	31 December 2021	31 December 2020
Gold reserves	33 341 168	12 627 099
Non-monetary gold	2 072 429	884 416
	35 413 597	**13 511 515**

During 2021, the National Bank conducted operations to purchase gold that is not part of international reserves with the aim of forming reserves of the National Bank in the framework of the development prospects of the domestic precious metals market. Non-monetary gold and gold reserves do not participate in the National Bank's active investment operations and are not part of the National Bank's investment assets in gold.

The carrying amount of gold reserves recognised in the consolidated financial statements approximately equals to their fair values as at 31 December 2021 and 2020.

17 OTHER ASSETS

	31 December 2021	31 December 2020
Accounts receivable	758 270	623 286
Allowance for expected credit losses	(176 217)	(207 484)
Total other financial assets	**582 053**	**415 802**
Advances paid	2 578 093	2 062 363
Inventories	1 211 031	739 437
Numismatic items	82 630	53 393
Other	27 036	19 666
Total other non-financial assets	**3 898 790**	**2 874 859**
	4 480 843	**3 290 661**

Movements in allowance for expected credit losses are disclosed in Note 27.

Advances paid comprise prepayment of a part of the current year profit to the budget of the Government of the Kyrgyz Republic in the amount of KGS 2 500 000 thousand which will be recognised as a distribution in 2022, in accordance with the accounting policy disclosed in Note 2 (a).

18 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2021 and 2020, banknotes and coins in circulation comprise:

	31 December 2021	31 December 2020
Banknotes and coins in circulation	143 416 858	137 143 304
Less banknotes and coins on hand and in cash desk	(3 862 346)	(2 826 617)
	139 554 512	**134 316 687**

Banknotes and coins in circulation represent the face value of the amount of banknotes and coins in circulation held by the general public and organisations.

19 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Current accounts of commercial banks	27 689 700	16 685 740
Current accounts of other financial institutions	5 822 863	4 030 808
Current accounts of commercial banks owned by the Government of the Kyrgyz Republic	5 597 729	4 884 206
	39 110 292	**25 600 754**

As at 31 December 2021, commercial banks have no balances with the National Bank that exceed 10 percent of equity (in 2020: commercial banks had no balances that exceeded 10 percent of equity). Interest paid during the year on amounts due to commercial banks owned by the Government of the Kyrgyz Republic was KGS 77 957 thousand (2020: KGS 66 567 thousand).

20 DUE TO THE GOVERNMENT OF THE KYRGYZ REPUBLIC

Due to the Government of the Kyrgyz Republic comprise accounts of the Ministry of Finance of the Kyrgyz Republic.

	31 December 2021	31 December 2020
In national currency	21 256 608	6 561 512
In foreign currency	1 474 118	10 187 013
	22 730 726	**16 748 525**

21 CUSTOMER ACCOUNTS

Customer accounts of OJSC Keremet Bank as at 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Legal entities		
Current/Settlement accounts	845 416	599 589
Term deposits	287 463	610 929
Total accounts of legal entities	**1 132 879**	**1 210 518**
Individuals		
Current/Settlement accounts	845 165	606 571
Term deposits	2 424 816	2 711 590
Total accounts of individuals	**3 269 981**	**3 318 161**
	4 402 860	**4 528 679**

As at 31 December 2021 and 2020, deposits from customers totalling KGS 15 747 thousand and KGS 40 697 thousand, respectively, were held as security under loans and credit lines related to contingent obligations issued by OJSC Keremet Bank.

21 CUSTOMER ACCOUNTS(CONTINUED)

As at 31 December 2021 and 2020 deposits from customers totalling KGS 40 463 thousand and KGS 5 912 thousand, respectively, were held as security against guarantees issued by OJSC Keremet Bank.

As at 31 December 2021, there are no customer deposit balances that exceed 10 per cent of equity (2020: one customer whose deposit balances was KGS 2 021 537 thousand).

In addition to the amounts disclosed in note 34, deposits of state-owned entities amounting to KGS 501 464 thousand are included in customer deposits (31 December 2020: KGS 364 178 thousand).

Interest paid during the year on deposits of state-owned entities was KGS 31 735 thousand.

As at 31 December 2021 and 2020, accrued interest on customer accounts amounted to KGS 22 698 thousand and KGS 49 497 thousand, respectively.

	31 December 2021	31 December 2020
Analysis by sectors of economy/customer types:		
Individuals	3 270 677	3 320 642
Mining and metallurgy	285 353	480 804
Construction	165 810	194 534
Trade	109 265	45 583
Healthcare	92 344	32 255
Energy	92 162	102 373
Financial organisations	82 572	83 412
Transportation and communication	50 986	43 034
Agriculture	28 519	3 521
Education	20 133	29 131
Charity and labour unions	10 719	12 238
Consulting services	7 140	6 676
State entities	5 333	11 017
Real estate	2 811	4 361
Other	179 036	159 098
	4 402 860	**4 528 679**

22 DEBT SECURITIES ISSUED

As at 31 December 2021 and 2020, debt securities issued include securities of the following issues:

	31 December 2021	31 December 2020
Notes of the National Bank with a term of 28 days	11 413 591	5 614 944
Notes of the National Bank with a term of 14 days	6 986 580	2 827 474
Notes of the National Bank with a term of 91 days	-	2 051 341
Notes of the National Bank with a term of 7 days	-	999 332
	18 400 171	**11 493 091**

The National Bank is entitled to issue notes and conduct all kinds of operations with them in accordance with accepted international practice in order to conduct its monetary policy. The notes of the National Bank are placed through Automated Trading System of the National Bank, members of which are commercial banks in the Kyrgyz Republic. The amount of debt securities issued to commercial banks owned by the Government of the Kyrgyz Republic as at 31 December 2021 is KGS 3 519 443 thousand (2020: KGS 1 887 309 thousand).

23 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS

	31 December 2021	31 December 2020
Liabilities to the IMF in respect of SDR allocations	30 258 833	9 994 865

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by the provision of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 33). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity.

According to the amendment, the special allocation was made to IMF members, which includes Kyrgyz Republic, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84 737 thousand.

In 2021, the IMF allocated an additional allocation of SDR to IMF members in response to the financial impact of the COVID-19 pandemic. On 23 August 2021, the IMF increased the amount of SDR allocated to the Kyrgyz Republic by SDR 170 222 thousand. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

			Non-cash changes		
	1 January 2021	Cash flow from financing activities (i)	Foreign currency exchange rate adjustment	Other changes (ii)	31 December 2021
Liabilities to the IMF in respect of SDR allocations	9 994 865	20 424 704	(161 716)	980	30 258 833
	9 994 865	**20 424 704**	**(161 716)**	**980**	**30 258 833**

			Non-cash changes		
	1 January 2020	Cash flow from financing activities (i)	Foreign currency exchange rate adjustment	Other changes (ii)	31 December 2020
Liabilities to the IMF in respect of SDR allocations	8 146 676	-	1 857 713	(9 524)	9 994 865
	8 146 676	**-**	**1 857 713**	**(9 524)**	9 994 865

(i) Cash flows from liabilities to the IMF in respect of SDR allocations constitute the gross amount of proceeds from borrowing and repayment of borrowings in the consolidated statement of cash flows.

(ii) Other changes include accruals and interest payments.

24 OTHER LIABILITIES

	31 December 2021	31 December 2020
Accounts payable	212 178	130 619
Total other financial liabilities	**212 178**	**130 619**
Provision for contingent liabilities	123 522	42 824
Other	107 262	72 958
Total other non-financial liabilities	**230 784**	**115 782**
	442 962	**246 401**

25 CHARTER CAPITAL

Paid-up capital

In accordance with the Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" charter capital of the National Bank amounts to KGS 2 000 000 thousand.

Distribution to the state budget and obligatory reserve

In accordance with the Law "On amendment of the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" the National Bank's profit shall be distributable as follows:

– if the amount of the National Bank's charter capital and obligatory reserve is less than 10% of the monetary liabilities of the National Bank, then 90% of profit shall be distributed to the state budget of the Kyrgyz Republic. The remaining profit, after distributions to the state budget, shall be transferred to the National Bank's obligatory reserve;

– if the amount of the National Bank's charter capital and obligatory reserve equals or exceeds 10% of the monetary liabilities of the National Bank, then 100% of profit shall be distributed to the state budget of the Kyrgyz Republic.

In accordance with the Clause 23 of the Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity", profit shall be distributed upon the financial year end, once the independent external audit is completed and the annual report is approved by the Management Board of the National Bank.

On 21 April 2021, the net profit of the National Bank for 2020 was approved in the amount of KGS 8 484 811 thousand, of which KGS 7 636 330 thousand were transferred to the state budget of the Kyrgyz Republic (2020: net profit for 2019 was approved in the amount of KGS 2 565 273 thousand and distributed to the state budget of the Kyrgyz Republic in full).

The amounts of distribution to the state budget and obligatory reserve are excluded from the consolidated statement of cash flow due to the fact that these amounts were recorded as an increase in funds due to the Government of the Kyrgyz Republic.

Capital management

The capital of the National Bank comprises the residual value of the National Bank's assets after deduction of all its liabilities.

The National Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the National Bank and ability to perform its functions. The National Bank considers total capital under management to be equity shown in the consolidated statement of financial position.

No external capital requirements exist for the National Bank, except for the size of the charter capital stipulated by the Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity", which is KGS 2 000 000 thousand.

26 NET INTEREST INCOME

	Year ended 31 December 2021	Year ended 31 December 2020
Interest income		
Loans to customers	708 417	449 388
Investments at amortised cost	648 149	27 737
Term deposits in foreign banks and international financial institutions	385 913	562 124
Loans to banks and international organisations	349 012	360 069
Investments measured at fair value through other comprehensive income	235 958	564 400
Nostro accounts with foreign banks and international financial institutions	68 899	130 159
Other	-	65
	2 396 348	**2 093 942**
Interest expense		
Debt securities issued	(761 285)	(516 186)
Customer accounts	(315 219)	(357 674)
Due to banks and other financial institutions	(235 936)	(101 278)
Unwinding of discount on other assets	(47 016)	(95 628)
Lease liabilities	(17 995)	(24 877)
Loans received	(13 199)	(12 172)
Liabilities to the IMF in respect of SDR allocations	(9 362)	(17 391)
Other	(20 436)	(22 351)
	(1 420 448)	**(1 147 557)**
	975 900	**946 385**

During 2021 the total interest income calculated using the effective interest rate method for financial assets at FVOCI is KGS 304 857 thousand (2020: KGS 694 559 thousand) and for financial assets at amortised cost is KGS 2 091 491 thousand (2020: KGS 1 399 383 thousand). During 2021 the total interest expense calculated using the effective interest rate method for financial liabilities at amortised cost is KGS 1 420 448 thousand (2020: KGS 1 147 557 thousand).

27 ALLOWANCE FOR EXPECTED CREDIT LOSSES AND OTHER PROVISIONS

	Cash on hand, due from banks and other financial institutions (Note 7)				Loans to banks and international organisations (Note 8)			Loans to customers (Note 9)				Investments measured at fair value through other comprehensive income		Invest-ments at amortised cost (Note 11)	
	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Stage 2	Stage 1	Total
Allowance for expected credit losses at 1 January 2021	**8 531**	**54**	**-**	**-**	**213 297**	**13 518**	**148 118**	**41 653**	**9 526**	**746 499**	**391 271**	**10 814**	**-**	**54 046**	**1 637 327**
Changes in the amount															
- Transfer to Stage 1	54	(54)	-	-	-	-	-	25	(25)	-	-	-	-	-	-
- Transfer to Stage 2	(160)	160	-	-	(98 052)	98 052	-	(19 806)	39 116	(19 310)	-	-	-	-	-
- Transfer to Stage 3	(407)	-	407	-	-	-	-	(25 823)	(15 399)	41 222	-	-	-	-	-
Net changes resulting from changes in credit risk parameters	-	-	-	-	-	350 701	-	15 165	52 310	-	190 762	-	-	-	609 938
Write-off of assets through provisions	(477)	-	-	-	-	-	(378)	-	-	-	-	-	-	-	(855)
New financial assets originated or purchased	9 528	-	-	-	14 264	-	-	37 992	-	-	-	58	-	17 509	79 351
Financial assets that have been derecognised	(2 638)	-	-	-	(65 595)	(118 852)	-	(5 737)	(2 120)	-	(139 900)	(10)	-	(3 742)	(338 594)
Other changes	52	-	-	-	-	-	3 857	182	55	24 930	-	-	-	-	29 076
Allowance for expected credit losses at 31 December 2021	**14 483**	**160**	**407**	**-**	**63 914**	**343 419**	**151 597**	**43 651**	**83 463**	**793 341**	**442 133**	**10 862**	**-**	**67 813**	**2 015 243**

CONTENT

CONTENT

27 ALLOWANCE FOR EXPECTED CREDIT LOSSES AND OTHER PROVISIONS (CONTINUED)

	Cash on hand, due from banks and other financial institutions (Note 7)				Loans to banks and international organisations (Note 8)			Loans to customers (Note 9)				Investments at fair value through other comprehensive income		Invest-ments at amortised cost (Note 11)	
	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Stage 2	Stage 1	Total
Allowance for expected credit losses at 1 January 2020	**5 173**	**2 498**	**255 424**	**25**	**-**	**1 528**	**127 039**	**41 948**	**3 901**	**1 592**	**392 027**	**4 466**	**-**	**1 962**	**837 583**
Changes in the amount															
- Transfer to Stage 1	2 260	(2 260)	-	-	-	-	-	454	-	(454)	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	(11 754)	11 754	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	(14 159)	(10 493)	24 652	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	-	(704)	-	-	-	(1 528)	-	-	-	618 867	-	-	-	-	616 635
(Write-off)/recovery of assets through provisions	-	-	(303 297)	(25)	-	-	94	(65)	-	-	-	-	-	-	(303 293)
New financial assets originated or purchased	272 967	-	-	-	213 297	13 518	-	51 110	-	-	-	6 358	-	53 115	610 365
Financial assets that have been derecognised	(271 869)	-	-	-	-	-	(2 614)	(2 621)	(683)	(7 929)	-	(10)	-	(1 031)	(286 757)
Other changes	-	520	47 873	-	-	-	23 599	(23 260)	5 047	109 771	(756)	-	-	-	162 794
Allowance for expected credit losses at 31 December 2020	**8 531**	**54**	**-**	**-**	**213 297**	**13 518**	**148 118**	**41 653**	**9 526**	**746 499**	**391 271**	**10 814**	**-**	**54 046**	**1 637 327**

27 ALLOWANCE FOR EXPECTED CREDIT LOSSES AND OTHER PROVISIONS (CONTINUED)

	Other assets (Note 17)			Contingent liabilities (Note 24, 30)	
	Stage 1	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Total
Allowance for expected credit losses at 1 January 2021	**7 629**	**45 766**	**154 089**	**42 824**	**250 308**
Changes in the amount					
Write-off of assets through provisions	-	-	(39 969)	-	(39 969)
New financial assets originated or purchased	768	6 987	661	86 157	94 573
Financial assets that have been derecognised	(1 061)	-	-	(5 459)	(6 520)
Other changes	-	7	1 340	-	1 347
Allowance for expected credit losses at 31 December 2021	**7 336**	**52 760**	**116 121**	**123 522**	**299 739**

	Other assets (Note 17)			Contingent liabilities (Note 24, 30)	
	Stage 1	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Total
Allowance for expected credit losses at 1 January 2020	**891**	**40 658**	**143 216**	**2 880**	**187 645**
Changes in the amount					
Net changes, resulting from changes in credit risk parameters	-	(384)	-	343	(41)
Write-off of assets through provisions	-	-	(23 023)	(759)	(23 782)
New financial assets originated or purchased	6 772	7 332	20 779	40 089	74 972
Financial assets that have been derecognised	(34)	(1 838)	-	-	(1 872)
Other changes	-	(2)	13 117	271	13 386
Allowance for expected credit losses at 31 December 2020	**7 629**	**45 766**	**154 089**	**42 824**	**250 308**

28 NET REALISED GAIN ON FOREIGN CURRENCIES AND GOLD OPERATIONS

	Year ended 31 December 2021	Year ended 31 December 2020
Realised gain from operations with foreign currencies and gold	14 545 597	8 870 337
Income from spot transactions	508 376	597 405
	15 053 973	**9 467 742**

29 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2021	Year ended 31 December 2020
Personnel costs		
Employee compensation	1 010 918	778 260
Payments to the Social fund	171 072	132 514
	1 181 990	**910 774**
Depreciation and amortisation	433 123	385 398
Repair and maintenance	216 066	193 298
Security	88 773	77 728
Professional services	44 854	31 383
Communications and information services	36 907	32 076
Publication and subscription	29 024	23 856
Rent expenses	16 526	13 752
Office supplies and stationery	9 785	8 380
Business travel expenses	9 271	4 036
Expenses for social events	8 093	8 785
Staff training	5 320	2 663
Other	48 000	22 847
	2 127 732	**1 714 976**

30 CONTINGENCIES

(a) Tax legislation

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. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however under certain circumstances a tax year may remain open for six calendar years.

These circumstances create tax risks in Kyrgyzstan that are more significant than in other countries. Management believes that tax liabilities are adequately presented in accordance with applicable tax laws, official clarifications and court decisions of Kyrgyzstan. However, the interpretation of these provisions by the relevant authorities may differ and the impact on the consolidated financial statements, if they can prove the validity of their position, can be significant.

The Management also believes that the liability according to final decision, if any, from claims and complaints against the National Bank and OJSC Keremet Bank, will not have a significant impact on the consolidated financial position or results of future activities of the Group.

(b) Legal cases

From time to time and in the normal course of business claims against the Group may be received from third parties. As at 31 December 2021 management believed that the Group would not incur significant losses as a result of any such claims and accordingly did not recognise contingent liability.

(c) Credit commitments, guarantees and other financial contracts

In the normal course of business, the OJSC Keremet Bank is a party to financial instruments with off-balance sheet risk. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

As at 31 December 2021 and 2020, the nominal or contract amounts were:

	31 December 2021	**31 December 2020**
Loan and credit line commitments	271 337	125 106
Guarantees	1 435 323	1 213 527
Reserve on financial guarantees	(123 522)	(42 824)
Total credit commitments	**1 583 138**	**1 295 809**

Analysis of changes in ECL on financial guarantees is as follows:

	12 months expected credit losses
Loss allowance as at 31 December 2020	**42 824**
Net recalculation of the allowance	80 698
Loss allowance as at 31 December 2021	**123 522**

(d) Capital commitments

As at 31 December 2021 and 2020, the National Bank and its subsidiaries had no liabilities on capital expenditures.

30 CONTINGENCIES (CONTINUED)

(e) Insurance

The insurance industry in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

Until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position of the Group.

OJSC Keremet Bank is a member of the deposit protection system of the Kyrgyz Republic, which is implemented by the Deposit Protection Agency and is regulated by the law of the Kyrgyz Republic "On the Protection of Bank Deposits". Upon the occurrence of a guarantee event in accordance with the law, each individual depositor is paid compensation of no more than KGS 200 thousand in the aggregate, including interest on deposits.

31 INCOME TAX

In accordance with the legislation of the Kyrgyz Republic, the National Bank is exempt from income tax. Subsidiaries are subject to taxation. The tax rate is 10% of the taxable profit payable by legal entities in the Kyrgyz Republic in accordance with the tax legislation of this jurisdiction.

The Group 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 tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2021 and 2020 relate mostly to different methods/timeframes for income and expense recognition as well as to temporary differences related to difference in book and tax values of certain assets.

	31 December 2021	31 December 2020
Current income tax expense	(27 945)	(2 951)
Movement in deferred tax assets/liabilities due to origination and reversal of temporary differences	18 025	(6 057)
Total income tax expense	**(9 920)**	**(9 008)**

The following is a calculation to bring the income tax expense calculated at statutory rate of 10% in line with the actual income tax expense:

	31 December 2021	31 December 2020
Profit before income tax	13 605 358	7 517 988
Tax at the statutory tax rate (10%)	(1 360 536)	(751 799)
Non-taxable income from operations of the National Bank	1 301 587	857 189
Recognition of tax effect from previously unrecognised tax losses	11 943	-
Change in unrecognised deferred tax asset of OJSC Keremet Bank	-	(105 161)
Other permanent differences OJSC Keremet Bank	37 086	(6 286)
OJSC Guarantee Fund	-	(2 951)
Total income tax expense	**(9 920)**	**(9 008)**

As at 31 December 2021, OJSC Keremet Bank has unrecognised tax losses which expires in 2022, 2024 and 2025.

Tax losses recognised below were originated in 2021 and expire in 2026.

31 INCOME TAX (CONTINUED)

Deferred tax assets/(liabilities) as at 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Property, plant and equipment	(14 085)	(19 905)
Non-current assets held for sale	(37 646)	(5 556)
Loans to customers	(33 893)	6 839
Other financial liabilities	2 840	5 257
Due from banks and other financial institutions	1 387	676
Financial guarantees	366	(2 822)
Investments at amortised cost	3 980	-
Tax loss carry-forwards	77 421	-
Other assets and liabilities	2 459	315
Total net deferred tax assets/(liabilities)	**2 829**	**(15 196)**

Deferred income tax liability / (claim)	**2021**	**2020**
At the beginning of the year	(15 196)	(8 037)
Deferred tax expense/(benefit) related to the origination and reversal of temporary differences recognised in the consolidated statement of profit or loss	18 025	(6 057)
Acquisition of OJSC Guarantee Fund	-	(1 102)
At the end of the year	**2 829**	**(15 196)**

32 RISK MANAGEMENT

Risk management is fundamental to the Group's activities and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

The Management of the Group, committees, commissions review regularly matters related to the monetary, investing and currency policies of the Group and set up limits on the scope of transactions, as well as requirements for the assessment of the Group's counterparties.

In accordance with Investment policy on International Reserve Management of the National Bank (the "Investment Policy") approved by the Board on 20 December 2020, the main goals of risk management are safety and liquidity of the assets and profitability growth of the Group. Operations are conducted within the limitations imposed by this Investment policy.

In accordance with these goals gold and foreign currency assets of the National Bank are separated into the following portfolios: working portfolio and investment portfolio.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Group manages its market risk mainly by conducting regular assessment of all open positions. In addition, the Group continuously monitors open position limits in relation to financial instruments, interest rate, maturity and balance of risks and profitability.

(i) 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 Group 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.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2021 and 2020. These interest rates are an estimation of the yields to maturity of these assets and liabilities.

CONTENT

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Average interest rates (continued)

	Weighted average effective interest rate, % 31 December 2021	Weighted average effective interest rate, % 31 December 2020
Interest-bearing assets		
Due from banks and other financial institutions		
Nostro accounts		
- USD	0.05	0.003
- EUR	(0.51)	(0.51)
- CAD	0.02	0.01
- CNY	1.60	1.90
- NOK	0.01	0.01
- KRW	0.10	0.10
- CHF	(0.04)	(1.32)
- SDR	0.08	0.08
- KGS	4.90	0.01
Term deposits		
- USD	0.17	0.24
- CAD	0.21	0.15
- GBP	0.10	0.04
- AUD	-	0.06
- RUB	7.72	3.01
- CNY	2.85	2.49
- SGD	0.08	0.03
- KGS	7.30	2.00
Loans to banks and international organisations		
- KGS	4.71	4.89
Loans to customers		
- KGS	11.20	10.09
- USD	8.57	7.55
Investments measured at fair value through other comprehensive income		
- USD	0.16	0.30
- AUD	0.13	0.08
- CAD	0.24	0.23
- GBP	0.27	0.02
- CNY	2.90	2.86
- KGS	11.30	10.68
Investments at amortised cost		
- KGS	11.23	11.11
Interest-bearing liabilities		
Due to banks and other financial institutions		
- KGS	5.50	7.38
- USD	0.50	1.50
- RUB	5.00	5.00
Customer accounts		
- KGS	11.43	6.56
- USD	2.78	3.24
- RUB	1.70	3.27
- EUR	0.78	3.71
Debt securities issued		
- KGS	7.49	4.71
Loans received	-	
- KGS	-	6.00
Liabilities to the IMF in respect of SDR allocations	0.08	0.08
Lease liabilities		
- KGS	8.58	13.75
- USD	6.98	7.92

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets measured at fair value through other comprehensive income due to changes in the interest rates based on positions of floating rate assets existing as at 31 December 2021 and 2020 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2021		**31 December 2020**	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
20 bp parallel rise	-	(55 433)	-	(76 261)
20 bp parallel fall	-	55 433	-	76 261

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management policy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The Group's exposure to foreign currency exchange rate risk by currencies as at 31 December 2021 is presented in the table below:

	KGS	USD	EUR	CAD	AUD	SDR	GBP	CNY	RUB	Other currencies	Total 31 December 2021
Non-derivative financial assets											
Cash on hand, due from banks and other financial institutions	2 376 399	74 413 585	3 812 009	2 077 285	899 440	31 796 840	1 150 431	12 234 372	4 121 252	1 400 499	134 282 112
Loans to banks and international organisations	6 248 840	-	-	-	-	-	-	-	-	-	6 248 840
Loans to customers	5 974 608	364 757	-	-	-	-	-	-	-	-	6 339 365
Investments measured at fair through other comprehensive income	880 336	59 913 082	-	6 081 103	1 300 326	-	2 159 388	2 148 290	-	-	72 482 525
Investments at amortised cost	9 099 364	-	-	-	-	-	-	-	-	-	9 099 364
Other financial assets	553 008	1 728	150	-	-	-	-	-	27 167	-	582 053
Total non-derivative financial assets	**25 132 555**	**134 693 152**	**3 812 159**	**8 158 388**	**2 199 766**	**31 796 840**	**3 309 819**	**14 382 662**	**4 148 419**	**1 400 499**	**229 034 259**

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk (continued)

	KGS	USD	EUR	CAD	AUD	SDR	GBP	CNY	RUB	Other currencies	Total 31 December 2021
Non-derivative financial liabilities											
Banknotes and coins in circulation	139 554 512	-	-	-	-	-	-	-	-	-	139 554 512
Due to banks and other financial institutions	30 777 386	8 138 789	192 050	-	-	-	-	-	2 067	-	39 110 292
Due to the Government of the Kyrgyz Republic	21 256 608	44 369	1 249 215	-	-	-	-	-	168 066	12 468	22 730 726
Customer accounts	3 541 977	823 429	13 751	-	-	-	-	-	23 352	351	4 402 860
Debt securities issued	18 400 171	-	-	-	-	-	-	-	-	-	18 400 171
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	30 258 833	-	-	-	-	30 258 833
Lease liabilities	10 876	117 681	-	-	-	-	-	-	-	-	128 557
Other financial liabilities	191 900	13 669	1 281	-	-	-	-	-	4 866	462	212 178
Total non-derivative financial liabilities	**213 733 430**	**9 137 937**	**1 456 297**	**-**	**-**	**30 258 833**	**-**	**-**	**198 351**	**13 281**	**254 798 129**
Balance sheet position	**(188 600 875)**	**125 555 215**	**2 355 862**	**8 158 388**	**2 199 766**	**1 538 007**	**3 309 819**	**14 382 662**	**3 950 068**	**1 387 218**	**(25 763 870)**
Financial derivative liabilities	496 006	(478 886)	-	-	-	-	-	-	(32 659)	-	(15 539)
Net balance sheet position	**(188 104 869)**	**125 076 329**	**2 355 862**	**8 158 388**	**2 199 766**	**1 538 007**	**3 309 819**	**14 382 662**	**3 917 409**	**1 387 218**	**(25 779 409)**

CONTENT

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk (continued)

The Group's exposure to foreign currency exchange rate risk by currencies as at 31 December 2020 is presented in the table below:

	KGS	USD	EUR	CAD	AUD	SDR	GBP	CNY	RUB	Other currencies	Total 31 December 2020
Non-derivative financial assets											
Cash on hand, due from banks and other financial institutions	2 584 163	38 378 974	4 740 019	1 851 605	3 936 244	10 357 826	1 717 619	11 117 990	2 071 222	1 749 435	78 505 097
Loans to banks and international organisations	8 623 357	-	-	-	-	-	-	-	-	-	8 623 357
Loans to customers	4 968 326	790 615	-	-	-	-	-	-	-	-	5 758 941
Investments measured at fair value through other comprehensive income	916 690	64 498 418	-	5 998 966	697 291	-	999 866	744 301	-	-	73 855 532
Investments at amortised amortised cost	2 967 212	-	-	-	-	-	-	-	-	-	2 967 212
Other financial assets	408 543	172	19	-	-	-	-	-	7 068	-	415 802
Total non-derivative financial assets	**20 468 291**	**103 668 179**	**4 740 038**	**7 850 571**	**4 633 535**	**10 357 826**	**2 717 485**	**11 862 291**	**2 078 290**	**1 749 435**	**170 125 941**

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk (continued)

	KGS	USD	EUR	CAD	AUD	SDR	GBP	CNY	RUB	Other currencies	Total 31 December 2020
Non-derivative financial liabilities											
Banknotes and coins in circulation	134 316 687	-	-	-	-	-	-	-	-	-	134 316 687
Due to banks and other financial institutions	18 822 469	6 412 741	363 741	-	-	-	-	-	1 803	-	25 600 754
Due to the Government of the Kyrgyz Republic	6 561 513	8 731 714	1 295 742	-	-	-	-	-	150 715	8 841	16 748 525
Customer accounts	3 626 039	826 204	41 637	-	-	-	-	-	34 454	345	4 528 679
Debt securities issued	11 493 091	-	-	-	-	-	-	-	-	-	11 493 091
Loans received	322 830	-	-	-	-	-	-	-	-	-	322 830
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	9 994 865	-	-	-	-	9 994 865
Lease liabilities	11 396	308 055	-	-	-	-	-	-	-	-	319 451
Other financial liabilities	106 865	10 254	2 170	-	-	-	-	-	11 330	-	130 619
Total non-derivative financial liabilities	**175 260 890**	**16 288 968**	**1 703 290**	**-**	**-**	**9 994 865**	**-**	**-**	**198 302**	**9 186**	**203 455 501**
Net balance sheet position	**(154 792 599)**	**87 379 211**	**3 036 748**	**7 850 571**	**4 633 535**	**362 961**	**2 717 485**	**11 862 291**	**1 879 988**	**1 740 249**	**(33 329 560)**

CONTENT

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk (continued)

Depreciation of KGS, as indicated in the table below, against following currencies as at 31 December 2021 and 2020 would have given a rise to the below increase (decrease) of equity and other comprehensive income. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The given level of sensitivity is used within the Group for preparation of report on currency risk for the key management of the Group. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	31 December 2021		31 December 2020	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
10% appreciation of USD against KGS	-	12 507 633	-	8 737 921
10% appreciation of CNY against KGS	-	1 438 266	-	1 186 229
10% appreciation of CAD against KGS	-	815 839	-	785 057
10% appreciation of RUB against KGS	-	391 741	-	187 999
10% appreciation of GBP against KGS	-	330 982	-	271 749
10% appreciation of EUR against KGS	-	235 586	-	303 675
10% appreciation of AUD against KGS	-	219 977	-	463 354
10% appreciation of other currencies against KGS	-	138 722	-	174 025

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

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

(iii) Other price risks

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

As at 31 December 2021 the Group was exposed to price risk of gold in deposits with foreign banks. As at 31 December 2021 gold is represented by physical gold held at the vault. Although gold is not considered to be a financial asset under IFRS, the bank is exposed to price changes in physical gold due to the fact that its accounting policy is to measure gold at fair value.

32 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(iii) Other price risks (continued)

An increase or decrease in prices in KGS equivalent of gold, as indicated below, at 31 December 2021 and 2020 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on gold price movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

	31 December 2021		31 December 2020	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of gold prices in KGS equivalent	-	5 015 912	-	8 412 976
10% depreciation of gold prices in KGS equivalent	-	(5 015 912)	-	(8 412 976)

(c) Credit risk

Credit risk is the risk of financial losses occurring as a result of default by a borrower or counterparty of the Group. The Group has developed policies and procedures for credit risk management, including guidelines to limit portfolio concentration. There is an Investment Committee, which is responsible for the monitoring of credit risk on management of international reserves.

In order to minimise the credit risk, the National Bank uses risk management policy, which sets out requirements for the counterparty of the National Bank. According to this policy, the counterparties of the National Bank can only be central banks, financial institutions or commercial banks with high rating classification of Moody's Investors Service and / or the same rating level classification of other leading rating agencies (Standard&Poor's Corporation Fitch IBCA).

Financial assets are graded according to the current credit rating they have been issued by internationally regarded agencies such as Moody's, Fitch and etc. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have BBB ratings of according to classification of Fitch are classed as speculative grade. Taking into consideration the National Bank's status as a central bank the counterparties are divided into two categories:

Category A

- Central banks of advanced developed industrial countries with stable economic and political situation and sovereign rating not less than A- per Fitch classification;
- International financial organisations, institutions and banks, such as IMF, BIS, EBRD, ADB, KfW, etc.
- Foreign commercial banks with rating not less than A- per Fitch classification.

Category B

- Central banks of countries with sovereign rating less than A- per Fitch classification;
- Financial institutions indicated in international agreements signed by the Kyrgyz Republic;
- Foreign commercial banks with rating less than A- but not less than BBB per Fitch classification.

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

Decisions on investment deals with the counterparties of the Category A, i.e. limitations on certain counterparties, investment instruments and amount of deals are established based on power of the Investment Committee of the National Bank. Decisions on investment deals with each counterparty of Category B are approved by the Management Board of the National Bank upon submission by the Investment Committee.

One of the criteria for control of credit risk is the maximum exposure to credit risk per one counterparty, as well as the geographical segments.

The National Bank's maximum exposure to credit risk per one counterparty varies significantly and is dependent on both individual risks and general market economy risks. The maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Credit Committee of OJSC Keremet Bank manages and monitors credit risk exposure related to loans to customers and financial credit organisations, and off-balance sheet financial liabilities. The credit risk management report is regularly provided to the Board of Directors and the Management Board of OJSC Keremet Bank.

To reduce the risk of default of the borrower on its obligations, OJSC Keremet Bank accepts as collateral cash, real estate and movable property, as well as guarantees and sureties. At the same time, the market value of the collateral accepted as collateral is reduced by applying discount factors as specified in the internal documents of OJSC Keremet Bank.

To exercise proper control over the fulfilment of obligations assumed by the borrower, OJSC Keremet Bank continuously monitors the performance of individual credit exposures. The monitoring frequency and methods conform to current lending programmes, taking account of the target groups of borrowers.

Off-balance sheet liabilities comprise undrawn credit lines, guarantees or letters of credit. The credit risk related to off-balance financial instruments is determined as the probability of loss due to the inability of the borrower to comply with the terms and conditions of the contract. As for credit risk associated with off-balance sheet financial instruments, OJSC Keremet Bank's maximum loss will be equal to the total amount of undrawn credit lines. However, the expected credit losses are less than the total amount of undrawn commitments, as the origination of credit related commitments generally depends on whether clients meet specific creditworthiness criteria. OJSC Keremet Bank applies the same credit policy to account for both commitments and financial instruments presented in the balance sheet, which is based on the use of loan approval procedures, risk limits, and includes ongoing monitoring. OJSC Keremet Bank monitors the maturity of loans as the exposure to credit risk inherent in long-term liabilities is greater than that inherent in short-term liabilities.

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

	31 December 2021	31 December 2020
FINANCIAL ASSETS		
Gold in deposits with foreign banks	6 702 618	-
Cash on hand, due from banks and other financial institutions*	129 314 625	74 964 900
Loans to banks and international organisations	6 248 840	8 623 357
Loans to customers	6 339 365	5 758 941
Investments measured at fair value through other comprehensive income except equity investments	72 482 525	73 855 532
Investments at amortised cost	9 099 364	2 967 212
Other financial assets	582 053	415 802
Total maximum exposure	**230 769 390**	**166 585 744**

* This amount does not include cash on hand in foreign currencies.

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

Internal credit risk ratings

To minimise credit risk, the Group has developed a credit rating system for categorising risks depending on the degree of default risk. Credit rating information is based on a set of data that is defined as forward-looking data with respect to default risk and uses expert judgment regarding credit risk. The analysis takes into account the nature of risk and type of a borrower. Credit ratings are determined using qualitative and quantitative factors that indicate the risk of default. The credit rating system of the Group includes ten categories.

Internal credit ratings	Matter
1	Low or moderate risk
2	Watch
3	Impaired

The analysis of credit risk for each class of financial assets, taking into account the internal credit rating and stage in accordance with IFRS 9, without taking into account the effect of collateral and other mechanisms to improve the quality of a loan, is presented in the tables below. Unless otherwise indicated, the amounts presented in the tables for financial assets represent their gross carrying amount.

	31 December 2021			
	Stage 1 12-month expected credit losses	**Stage 2 Lifetime expected credit losses**	**Stage 3 Lifetime expected credit losses**	**Total**
Cash on hand, due from banks and other financial institutions				
Credit rating 1: Low or moderate risk	134 284 952	-	-	134 284 952
Credit rating 2: Watch	-	10 809	-	10 809
Credit rating 3: Impaired	-	-	1 401	1 401
Total gross carrying amount	**134 284 952**	**10 809**	**1 401**	**134 297 162**
Loss allowance for expected credit losses	(14 483)	(160)	(407)	(15 050)
Carrying amount	**134 270 469**	**10 649**	**994**	**134 282 112**

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

	31 December 2021			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Loans to banks and international organisations				
Credit rating 1: Low or moderate risk	4 875 663	-	-	4 875 663
Credit rating 2: Watch	-	1 780 510	-	1 780 510
Credit rating 3: Impaired	-	-	151 597	151 597
Total gross carrying amount	**4 875 663**	**1 780 510**	**151 597**	**6 807 770**
Loss allowance for expected credit losses	(63 914)	(343 419)	(151 597)	(558 930)
Carrying amount	**4 811 749**	**1 437 091**	**-**	**6 248 840**

	31 December 2021				
	Stage 1	Stage 2	Stage 3		
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Loans to customers					
Credit rating 1: Low or moderate risk	4 077 096	-	-	-	4 077 096
Credit rating 2: Watch	-	964 545	-	-	964 545
Credit rating 3: Impaired	-	-	866 877	1 793 435	2 660 312
Total carrying amount	**4 077 096**	**964 545**	**866 877**	**1 793 435**	**7 701 953**
Loss allowance for expected credit losses	(43 651)	(83 463)	(793 341)	(442 133)	(1 362 588)
Carrying amount	**4 033 445**	**881 082**	**73 536**	**1 351 302**	**6 339 365**

	31 December 2021			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments measured at fair value through other comprehensive income				
Credit rating 1: Low or moderate risk	72 482 525	-	-	72 482 525
Total carrying amount	**72 482 525**	**-**	**-**	**72 482 525**

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

	31 December 2021			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Credit rating 1: Low or moderate risk	9 167 177	-	-	9 167 177
Total gross carrying amount	**9 167 177**	**-**	**-**	**9 167 177**
Loss allowance for expected credit losses	(67 813)	-	-	(67 813)
Carrying amount	**9 099 364**	**-**	**-**	**9 099 364**

	31 December 2021				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Other financial assets					
Credit rating 1: Low or moderate risk	588 144	-	-	-	588 144
Credit rating 3: Impaired	-	-	54 005	116 121	170 126
Total gross carrying amount	**588 144**	**-**	**54 005**	**116 121**	**758 270**
Loss allowance for expected credit losses	(7 336)	-	(52 760)	(116 121)	(176 217)
Carrying amount	**580 808**	**-**	**1 245**	**-**	**582 053**

	31 December 2020			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Cash on hand, due from banks and other financial institutions				
Credit rating 1: Low or moderate risk	77 854 628	-	-	77 854 628
Credit rating 2: Watch	-	659 054	-	659 054
Credit rating 3: Impaired	-	-	-	-
Total gross carrying amount	**77 854 628**	**659 054**	**-**	**78 513 682**
Loss allowance for expected credit losses	(8 531)	(54)	-	(8 585)
Carrying amount	**77 846 097**	**659 000**	**-**	**78 505 097**

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

	31 December 2020			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Loans to banks and international organisations				
Credit rating 1: Low or moderate risk	8 524 035	-	-	8 524 035
Credit rating 2: Watch	-	326 137	-	326 137
Credit rating 3: Impaired	-	-	148 118	148 118
Total gross carrying amount	**8 524 035**	**326 137**	**148 118**	**8 998 290**
Loss allowance for expected credit losses	(213 297)	(13 518)	(148 118)	(374 933)
Carrying amount	**8 310 738**	**312 619**	**-**	**8 623 357**

	31 December 2020				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Loans to customers					
Credit rating 1: Low or moderate risk	3 114 524	-	-	-	3 114 524
Credit rating 2: Watch	-	570 642	-	-	570 642
Credit rating 3: Impaired	-	-	1 006 822	2 255 902	3 262 724
Total gross carrying amount	**3 114 524**	**570 642**	**1 006 822**	**2 255 902**	**6 947 890**
Loss allowance for expected credit losses	(41 653)	(9 526)	(746 499)	(391 271)	(1 188 949)
Carrying amount	**3 072 871**	**561 116**	**260 323**	**1 864 631**	**5 758 941**

	31 December 2020			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments measured at fair value through other comprehensive income				
Credit rating 1: Low or moderate risk	73 855 532	-	-	73 855 532
Total carrying amount	**73 855 532**	**-**	**-**	**73 855 532**

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

	31 December 2020			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Credit rating 1: Low or moderate risk	3 021 258	-	-	3 021 258
Total gross carrying amount	**3 021 258**	**-**	**-**	**3 021 258**
Loss allowance for expected credit losses	(54 046)	-	-	(54 046)
Carrying amount	**2 967 212**	**-**	**-**	**2 967 212**

	31 December 2020				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Other financial assets					
Credit rating 1: Low or moderate risk	422 186	-	-	-	422 186
Credit rating 3: Impaired	-	-	47 011	154 089	201 100
Total gross carrying amount	**422 186**	**-**	**47 011**	**154 089**	**623 286**
Loss allowance for expected credit losses	(7 629)	-	(45 766)	(154 089)	(207 484)
Carrying amount	**414 557**	**-**	**1 245**	**-**	**415 802**

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

The tables below analyse information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in loss allowance during the year 2021, by classes of financial assets:

	2021			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month expected credit losses	**Lifetime expected credit losses**	**Lifetime expected credit losses**	**Total**
Loans to banks and international organisations				
Gross carrying amount as at 1 January 2021	**8 524 035**	**326 137**	**148 118**	**8 998 290**
Changes in gross carrying amount				
- Transfer to Stage 2	(2 268 675)	2 268 675	-	-
Write-off of assets against allowance	-	-	(378)	(378)
New financial assets originated or purchased	144 544	-	-	144 544
Derecognised financial assets	(1 524 241)	(814 302)	-	(2 338 543)
Foreign exchange and other changes	-	-	3 857	3 857
Gross carrying amount as at 31 December 2021	**4 875 663**	**1 780 510**	**151 597**	**6 807 770**
Loss allowance for expected credit losses as at 31 December	**(63 914)**	**(343 419)**	**(151 597)**	**(558 930)**

CONTENT

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

	2021				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Loans to customers					
Gross carrying amount as at 1 January 2021	**3 114 524**	**570 642**	**1 006 822**	**2 255 902**	**6 947 890**
Change in gross carrying amount					
- Transfer to stage 1	4 633	(4 633)	-	-	-
- Transfer to stage 2	(288 718)	572 278	(283 560)	-	-
- Transfer to stage 3	(78 866)	(34 817)	113 683	-	-
New financial assets originated or purchased*	2 209 542	-	-	-	2 209 542
Derecognised financial assets*	(886 136)	(140 289)	-	(462 467)	(1 488 892)
Foreign exchange and other changes	2 117	1 364	29 932	-	33 413
Gross carrying amount as at 31 December 2021	**4 077 096**	**964 545**	**866 877**	**1 793 435**	**7 701 953**
Loss allowance for expected credit losses as at 31 December 2021	**(43 651)**	**(83 463)**	**(793 341)**	**(442 133)**	**(1 362 588)**

* The amount includes loans issued and repaid during 2021.

	2021			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments measured at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2021	**73 855 532**	**-**	**-**	**73 855 532**
Changes in gross carrying amount				
New financial assets originated or purchased	77 338 879	-	-	77 338 879
Derecognised financial assets	(80 416 914)	-	-	(80 416 914)
Other changes	1 705 028	-	-	1 705 028
Carrying amount as at 31 December 2021	**72 482 525**	**-**	**-**	**72 482 525**

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

	2021			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Gross carrying amount as at 1 January 2021	**3 021 258**	**-**	**-**	**3 021 258**
Changes in gross carrying amount				
New financial assets originated or purchased	6 753 670	-	-	6 753 670
Derecognised financial assets	(607 751)	-	-	(607 751)
Gross carrying amount as at 31 December 2021	**9 167 177**	**-**	**-**	**9 167 177**
Loss allowance for expected credit losses as at 31 December 2021	**(67 813)**	**-**	**-**	**(67 813)**

	2021				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Other financial assets					
Gross carrying amount as at 1 January 2021	**422 186**	**-**	**47 011**	**154 089**	**623 286**
Changes in gross carrying amount					
New financial assets originated or purchased	219 584	-	6 987	661	227 232
Derecognised financial assets	(53 626)	-	-	(39 969)	(93 595)
Other changes	-	-	7	1 340	1 347
Gross carrying amount as at 31 December 2021	**588 144**	**-**	**54 005**	**116 121**	**758 270**
Loss allowance for expected credit losses as at 31 December 2021	**(7 336)**	**-**	**(52 760)**	**(116 121)**	**(176 217)**

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

The table below analyses information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in loss allowance during the year 2020, by classes of financial assets:

	2020			
	Stage 1 12-month expected credit losses	**Stage 2 Lifetime expected credit losses**	**Stage 3 Lifetime expected credit losses**	**Total**
Loans to banks and international organisations				
Gross carrying amount as at 1 January 2020	**6 858 210**	**183 243**	**127 039**	**7 168 492**
Changes in gross carrying amount				
New financial assets originated or purchased	2 939 131	291 638	-	3 230 769
Derecognised financial assets	(1 273 306)	(148 744)	(2 614)	(1 424 664)
Reversal	-	-	94	94
Foreign exchange and other changes	-	-	23 599	23 599
Gross carrying amount as at 31 December 2020	**8 524 035**	**326 137**	**148 118**	**8 998 290**
Loss allowance for expected credit losses as at 31 December 2020	**(213 297)**	**(13 518)**	**(148 118)**	**(374 933)**

CONTENT

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

	2020				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Loans to customers					
Gross carrying amount as at 1 January 2020	**2 833 720**	**4 670**	**7 805**	**2 284 987**	**5 131 182**
Change in gross carrying amount					
- Transfer to stage 1	2 489	-	(2 489)	-	-
- Transfer to stage 2	(735 337)	735 337	-	-	-
- Transfer to stage 3	(790 057)	(108 628)	898 685	-	-
Write-off of assets against allowance	(65)	-	-	-	(65)
New financial assets originated or purchased*	2 304 118	-	-	-	2 304 118
Derecognised financial assets*	(521 460)	(78 160)	(88 150)	(29 085)	(716 855)
Foreign exchange and other changes	21 116	17 423	190 971	-	229 510
Gross carrying amount as at 31 December 2020	**3 114 524**	**570 642**	**1 006 822**	**2 255 902**	**6 947 890**
Loss allowance for expected credit losses as at 31 December 2020	**(41 653)**	**(9 526)**	**(746 499)**	**(391 271)**	**(1 188 949)**

* The amount includes loans issued and repaid during 2020.

	2020			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments measured at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2020	**33 977 002**	**-**	**-**	**33 977 002**
Changes in gross carrying amount				
New financial assets originated or purchased	95 186 566	-	-	95 186 566
Derecognised financial assets	(64 935 721)	-	-	(64 935 721)
Other changes	9 627 685	-	-	9 627 685
Carrying amount as at 31 December 2020	**73 855 532**	**-**	**-**	**73 855 532**

32 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

	2020			
	Stage 1 12-month expected credit losses	**Stage 2 Lifetime expected credit losses**	**Stage 3 Lifetime expected credit losses**	**Total**
Investments at amortised cost				
Gross carrying amount as at 1 January 2020	**127 014**	**-**	**-**	**127 014**
Changes in gross carrying amount	2 957 377	-	-	2 957 377
Derecognised financial assets	(63 133)	-	-	(63 133)
Gross carrying amount as at 31 December 2020	**3 021 258**	**-**	**-**	**3 021 258**
Loss allowance for expected credit losses as at 31 December 2020	**(54 046)**	**-**	**-**	**(54 046)**

	2020				
	Stage 1 12-month expected credit losses	**Stage 2 Lifetime expected credit losses**	**Stage 3 Lifetime expected credit losses**	**Originated or purchased credit-impaired financial assets**	**Total**
Other financial assets					
Gross carrying amount Balance at 1 January 2020	**340 157**	**-**	**41 843**	**143 215**	**525 216**
Changes in gross carrying amount	84 952	-	7 332	10 873	103 157
Derecognised financial assets	(2 923)	-	(2 162)	-	(5 085)
Other changes	-	-	(2)	-	(2)
Gross carrying amount as at 31 December 2020	**422 186**	**-**	**47 011**	**154 089**	**623 286**
Loss allowance for expected credit losses as at 31 December 2020	**(7 629)**	**-**	**(45 766)**	**(154 089)**	**(207 484)**

(d) Geographical concentrations

The Investment Committee of the National Bank monitors the country risk of its counterparties. This approach is aimed at minimising potential losses from investment climate changes in those countries where the National Bank's currency reserves are placed.

32 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations (continued)

The following table shows the geographical concentration of assets and liabilities at 31 December 2021:

	The Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2021 Total
Financial assets					
Cash on hand, due from banks and other financial institutions	7 343 941	31 908 997	28 336 566	66 692 608	134 282 112
Loans to banks and international organisations	6 248 840	-	-	-	6 248 840
Loans to customers	6 339 365	-	-	-	6 339 365
Investments measured at fair value through other comprehensive income	880 336	35 628 606	-	35 973 583	72 482 525
Investments at amortised cost	9 099 364	-	-	-	9 099 364
Other financial assets	581 814	-	239	-	582 053
Total financial assets	**30 493 660**	**67 537 603**	**28 336 805**	**102 666 191**	**229 034 259**

	The Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2021 Total
Financial liabilities					
Banknotes and coins in circulation	139 554 512	-	-	-	139 554 512
Financial derivative liabilities	15 539	-	-	-	15 539
Due to banks and other to financial institutions	38 734 572	903	343 482	31 335	39 110 292
Due to the Government of the Kyrgyz Republic	22 730 726	-	-	-	22 730 726
Customer accounts	4 037 573	181 886	183 401	-	4 402 860
Debt securities issued	18 400 171	-	-	-	18 400 171
Liabilities to the IMF in respect of SDR allocations	-	-	-	30 258 833	30 258 833
Lease liabilities	128 557	-	-	-	128 557
Other financial liabilities	202 118	3 924	6 136	-	212 178
Total financial liabilities	**223 803 768**	**186 713**	**533 019**	**30 290 168**	**254 813 668**
Net balance sheet position	**(193 310 108)**	**67 350 890**	**27 803 786**	**72 376 023**	**(25 779 409)**

32 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations (continued)

The following table shows the geographical concentration of assets and liabilities at 31 December 2020:

	The Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2020 Total
Financial assets					
Cash on hand, due from banks and other financial institutions	6 124 360	36 278 771	16 485 169	19 616 797	78 505 097
Loans to banks and international organisations	8 623 357	-	-	-	8 623 357
Loans to customers	5 758 941	-	-	-	5 758 941
Investments measured at fair value through other comprehensive income	916 690	31 792 946	-	41 145 896	73 855 532
Investments at amortised cost	2 967 212	-	-	-	2 967 212
Other financial assets	407 659	7 224	919	-	415 802
Total financial assets	**24 798 219**	**68 078 941**	**16 486 088**	**60 762 693**	**170 125 941**

	The Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2020 Total
Financial liabilities					
Banknotes and coins in circulation	134 316 687	-	-	-	134 316 687
Due to banks and other financial institutions	25 316 323	920	246 883	36 628	25 600 754
Due to the Government of the Kyrgyz Republic	16 748 525	-	-	-	16 748 525
Customer accounts	4 149 819	135 678	243 182	-	4 528 679
Debt securities issued	11 493 091	-	-	-	11 493 091
Loans received	322 830	-	-	-	322 830
Liabilities to the IMF in respect of SDR allocations	-	-	-	9 994 865	9 994 865
Lease liabilities	319 451	-	-	-	319 451
Other financial liabilities	112 693	5 689	12 237	-	130 619
Total financial liabilities	**192 779 419**	**142 287**	**502 302**	**10 031 493**	**203 455 501**
Net balance sheet position	**(167 981 200)**	**67 936 654**	**15 983 786**	**50 731 200**	**(33 329 560)**

32 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities. Liquidity risk exists when maturities of assets and liabilities denominated in foreign currency do not match. The matching and/or controlled mismatching of maturities of assets and liabilities is fundamental to the risk management of financial institutions, including the National Bank and OJSC Keremet Bank. It is not a common practice for financial institutions to completely match maturity of assets and liabilities due to the diversity of operations and associated uncertainty.

The Group 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 Group's Management Board.

The Group seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank is the emission bank (the National Bank carries out the issue of national currency – the Kyrgyz som), the default risk on fulfilment its obligations in national currency is minimal, and liquidity risk is more applicable for obligations of the National Bank denominated in foreign currency and financial obligations of OJSC Keremet Bank in national and foreign currencies.

The liquidity management policy requires:

- Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Maintaining a portfolio of highly marketable assets that can easily be sold as protection against any interruption to cash flow;
- Maintaining liquidity and funding contingency plans;
- Monitoring balance sheet liquidity ratios of the National Bank and OJSC Keremet Bank against regulatory requirements.

32 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	31 December 2021 Carrying amount
Financial derivative liabilities	15 539	-	-	-	-	15 539	15 539
Due to banks and other financial institutions	39 091 609	-	-	-	18 683	39 110 292	39 110 292
Due to the Government of the Kyrgyz Republic	22 730 726	-	-	-	-	22 730 726	22 730 726
Customer accounts	1 857 119	368 440	518 337	962 207	937 079	4 643 182	4 402 860
Debt securities issued	18 449 330	-	-	-	-	18 449 330	18 400 171
Liabilities to the IMF in respect of SDR allocations	30 256 065	2 768	-	-	-	30 258 833	30 258 833
Lease liabilities	7 390	14 511	22 564	42 926	49 050	136 441	128 557
Other financial liabilities	131 520	5 405	1 645	72 076	1 532	212 178	212 178
	112 539 298	**391 124**	**542 546**	**1 077 209**	**1 006 344**	**115 556 521**	**115 259 156**

The tables above show cash outflows of financial liabilities that are not equal to carrying amounts of those liabilities in current consolidated financial statements because these amounts include remaining interest payable, which is not yet recognised using the effective interest rate method. Under the law, commercial banks are obligated to ensure the safekeeping of deposits and to return them at the request of depositors. In the above table, there are KGS 142 301 thousand deposits from individuals in on demand and less than 1 month category, KGS 162 032 thousand deposits from individuals in from 1 to 3 months category, KGS 1 354 652 thousand deposits from individuals in from 3 to 12 months category and KGS 766 526 thousand in more than 1 year category. (2020: KGS 249 966 thousand deposits from individuals in on demand and less than 1 month category, KGS 685 755 thousand deposits from individuals in from 1 to 3 months category, KGS 773 557 thousand deposits from individuals in from 3 to 12 months category and KGS 1 002 291 thousand in more than 1 year category).

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	31 December 2020 Carrying amount
Due to banks and other financial institutions	25 569 605	13 793	-	16 530	14 606	25 614 534	25 600 754
Due to the Government of the Kyrgyz Republic	16 748 525	-	-	-	-	16 748 525	16 748 525
Customer accounts	1 531 310	876 660	422 073	669 137	1 278 607	4 777 787	4 528 679
Debt securities issued	9 861 900	1 662 850	-	-	-	11 524 750	11 493 091
Loans received	1 692	44 583	4 234	52 679	256 359	359 547	322 830
Liabilities to the IMF in respect of SDR allocations	9 993 127	1 738	-	-	-	9 994 865	9 994 865
Lease liabilities	8 308	15 349	23 214	46 362	275 705	368 938	319 451
Other financial liabilities	73 141	6 360	16	46 177	4 995	130 689	130 619
	63 787 608	**2 621 333**	**449 537**	**830 885**	**1 830 272**	**69 519 635**	**69 138 814**

The tables above show cash outflows of financial liabilities that are not equal to carrying amounts of those liabilities in current consolidated financial statements because these amounts include remaining interest payable, which is not yet recognised using the effective interest rate method.

CONTENT

CONTENT

32 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	31 December 2021 Total
FINANCIAL ASSETS							
Cash on hand, due from banks and other financial institutions	109 273 999	18 197 890	5 241 181	1 569 042	-	-	134 282 112
Loans to banks and international organisations	297 905	2 005 848	3 945 087	-	-	-	6 248 840
Loans to customers	278 530	305 122	1 213 166	3 261 181	1 281 366	-	6 339 365
Investments measured at fair value through other comprehensive income	5 574 584	22 056 325	39 054 464	5 789 273	7 879	-	72 482 525
Investments at amortised cost	59 559	14 949	154 167	4 892 624	3 978 065	-	9 099 364
Other financial assets	178 726	6 137	29 453	183 139	184 598	-	582 053
	115 663 303	**42 586 271**	**49 637 518**	**15 695 259**	**5 451 908**	**-**	**229 034 259**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	139 554 512	139 554 512
Financial derivative liabilities	15 539	-	-	-	-	-	15 539
Due to banks and other financial institutions	39 091 609	-	-	18 683	-	-	39 110 292
Due to the Government of the Kyrgyz Republic	22 730 726	-	-	-	-	-	22 730 726
Customer accounts	1 856 475	363 525	1 391 354	791 506	-	-	4 402 860
Debt securities issued	18 400 171	-	-	-	-	-	18 400 171
Liabilities to the IMF in respect of SDR allocations	30 256 065	2 768	-	-	-	-	30 258 833
Lease liabilities	6 651	13 216	61 928	46 762	-	-	128 557
Other financial liabilities	131 520	5 405	73 721	1 532	-	-	212 178
	112 488 756	**384 914**	**1 527 003**	**858 483**	**-**	**139 554 512**	**254 813 668**
Net position	**3 174 547**	**42 201 357**	**48 110 515**	**14 836 776**	**5 451 908**	**(139 554 512)**	**(25 779 409)**

32 RISK MANAGEMENT(CONTINUED)

(e) Liquidity risk (continued)

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	31 December 2020 Total
FINANCIAL ASSETS							
Cash on hand, due from banks and other financial institutions	58 983 511	11 004 426	8 517 160	-	-	-	78 505 097
Loans to banks and international organisations	253 423	3 263 935	5 105 999	-	-	-	8 623 357
Loans to customers	584 174	28 629	104 052	2 561 138	2 480 948	-	5 758 941
Investments measured at fair value through other comprehensive income	3 480 527	25 981 900	35 820 761	8 420 680	151 664	-	73 855 532
Investments at amortised cost	-	-	82 388	-	2 884 824	-	2 967 212
Other financial assets	31 916	6 887	29 266	166 919	180 814	-	415 802
	63 333 551	**40 285 777**	**49 659 626**	**11 148 737**	**5 698 250**	**-**	**170 125 941**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	134 316 687	134 316 687
Due to banks and other financial institutions	25 569 605	13	16 530	14 606	-	-	25 600 754
Due to the Government of the Kyrgyz Republic	16 748 525	-	-	-	-	-	16 748 525
Customer accounts	1 549 947	866 253	1 039 093	1 073 386	-	-	4 528 679
Debt securities issued	9 844 018	1 649 073	-	-	-	-	11 493 091
Loans received	1 163	41 667	45 000	235 000	-	-	322 830
Liabilities to the IMF in respect of SDR allocations	9 993 127	1 738	-	-	-	-	9 994 865
Lease liabilities	6 087	11 492	53 579	248 293	-	-	319 451
Other financial liabilities	73 071	6 360	16	46 177	4 995	-	130 619
	63 785 543	**2 576 596**	**1 154 218**	**1 617 462**	**4 995**	**134 316 687**	**203 455 501**
Net position	**(451 992)**	**37 709 181**	**48 505 408**	**9 531 275**	**5 693 255**	**(134 316 687)**	**(33 329 560)**

33 AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992, the Kyrgyz Republic joined the International Monetary Fund (the "IMF"). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2021 and 2020, the quota of the Kyrgyz Republic amounted to SDR 177 600 thousand.

To secure a part of the membership quota, the Ministry of Finance of the Kyrgyz Republic issued securities to the IMF. The other part was secured by funds placed on the IMF current account with the National Bank.

The National Bank was designated as a depository for these securities and funds and as a financial agency authorised to carry out transactions with the IMF on behalf of the Kyrgyz Republic. Accordingly, the following assets and liabilities are not assets and liabilities of the National Bank and were not included in the National Bank's consolidated financial statements:

	31 December 2021	31 December 2020
IMF membership quota	**21 078 092**	**20 733 276**
Securities issued to the IMF	(20 988 468)	(20 645 118)
The IMF current accounts	(64 878)	(67 849)
	(21 053 346)	**(20 712 967)**

34 RELATED PARTY TRANSACTIONS

(a) Control relationship

In considering each possible related party, substance of the relationship is considered and not only the legal form.

In accordance with the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" the National Bank is the central bank of the Kyrgyz Republic and is owned by the Kyrgyz Republic. The Group has the authority to independently run its own operations under powers given by the Law.

(b) Transactions with the members of the Management Board

Total remuneration received by the members of the National Bank's Management Board for the years ended 31 December 2021 and 2020 was KGS 62 159 thousand and KGS 27 960 thousand, respectively. The remuneration consists of salary and other payments. The outstanding balances of loans issued to members of the Management Board as at 31 December 2021 and 2020 were KGS 22 711 thousand and KGS 17 646 thousand, respectively. The loans are KGS-denominated and repayable by 2032. Interest income from loans to members of the Management Board for the years ended 31 December 2021 and 2020 was KGS 196 thousand and KGS 192 thousand, respectively.

(c) Transactions with other related parties

As at 31 December 2021, the outstanding balances with related parties were as follows:

	Unconsolidated subsidiaries	Associates	31 December 2021 Total
Consolidated statement of financial position			
Investments in associates	-	344 582	344 582

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with other related parties (continued)

Related profit or loss amounts of transactions for the year ended 31 December 2021 with other related parties are as follows:

	Unconsolidated subsidiaries	Associates	Year ended 31 December 2021 Total
Consolidated statement of profit or loss			
Share of profit of associates	-	73 081	73 081
Fee and commission income	-	160	160
Other income	-	1 286	1 286
Other expenses	-	(475)	(475)

As at 31 December 2020, the outstanding balances with related parties were as follows:

	Unconsolidated subsidiaries	Associates	31 December 2020 Total
Consolidated statement of financial position			
Investments in associates	220 000	281 860	501 860

Related profit or loss amounts of transactions for the year ended 31 December 2020 with other related parties are as follows:

	Unconsolidated subsidiaries	Associates	Year ended 31 December 2020 Total
Consolidated statement of profit or loss			
Share of profit of associates	-	38 442	38 442
Fee and commission income	-	240	240
Other income	2 193	734	2 927
Other expenses	(879)	-	(879)

35 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2021:

	Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	31 December 2021 Total carrying amount	31 December 2021 Fair value
Cash on hand, due from banks and other financial institutions	52 707 188	81 574 924	-	134 282 112	134 282 112
Loans to banks and international organisations	6 248 840	-	-	6 248 840	6 248 840
Loans to customers	6 339 365	-	-	6 339 365	5 490 486
Investments measured at fair value through other comprehensive income	-	72 482 525	-	72 482 525	72 482 525
Investments at amortised cost	9 099 364	-	-	9 099 364	9 099 364
Other financial assets	582 053	-	-	582 053	582 053
	74 976 810	**154 057 449**	**-**	**229 034 259**	**228 185 380**
Banknotes and coins in circulation	139 554 512	-	-	139 554 512	139 554 512
Financial derivative liabilities	-	-	15 539	15 539	15 539
Due to banks and other financial institutions	39 110 292	-	-	39 110 292	39 110 292
Due to the Government of the Kyrgyz Republic	22 730 726	-	-	22 730 726	22 730 726
Customer accounts	4 402 860	-	-	4 402 860	4 329 395
Debt securities issued	18 400 171	-	-	18 400 171	18 400 171
Liabilities to the IMF in respect of SDR allocations	30 258 833	-	-	30 258 833	30 258 833
Lease liabilities	128 557	-	-	128 557	128 557
Other financial liabilities	212 178	-	-	212 178	212 178
	254 798 129	**-**	**15 539**	**254 813 668**	**254 740 203**

35 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

(a) Accounting classifications and fair values (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2020:

	Measured at amortised cost	Measured at fair value through other comprehensive income	31 December 2020 Total carrying amount	31 December 2020 Fair value
Due from banks and other financial institutions	28 594 045	49 911 052	78 505 097	78 505 097
Loans to banks and international organisations	8 623 357	-	8 623 357	8 623 357
Loans to customers	5 758 941	-	5 758 941	5 242 287
Investments measured at fair value through other comprehensive income	-	73 855 532	73 855 532	73 855 532
Investments at amortised cost	2 967 212	-	2 967 212	3 089 250
Other financial assets	415 802	-	415 802	415 802
	46 359 357	**123 766 584**	**170 125 941**	**169 731 325**
Banknotes and coins in circulation	134 316 687	-	134 316 687	134 316 687
Due to banks and other financial institutions	25 600 754	-	25 600 754	25 600 754
Due to the Government of the Kyrgyz Republic	16 748 525	-	16 748 525	16 748 525
Customer accounts	4 528 679	-	4 528 679	4 248 498
Debt securities issued	11 493 091	-	11 493 091	12 966 662
Loans received	322 830	-	322 830	322 830
Liabilities to the IMF in respect of SDR allocations	9 994 865	-	9 994 865	9 994 865
Lease liabilities	319 451	-	319 451	319 451
Other financial liabilities	130 619	-	130 619	130 619
	203 455 501	**-**	**203 455 501**	**204 648 891**

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. 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 Group measures fair values of financial instruments recognised in the consolidated statement of financial position using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

35 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

(b) Fair value hierarchy (continued)

The table below analyses financial instruments measured at fair value at 31 December 2021, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2021 Total
Cash on hand, due from banks and other financial institutions	-	81 574 924	-	**81 574 924**
Investments measured at fair value through other comprehensive income	72 482 525	-	-	**72 482 525**
Financial derivative liabilities	-	15 539	-	**15 539**

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2020 Total
Cash on hand, due from banks and other financial institutions	-	49 911 052	-	**49 911 052**
Investments measured at fair value through other comprehensive income	73 855 532	-	-	**73 855 532**

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

	Level 1	Level 2	Level 3	31 December 2021 Total
Cash on hand, due from banks and other financial institutions	-	52 707 188	-	**52 707 188**
Loans to banks and international organisations	-	6 248 840	-	**6 248 840**
Loans to customers	-	-	5 490 486	**5 490 486**
Investments at amortised cost	-	9 099 364	-	**9 099 364**
Other financial assets	-	582 053	-	**582 053**
Banknotes and coins in circulation	-	139 554 512	-	**139 554 512**
Due to banks and other financial institutions	-	39 110 292	-	**39 110 292**
Due to the Government of the Kyrgyz Republic	-	22 730 726	-	**22 730 726**
Debt securities issued	-	18 400 171	-	**18 400 171**
Customer accounts	-	-	4 329 395	**4 329 395**
Liabilities to the IMF in respect of SDR allocations	-	30 258 833	-	**30 258 833**
Lease liabilities	-	128 557	-	**128 557**
Other financial liabilities	-	212 178	-	**212 178**

35 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

(b) Fair value hierarchy (continued)

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

	Level 1	Level 2	Level 3	31 December 2020 Total
Cash on hand, due from banks and other financial institutions	-	28 594 045	-	**28 594 045**
Loans to banks and international organisations	-	8 623 357	-	**8 623 357**
Loans to customers	-	-	5 242 287	**5 242 287**
Investments at amortised cost	-	3 089 250	-	**3 089 250**
Other financial assets	-	415 802	-	**415 802**
Banknotes and coins in circulation	-	134 316 687	-	**134 316 687**
Due to banks and other financial institutions	-	25 600 754	-	**25 600 754**
Due to the Government of the Kyrgyz Republic	-	16 748 525	-	**16 748 525**
Debt securities issued	-	12 966 662	-	**12 966 662**
Customer accounts	-	-	4 248 498	**4 248 498**
Loans to customers	-	322 830	-	**322 830**
Liabilities to the IMF in respect of SDR allocations	-	9 994 865	-	**9 994 865**
Lease liabilities	-	319 451	-	**319 451**
Other financial liabilities	-	130 619	-	**130 619**

36 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2021 and 2020, the Group had not any financial assets or financial liabilities that would had met the criteria for offsetting in the consolidated statement of financial position, and the Group had not entered into any master netting or similar agreements.

37 SUBSEQUENT EVENTS

The start of 2022 was characterised by instability on the geopolitical stage in February 2022 which entailed the unprecedented sanctions against certain financial institutions, in particular disconnection from SWIFT of certain Russian institutions and freezing of their assets. The imposed restrictions have resulted in downgrading of international ratings for Russian financial institutions. In particular, the international conducted two rounds of downgrading the sovereign ratings of the Russian Federation and the Republic of Belarus up to near-default ratings.

The National Bank took an extraordinary decision on the refinancing rate level due to the need to maintain stability of prices against the background of realisation of risks on the part of the external sector in the event of a significant worsening of the geopolitical situation, which was considered as part of the negative scenario and plans for anti-crisis measures of the National Bank and the Cabinet of Ministers. Starting from 10 March 2022, the base rate is set at 14% per annum.

37 SUBSEQUENT EVENTS (CONTINUED)

The National Bank stays committed to a free-floating currency exchange rate and retains the right to perform currency interventions under conditions of excessive volatility to ensure the stability of the financial system. At the same time, the flexible exchange rate of the national currency will enable to ensure the safety of gold and foreign currency assets, the importance of which has increased because of realization of the risks on the part of the external sector. The official exchange rate of the USD to the national currency from the beginning of the year to the date of issue of the financial statements was in the range from KGS 81.5205 to KGS 105.00 per one USD.

Liquidity risk

Realisation of geopolitical risks has increased demand for gold. Thus, during February the price of gold rose from USD 1 884,80 to USD 1 936,30 per ounce, or by 2.3%, and was multi-year high in early March, having exceeded the level of USD 2 039,05 per ounce.

Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies. A weakening of the national currency against the US dollar and other foreign currencies was of a short-term nature, and therefore there was no effect on capital as a result of fluctuations in the exchange rate of the national currency.

Credit risk

The negative effect of the sanctions imposed on the Russian banks and downgrading of the ratings of the Russian Federation and the Republic of Belarus, is likely to increase credit risk in relation to the requirements of the National Bank on the correspondent accounts in the banks of these countries (0.3% of all assets), which may result in recognition of an additional amount of expected credit losses.

Market risk

Market risk is reduced through a diversified structure of gold and foreign currency assets. In particular, the gold and foreign currency assets of the National Bank include assets in gold, SDR and a portfolio of foreign currencies.

CHAPTER 8. SEPARATE FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

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INDEPENDENT AUDITORS' REPORT

To the Management Board of the National Bank of the Kyrgyz Republic

Opinion

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the National Bank as at 31 December 2021, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the financial reporting principles disclosed in Note 2 of the separate financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the National Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate 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.

Emphasis of Matter

We draw attention to Note 2 (d) to the separate financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2020 has been restated. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of the National Bank for the year of 2021 but does not include the separate financial statements and our auditors' report thereon.

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

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

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

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

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the financial reporting principles disclosed in Note 2 of the separate financial statements, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the National 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 National Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 separate financial statements.

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

— Identify and assess the risks of material misstatement of the separate 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 National 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 National Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the National Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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.

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

Ashley Clarke
Attorney

Aida Asyrandieva
Executive Director of KPMG Bishkek LLC
Certified Auditor of the Kyrgyz Republic,
Auditor's Qualification Certificate
serial A, No. 0232 of 13 November 2014

18 April 2022

Separate Statement of Financial Position as at 31 december 2021

(in thousands of Soms)

	Note	31 December 2021	31 December 2020 (restated*)	1 January 2020 (restated*)
ASSETS				
Gold	6	50 159 119	84 129 763	48 833 361
Cash on hand, due from banks and other financial institutions	7	130 658 428	75 046 663	86 890 955
Loans to banks and international organisations	8	6 633 075	9 007 592	7 532 693
Investments measured at fair value through other comprehensive income	9	71 602 189	72 938 843	32 983 156
Investments at amortised cost	10	2 955 967	2 967 212	125 052
Investments in subsidiaries and associates	11	10 939 457	8 252 875	2 410 756
Property, plant and equipment	12	1 955 142	1 895 012	1 797 308
Intangible assets		58 018	110 714	185 701
Non-monetary gold and gold reserves	13	35 411 153	13 509 025	6 727 241
Other assets	14	4 340 508	3 209 891	1 010 867
Total assets		**314 713 056**	**271 067 590**	**188 497 090**
LIABILITIES				
Banknotes and coins in circulation	15	139 922 220	134 629 161	106 244 754
Due to banks and other financial institutions	16	39 580 124	28 840 609	21 879 997
Due to the Government of the Kyrgyz Republic	17	22 730 726	16 748 525	17 033 154
Debt securities issued	18	18 494 284	12 990 663	8 048 501
Liabilities to the IMF in respect of SDR allocations	19	30 258 833	9 994 865	8 146 676
Other liabilities		158 528	100 002	196 243
Total liabilities		**251 144 715**	**203 303 825**	**161 549 325**
EQUITY				
Charter capital	20	2 000 000	2 000 000	2 000 000
Obligatory reserve		8 325 042	7 476 561	7 476 561
Revaluation reserve for foreign currency and gold		44 149 006	53 572 573	17 151 905
Revaluation reserve for investments at fair value through other comprehensive income		(98 216)	13 261	13 024
Retained earnings		9 192 509	4 701 370	306 275
Total equity		**63 568 341**	**67 763 765**	**26 947 765**
Total liabilities and equity		**314 713 056**	**271 067 590**	**188 497 090**

Bokontaev K.K.
Chairman of the National Bank

15 April 2022

City of Bishkek
The Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

15 April 2022

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The Kyrgyz Republic

* Certain amounts in this column do not comply with those in the financial statements for 2019-2020 as they have been restated. Detailed information is provided in Note 2 (d).

The notes on pages 106-171 form an integral part of these separate financial statements.

Separate Statement of Profit or Loss for the year ended 31 december 2021

(in thousands of Soms)

	Note	Year ended 31 December 2021	Year ended 31 December 2020 (restated*)
Interest income	21	1 121 620	1 456 413
Interest expense	21	(1 132 600)	(791 173)
Net interest (expense)/income	**21**	**(10 980)**	**665 240**
Fee and commission income		77 840	70 159
Fee and commission expense		(31 814)	(14 635)
Net fee and commission income		**46 026**	**55 524**
Charge of allowance for expected credit losses on financial assets	22	(187 423)	(229 230)
Loss on impairment of investments in subsidiaries	11	(376 140)	(1 524 443)
Net realised gain on foreign currencies and gold operations	23	15 005 454	9 378 866
Share of profit of associates		73 081	38 442
Other income		390 727	352 973
Net non-interest income		**14 905 699**	**8 016 608**
Operating income		**14 940 745**	**8 737 372**
Expenses on production of banknotes and coins issued into circulation		(434 774)	(404 385)
Administrative expenses	24	(1 351 325)	(1 167 108)
Other expenses		(178 696)	(205 511)
Operating expenses		**(1 964 795)**	**(1 777 004)**
Profit for the year		**12 975 950**	**6 960 368**

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Separate Statement of Comprehensive Income for the year ended 31 december 2021

(in thousands of Soms)

	Year ended 31 December 2021	Year ended 31 December 2020 (restated*)
Profit for the year	**12 975 950**	**6 960 368**
Items that may be reclassified subsequently to the separate statement of profit or loss		
Revaluation reserve for foreign currency and gold:		
- net gain on revaluation of assets and liabilities in foreign currency and gold	5 122 030	45 291 005
- net realised gain on foreign currency and gold transferred to profit or loss	(14 545 597)	(8 870 337)
Net fair value (loss)/gain on investments at fair value through other comprehensive income	(111 477)	237
Other comprehensive (loss)/income for the year	**(9 535 044)**	**36 420 905**
Total comprehensive income for the year	**3 440 906**	**43 381 273**

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CONTENT

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Separate Statement of Cash Flows for the year ended 31 december 2021

(in thousands of Soms)

	Note	Year ended 31 December 2021	Year ended 31 December 2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		964 106	1 638 517
Interest paid		(1 068 087)	(694 570)
Fee and commission receipts		77 840	70 159
Fee and commission payments		(31 814)	(14 635)
Realised gain on foreign exchange operations		459 858	508 529
Other income		313 556	296 234
Payroll expenses		(714 950)	(602 275)
Expenses on production of banknotes and coins issued into circulation		(902 986)	(631 063)
Administrative expenses, excluding payroll expenses		(479 892)	(470 935)
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**(1 382 369)**	**99 961**
(Increase)/decrease in operating assets			
Gold		35 156 809	(8 955 136)
Due from banks and other financial institutions		(22 225 948)	18 709 611
Loans to banks and international organisations		2 185 211	(1 645 295)
Investments measured at fair value through other comprehensive income		2 733 500	(30 471 721)
Non-monetary gold and gold reserves		(24 327 409)	(6 781 784)
Other assets		1 741 259	(2 051 157)
Increase/(decrease) in operating liabilities			
Banknotes and coins in circulation		5 293 058	28 384 407
Due to banks and other financial institutions		10 602 049	5 983 864
Due to the Government of the Kyrgyz Republic		(1 818 849)	(6 234 584)
Debt securities issued		5 488 081	4 933 730
Other liabilities		(2 997)	(122 679)
Net cash flows from operating activities		**13 442 395**	**1 849 217**

The notes on pages 106-171 form an integral part of these separate financial statements.

Separate Statement of Cash Flows for the year ended 31 december 2021 (continued)

(in thousands of Soms)

	Note	Year ended 31 December 2021	Year ended 31 December 2020
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of shares of subsidiary		(3 000 000)	(7 358 000)
Acquisition of property, plant and equipment and intangible assets		(254 962)	(282 308)
Acquisitions of investment at amortised cost		-	(2 939 403)
Proceeds on redemption of securities measured at amortised cost		64 352	64 352
Interest received on investments at amortised cost		280 868	11 314
Dividends received		33 962	47 183
Net cash flows used in investing activities		**(2 875 780)**	**(10 456 862)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans received from the IMF	19	20 424 704	-
Net cash flows from financing activities		**20 424 704**	**-**
Net increase/(decrease) **in cash and cash equivalents**		**30 991 319**	**(8 607 645)**
Effect of movements in exchange rates on cash and cash equivalents		1 718 492	9 487 948
Cash and cash equivalents at the beginning of the year		52 577 678	51 697 375
Cash and cash equivalents at the end of the year	**7**	**85 287 489**	**52 577 678**

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CONTENT

Separate Statement of Changes in Equity for the year ended 31 december 2021

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments at fair value through other comprehensive income	Retained earnings	Total
Balance at 1 January 2021	**2 000 000**	**7 476 561**	**53 572 573**	**13 261**	**4 701 370**	**67 763 765**
Profit for the year	-	-	-	-	12 975 950	12 975 950
Other comprehensive income	-	-	-	-	-	-
Net fair value loss on investments at fair value through other comprehensive income	-	-	-	(111 477)	-	(111 477)
Net gain on revaluation of assets and liabilities in foreign currency and gold	-	-	5 122 030	-	-	5 122 030
Net gain on foreign currency and gold transferred to profit or loss	-	-	(14 545 597)	-	-	(14 545 597)
Total comprehensive income for the year	**-**	**-**	**(9 423 567)**	**(111 477)**	**12 975 950**	**3 440 906**
Transactions recorded directly in equity	-	-	-	-	-	-
Distribution of prior year profit to the state budget (Note 20)	-	-	-	-	(7 636 330)	(7 636 330)
Transfer to obligatory reserve	-	848 481	-	-	(848 481)	-
Total amounts of transactions recorded directly to equity	**-**	**848 481**	**-**	**-**	**(8 484 811)**	**(7 636 330)**
Balance at 31 December 2021	**2 000 000**	**8 325 042**	**44 149 006**	**(98 216)**	**9 192 509**	**63 568 341**

The notes on pages 106-171 form an integral part of these separate financial statements.

Separate Statement of Changes in Equity for the year ended 31 december 2021 (continued)

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments at fair value through other comprehensive income	Retained earnings (restated*)	Total
Balance at 1 January 2020	**2 000 000**	**7 476 561**	**17 151 905**	**13 024**	**2 565 273**	**29 206 763**
Effect of retrospective adjustments (Note 2 (d))	-	-	-	-	(2 258 998)	(2 258 998)
Balance at 1 January 2020 (restated*)	**2 000 000**	**7 476 561**	**17 151 905**	**13 024**	**306 275**	**26 947 765**
Profit for the year (restated*)	-	-	-	-	6 960 368	6 960 368
Other comprehensive income						
Net fair value gain on investments at fair value through other comprehensive income	-	-	-	237	-	237
Net gain on revaluation of assets and liabilities in foreign currency and gold	-	-	45 291 005	-	-	45 291 005
Net gain on foreign currency and gold transferred to profit or loss	-	-	(8 870 337)	-	-	(8 870 337)
Total comprehensive income for the year (restated*)	**-**	**-**	**36 420 668**	**237**	**6 960 368**	**43 381 273**
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget (Note 20)	-	-	-	-	(2 565 273)	(2 565 273)
Total amounts of transactions recorded directly to equity	**-**	**-**	**-**	**-**	**(2 565 273)**	**(2 565 273)**
Balance at 31 December 2020 (restated*)	**2 000 000**	**7 476 561**	**53 572 573**	**13 261**	**4 701 370**	**67 763 765**

* Certain amounts in this column do not comply with those in the financial statements for 2019-2020 as they have been restated. Detailed information is provided in Note 2 (d).

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15 April 2022

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(in thousands of Soms)

1 GENERAL INFORMATION

(a) Organisation and operations

The National Bank of the Kyrgyz Republic ("the National Bank") is a legal successor of the State Bank of the Kyrgyz Republic which was renamed by the Law "On the National Bank of the Kyrgyz Republic" dated 12 December 1992 as the National Bank of the Kyrgyz Republic. On 16 December 2016, the Jogorku Kenesh (Parliament) of the Kyrgyz Republic adopted the new Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity", which currently regulates the activities of the National Bank.

The principal goal of the National Bank is to achieve and maintain stability of prices in the Kyrgyz Republic. To achieve this goal the National Bank is entrusted to perform the following functions: determine and implement the monetary policy for the country; foster well-functioning and effective payment system and interbank transfers; issue and supply banknotes and coins for circulation; manage international currency reserves; license, regulate and supervise operations of the commercial banks and financial institutions in accordance with the legislation. The National Bank also acts as a fiscal agent of the Government of the Kyrgyz Republic.

The National Bank's registered office is: 168, Chui ave., Bishkek, Kyrgyz Republic, 720001.

As at 31 December 2021 and 2020, the National Bank has 5 oblast branches and one representative office operating throughout the Kyrgyz Republic.

As at 31 December 2021 and 2020, the total number of the National Bank's employees is 753 and 705, respectively.

The National Bank is the parent company of the group, which includes the following organisations:

	Percentage of voting shares (%)		
Name	**31 December 2021**	**31 December 2020**	**Activity**
OJSC Keremet Bank	97,45	97,45	Banking services
OJSC Guarantee Fund	91,22	85,91	Guarantee issue services
CJSC Kyrgyz Cash Collection	100,00	100,00	Valuables transportation services

On 10 November 2021, to support business entities and promote further development of their operations through increasing access to the financial resources in conditions where there is a need to mitigate the negative consequences of COVID-19 pandemic, the National Bank purchased shares of the seventh issue of OJSC Guarantee Fund for the amount of KGS 2 500 000 thousand. Based on results of placement of the seventh issue of shares of the OJSC Guarantee Fund , the share of the National Bank in the charter capital was 91,22%.

On 8 December 2021, to support the material base of CJSC Kyrgyz Cash Collection for implementation of the public and social tasks, including an uninterrupted provision of services of ATM replenishment and delivery of cash to the regions of Kyrgyzstan, the National Bank made decision to increase the charter capital of the CJSC Kyrgyz Cash Collection through the third issue of the CJSC Kyrgyz Cash Collection 's shares for the amount of KGS 500 000 thousand. Based on results of the third issue the CJSC Kyrgyz Cash Collection's charter capital was KGS 720 000 thousand. The share of the National Bank in the charter capital is 100%.

1 GENERAL INFORMATION, CONTINUED

(a) Organisation and operations, continued

As at 31 December 2021 and 2020, the National Bank also owns an investment in CJSC Interbank Processing Center (46.71%).

These separate financial statements were approved by the Management Board of the National Bank on 15 April 2022.

(b) Business environment

The Kyrgyz Republic is undergoing significant political, economic and social changes. As an emergency market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result, operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. The Kyrgyz Republic's high degree of integration with the economies of the countries in the region results in the exposure of the Kyrgyz Republic economy to the influence of unstable situation in international capital markets.

In early 2022, the geopolitical situation affected the Kyrgyz economy.

The National Bank also considers negative development scenarios and is ready to adapt its operational plans accordingly. The National Bank continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

The separate financial statements reflect management's assessment of the impact of the Kyrgyz Republic business environment on the operations and the financial position of the National Bank. The actual impact of future economic conditions may differ from their management's assessment.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

(a) Statement of compliance with IFRS with certain exceptions

In accordance with the Law of the Kyrgyz Republic "On National Bank of the Kyrgyz Republic, Banks and Banking Activity" the National Bank determines for itself the accounting policy and methods of accounting. These separate financial statements have been designed to present fairly the separate financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with the principal modifications as described below:

– Gold as defined in note 3a is revalued based on the market value and if the total net unrealised result from the mark to market of gold and foreign currency assets and liabilities revaluation is a gain, this is recognised as other comprehensive income directly in equity. Where the total net unrealised result from the mark to market of gold and foreign currency assets and liabilities revaluation is a loss, it is recognised in the separate statement of profit or loss except to the extent that it reverses a previous net unrealised gain, otherwise it is recognised as other comprehensive income directly in equity. At the time of derecognition of gold and foreign currency assets and liabilities, the cumulative gain or loss previously recognised in equity is transferred to the separate statement of profit or loss on the basis of the weighted-average cost method.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES, CONTINUED

(a) Statement of compliance with IFRS with certain exceptions, continued

- To perform the role and functions of the central bank, investments measured at fair value through other comprehensive income (Note 9) and nostro accounts with foreign banks and international financial institutions (Note 7) are classified as “held for cash collection and sale”, despite the absence of any recent sales (Note 3 d (i)).
- Expected credit losses (ECL) on nostro accounts and term deposits in foreign countries with foreign banks and international financial institutions (Note 7) are calculated on the basis of the Regulation “On Classification of Financial Assets and Liabilities and Calculation of ECL Allowance for Financial Assets of the National Bank of the Kyrgyz Republic” (Note 3(d)(ii)), under which the National Bank, under certain circumstances may use its professional judgement to determine the ECL amount.
- Allocation of the profit for the year is recognised after completion of the independent external audit and approval of the annual report by the Management Board of the National Bank, and recognition of prepayment as an asset until the approval.

These separate financial statements are the separate financial statements of the National Bank, the parent company of the Group.

Subsidiaries are not consolidated in these separate financial statements. Investments in subsidiaries are accounted at cost less impairment losses.

The National Bank also prepares consolidated financial statements of the National Bank and its subsidiaries. These separate financial statements should be read in conjunction with the consolidated financial statements, which were approved for issue by the Management Board of the National Bank on 15 April 2022.

These separate financial statements have been prepared on the assumption that the National Bank is a going concern and will continue operating in the foreseeable future.

(b) Basis for measurement

These separate financial statements are prepared on the historic cost basis except that gold as defined in Note 3 (a) and certain financial instruments are stated at fair value.

(c) Functional and presentation currency

Items included in the separate financial statements are measured in the currency of the primary economic environment in which the National Bank operates (“the functional currency”). The functional currency of the National Bank is the Kyrgyz Som, which, being the national currency of the Kyrgyz Republic, best reflects the economic substance of the majority of the operations conducted by the National Bank and related circumstances affecting their operations. Kyrgyz Som is also the presentation currency of these separate financial statements.

Financial information is presented in Soms and rounded to the nearest thousand.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES, CONTINUED

(d) Restatement of comparative information due to change in accounting policy

In previous years, investments in subsidiaries were measured at cost. In 2021, the National Bank adopted the following accounting policy for measurement of such investments in order to increase the consistency of its accounting policy with IAS 36:

– in preparing separate financial statements, investments in subsidiaries are carried at cost less any subsequent accumulated impairment losses.

This modification was retrospectively applied and resulted in adjustment to the comparative information included in these financial statements for the years ended 31 December 2019 and 2020.

The effect of the adjustments made to the separate financial statements for the years ending 31 December 2020 and 1 January 2020 is as follows:

Separate statement of financial position as at 1 January 2020	**As previously reported**	**Effect of changes**	**Restated**
ASSETS			
Investments in subsidiaries and associates	4 669 754	2 258 998	2 410 756
Total assets	**190 756 088**	**(2 258 998)**	**188 497 090**
EQUITY			
Retained earnings	2 565 273	(2 258 998)	306 275
Total equity	**29 206 763**	**(2 258 998)**	**26 947 765**
Total liabilities and equity	**190 756 088**	**(2 258 998)**	**188 497 090**

Separate statement of financial position as at 31 December 2020	**As previously reported**	**Effect of changes**	**Restated**
ASSETS			
Investments in subsidiaries and associates	12 036 316	(3 783 441)	8 252 875
Total assets	**274 851 031**	**(3 783 441)**	**271 067 590**
EQUITY			
Retained earnings	8 484 811	(3 783 441)	4 701 370
Total equity	**71 547 206**	**(3 783 441)**	**67 763 765**
Total liabilities and equity	**274 851 031**	**(3 783 441)**	**271 067 590**

Separate statement of profit or loss for the year ended 31 December 2020	**As previously reported**	**Effect of changes**	**Restated**
Loss on impairment of investments in subsidiaries	-	(1 524 443)	(1 524 443)
Net non-interest income	**9 541 051**	**(1 524 443)**	**8 016 608**
Operating income	**10 261 815**	**(1 524 443)**	**8 737 372**
Profit for the year	**8 484 811**	**(1 524 443)**	**6 960 368**

Separate statement of comprehensive income for the year ended 31 December 2020	**As previously reported**	**Effect of changes**	**Restated**
Profit for the year	**8 484 811**	**(1 524 443)**	**6 960 368**
Total comprehensive income for the year	**44 905 716**	**(1 524 443)**	**43 381 273**

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting for gold

(i) Gold

Gold comprises gold on deposits with foreign banks and gold bullion with Good Delivery status. Gold is an investment asset formed to implement the monetary policy and generate investment income.

Gold is accounted for at the market value in the separate financial statements. Market value is determined by reference to the London Bullion Market Association Gold Price PM at the day preceding the reporting date. Where the total net unrealised result on revaluation of gold is a gain, it is recognised directly in other comprehensive income in equity. Where the total net unrealised result on a revaluation of gold is a loss, it is it is recognised in the separate statement of profit or loss except to the extent that it reverses a previous net unrealised gain, otherwise it is recognised as other comprehensive income directly in equity. Realised gains and losses on gold are subsequently recognised in the separate statement of profit or loss.

(ii) Non-monetary gold and gold reserves

Non-monetary gold is represented by bullion that is not in compliance with standards of the London Bullion Market Association.

Gold reserves comprise gold bullion, which meets the requirements of the Good Delivery international quality standard of London Bullion Market Association and other generally recognised international standards; bullion that have qualitative characteristics of Good Delivery international quality standard but are not certified by London Bullion Market Association, and gold in non-standard bullions, plates, granules or other types, purchased to form the gold reserves, for production and other purposes, and to expand operations with precious metals and develop the precious metals market.

Non-monetary gold and gold reserves are intended to form the National Bank's reserves within the framework of the development prospects of the domestic precious metals market. They do not participate in active investment operations of the National Bank and do not form the National Bank's investment assets in gold.

Non-monetary gold and gold reserves are classified as inventory and are measured at the lower of cost and net realisable value.

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the National 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 is determined. Where the total net foreign currency differences arising on retranslation is a gain, it is recognised as other comprehensive income in equity. Where the total net foreign currency differences arising from revaluation is a loss, it is presented in the statement of profit or loss except to the extent that it reverses a previous net unrealised gain, otherwise it is recognised as other comprehensive income directly in equity. 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. Realised gains and losses on foreign currencies are recorded in the separate statement of profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Foreign currency transactions, continued

Foreign exchange rates

Foreign exchange rates used by the National Bank in preparing the separate financial statements as at 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
US Dollar/som	84,7586	82,6498
Euro/som	95,7857	101,3204
Special Drawing Rights/som	118,6705	117,9311
Canadian Dollar/som	66,0967	63,6223
Australian Dollar/som	61,3829	62,2998
Great British Pound Sterling/som	113,6214	111,0892
Chinese Renminbi/som	13,3134	12,5477
Russian Rouble/som	33,7146	1,1188
Troy ounce gold/som	153 061,3178	156 009,7625

(c) Cash and cash equivalents

To determine cash flows, cash and cash equivalents include cash on hand in foreign currencies and unrestricted balances (nostro accounts) held with banks with original maturities within three months which are subject to insignificant risk of changes in their fair value, and are used by the National Bank in the management of short-term commitments.

Cash on hand in the national currency is deducted from the amount of banknotes and coins in circulation.

(d) Financial assets

Financial assets and financial liabilities are stated in the separate statement of financial position of the National Bank when the National Bank becomes a party to the contract in respect of the relevant financial instrument. The National Bank recognises regular way acquisitions and sales of financial assets and liabilities using settlement date accounting.

(i) Classification and measurement of financial assets

All recognised financial assets included in the scope of application IFRS 9, after initial recognition, should be measured at amortised cost or at fair value in accordance with the business model of the National Bank for management of financial assets and characteristics of the contractual cash flows, except for nostro accounts with foreign banks and international financial institutions and investments measured at fair value through other comprehensive income, which are classified in accordance with the Regulation "On Classification of Financial Assets and Liabilities and Calculation of ECL Allowance for Financial Assets of the National Bank of the Kyrgyz Republic."

In particular:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost.
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVOCI.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(i) Classification and measurement of financial assets, continued

- All other debt instruments (e.g. debt instruments measured at fair value or held for sale) and equity investments are subsequently measured at FVTPL.

However, the National Bank makes the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis: Specifically:

- The National Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; as well as
- The National Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

<u>Financial assets measured at amortised cost</u> The business model of holding an asset to collect the contractual cash flows implies that the financial assets are managed to collect principal and interest payments over the life of the financial instrument. Within this business model, holding the financial asset till maturity is the priority, but early sale is not prohibited.

Financial assets measured at amortised cost include the following assets:

- Term deposits in foreign banks, term deposits in international financial institutions and cash on hand in foreign currencies (Note 7);
- Loans to banks and international organisations (Note 8);
- Securities of the Government of the Kyrgyz Republic, including Treasury bills of the Ministry of Finance of the Kyrgyz Republic (Note 10); and
- Accounts receivable (Note 14).

After initial measurement, financial assets at amortised cost are measured using the effective interest method less any impairment losses.

<u>Financial assets at fair value through other comprehensive income</u> The business model of holding an asset both to collect the contractual cash flows and to sell the financial asset assumes that purpose of managing the financial asset is both obtaining contractual cash flows and selling the financial asset. Under this business model, the receipt of cash from the sale of the financial asset is a priority, which is distinguished by a higher frequency and volume of sales compared to the business model ‘Holding an asset to obtain the contractual cash flows’.

Financial assets at fair value through other comprehensive income include the following assets:

- Nostro accounts with foreign banks and international financial institutions (Note 7);
- Investments in state (sovereign) and agency debt instruments, as well as debt instruments of international financial institutions (Note 9).

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(i) Classification and measurement of financial assets, continued

The balance of nostro accounts with foreign banks and international financial institutions is maintained to manage liquidity. Payments from nostro accounts with foreign banks and international financial institutions are made to support the current operations of the National Bank for the performance of its functions.

The main goal when managing investments in state (sovereign) and agency debt instruments, as well as debt instruments of international financial institutions is to ensure liquidity and security of international reserves. Investments in state and agency debt obligations, as well as debt securities of international financial institutions, may be sold early in the financial markets to perform the functions of the National Bank. As a result, management have determined that these items are held under a business model to collect and sell and are therefore measured at FVOCI.

The fair value of financial assets measured at FVTOCI is determined under IFRS 13 *Fair value measurement* (“IFRS 13”).

The fair value gains or losses of financial assets measured at FVOCI are recognised in other comprehensive income, until these assets are derecognised, when accumulated profits or losses previously reflected in equity are transferred to profit or loss.

Financial assets at fair value through profit or loss. All other financial assets which are not classified at FVTOCI or amortised cost are measured at FVTPL.

The fair value of financial assets is measured under IFRS 13 Fair value measurement (“IFRS 13”). Gains or losses at fair value for financial assets at fair value through profit or loss are recognised in the separate statement of profit or loss.

Reclassification. If the business model under which the National Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the National Bank’s financial assets. Changes in contractual cash flows are considered under the accounting policy described below in section ‘Modification and derecognition of financial assets’.

(ii) Measurement of ECL for assets

General approach to recognition of expected credit losses. The National Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions (Note 7);
- Loans to banks and international organisations (Note 8);
- Investments measured at fair value through other comprehensive income (Note 9);
- Investments at amortised cost (Note 10);
- Accounts receivable (Note 14).

No impairment loss is recognised on equity instruments.

CONTENT

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(ii) Measurement of ECL for assets, continued

With the exception of purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through an impairment allowance at an amount equal to:

- 12-month expected credit losses, i.e. lifetime expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage 1);
- full lifetime expected credit losses, i.e. lifetime expected credit losses that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

The National Bank recognises an allowance of the full value of credit losses expected over the entire term of a financial instrument, in the event of a significant credit risk increase from the moment the instrument was initially recognised. In all remaining cases, provisions for expected credit losses equal the amount of credit losses expected in the coming 12 months.

For purchased or originated credit-impaired financial assets, the National Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Following formula is used to calculate ECL:

ECL = EAD * LGD * PD, where

ECL – expected credit loss;

EAD – exposure at default;

LGD – loss given default;

PD – probability of default.

Approach to identifying significant increase in credit risk. If there are facts of a significant increase in credit risk since the initial recognition, the National Bank monitors all financial assets, loan commitments and financial guarantee contracts that are subject to impairment requirements. In the event of a significant increase in credit risk, the National Bank will measure the loss allowance based on loan lifetime rather than 12-month ECL. In relation to financial assets with a significant increase in credit risk, the term “Stage 2 assets” is used.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the National Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the National Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the National Bank’s historical experience and expert credit assessment including forward-looking information.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(ii) Measurement of ECL for assets, continued

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

More detailed information on estimation of expected credit losses, criteria for significant increase of credit risk and credit impairment for each group of financial assets is given below.

Estimation of expected credit losses for due from banks and other financial institutions

Impairment indicators are determined based on the ratings of international rating agencies (Moody's Investors Service, Fitch Ratings, Standard & Poor's - hereinafter Moody's, Fitch, S&P, respectively), analysis of financial statements of the National Bank's counterparties and other information, which indicates change in their credit risk.

Approach to identifying significant increase in credit risk. Indicators of significant increase of credit risk for these assets are as follows:

- Deterioration of the long-term counterparty rating below Baa2 (BBB) according to the classification of one or more rating agencies indicated above compared to the rating upon initial recognition;
- Assignment of points to a commercial bank, below a certain level, when calculating limits for counterparties in accordance with the policy of determining limits for counterparties of the National Bank;
- Incurring annual net losses by the counterparty for 2 (two) consecutive years or more;
- Delay in fulfilment of obligations to transfer currency in accordance with the payment order of the National Bank or overdue of the principal and/or interest over 3 (three) days;
- Information on large amounts of fines, legal proceedings and other negative information obtained from reliable sources that may affect the counterparty's credit risk during the future reporting period.

Indicators of credit impairment of due from banks and other financial institutions are:

- Default, i.e. the inability or failure of the counterparty to fulfil its obligations;
- Delay in fulfilment of obligations over 30 days;
- A contractor's request for debt restructuring;
- Assignment to the counterparty of the rating D/Default, partial/selective default (RD/SD) by one or several rating agencies;
- Other negative information obtained from reliable sources, which is an indicator of the significant financial difficulties of the counterparty, which does not allow him to fulfil obligations under an agreement with the National Bank.

CONTENT

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(ii) Measurement of ECL for assets, continued

<u>Estimation of expected credit losses for due from banks and other financial institutions</u>

<table>
<tr><th>Account description</th><th>ECL Formula:</th><th>Inputs into formula:</th></tr>
<tr><td rowspan="3">1. Nostro accounts with foreign banks and international financial institutions</td><td rowspan="3">ECL = EAD x LGD x PD</td><td>EAD = Average counterparty balance for the preceding 12 months</td></tr>
<tr><td>LGD = 0.6 for Sovereign banks and 0.75 for Commercial banks</td></tr>
<tr><td>PD = Moody’s Investor Service</td></tr>
<tr><td rowspan="5">2. Deposits in banks and other financial institutions and current accounts held under intergovernmental agreements</td><td rowspan="5">ECL_banks = EAD_banks x LGD_banks x PD_banks</td><td>EAD_banks = Weighted average EAD on current accounts of intergovernmental agreements and deposits in commercial banks.</td></tr>
<tr><td>LGD_banks = 0.6 for Sovereign and 0.75 for commercial</td></tr>
<tr><td></td></tr>
<tr><td>PD_banks = derived from Moody’s data</td></tr>
<tr><td>PD banks is adjusted by a coefficient derived from factors comprising GDP Growth Forecast, Output Gap, Provision rate, Unexpected Change. The factor includes significant management judgement and unobservable inputs. Based on conditions as at the financial statement issuance date, there was no impact on PD as a result of this adjustment coefficient.</td></tr>
</table>

EAD for nostro accounts is equal to the average balance of the current account (calculated as the average value of account balances at the end of each month over the past 12 months), converted to Soms at the official exchange rate of the National Bank as at the reporting date.

EAD for term deposits in foreign banks, term deposits in international financial institutions is equal to the discounted value of contractual cash flows on assets (principal and interest), converted to Soms at the official exchange rate of the National Bank as at the reporting date. The discount factor for discounting contractual cash flows on placements with banks is the effective interest rate on the financial asset.

Losses at default are the share of difference between cash flows, which are due to the National Bank in accordance with the contract, and cash flows, which National Bank expects to receive in case of default of the counterparty. LGD vary from nil to 100% and are calculated using the following formula:

LGD =100% - RR, where

RR (recovery rate) is an indicator of the share of the refund in case of default of the counterparty or instrument according to rating agencies.

The average cumulative default rates, published and updated by the international rating agency Moody’s, are used as the probability of default (PD). Similar rates from the rating agency S&P are used as an alternative. If the counterparty does not have a rating agency both from Moody’s and S&P, a similar rating from Fitch is used.

If factors arise that may significantly affect the level of credit risk of assets in a foreign currency, the calculation of expected credit losses may be adjusted based on the judgement of the National Bank.

Adjustment for calculation of expected credit losses is made only if the probability of default (PD) calculated on the basis of data provided by the international rating agencies, based on the judgement of the National Bank, does not sufficiently take the effect of market conditions on the level of credit risk of bank placements into consideration. No such adjustments were made during the reporting period.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(ii) Measurement of ECL for assets, continued

Factors that may significantly affect the level of credit risk of financial assets include the deterioration of macroeconomic conditions in the global economy and other negative changes in the environment that lead to the deterioration of the financial condition of the holders of assets of the National Bank.

The criterion for a significant deterioration of macroeconomic conditions in the world is the reduction of economic activity to or below the level of periods of global financial and economic shocks of crisis years.

Estimation of expected credit losses for securities of the Government of the Kyrgyz Republic

Approach to identifying significant increase in credit risk. Indicator of significant increase in credit risk for securities of the Government of the Kyrgyz Republic is a decrease in the sovereign rating of the Kyrgyz Republic by 2 (two) or more levels in accordance with scale of an international rating agency within one year (in the last 12 months).

Indicator of credit impairment of securities of the Government of the Kyrgyz Republic is breach of contractual obligations for a period of more than 30 days without taking into account the officially granted period of deferment of payments.

Calculation of expected credit losses on securities of the Government of the Kyrgyz Republic.

EAD for the securities of the Government of the Kyrgyz Republic is equal to the present value of the principal amount balance of securities and interest receivable in future.

LGD for securities of the Government of the Kyrgyz Republic is calculated based on the sovereign rating of the Kyrgyz Republic.

To determine the PD of securities of the Government of the Kyrgyz Republic, weighted cumulative default rates are used, corresponding to the sovereign rating of the Kyrgyz Republic.

Estimation of expected credit losses for government securities of other countries

Approach to identifying significant increase in credit risk. Indicator of significant increase in credit risk for government securities of other countries is a decrease in the sovereign rating of these countries by 2 (two) or more levels in accordance with scale of an international rating agency compared to the rating upon initial recognition.

Indicators of credit impairment of government securities of other countries are:

- Default, i.e. the inability or failure of the counterparty to fulfil its obligations;
- Delay in fulfilment of obligations over 30 days;
- A contractor’s request for debt restructuring;
- Assignment to the counterparty of the rating D/Default, partial/selective default (RD/SD) by one or several rating agencies;
- Other negative information obtained from reliable sources, which is an indicator of the significant financial difficulties of the counterparty, which does not allow him to fulfil obligations under an agreement with the National Bank.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(ii) Measurement of ECL for assets, continued

Calculation of expected credit losses on government securities of other countries.

EAD for the government securities of other countries is equal to the discounted value of contractual cash flows on assets (principal and interest), converted to Soms at the official exchange rate of the National Bank as at the reporting date. The discount factor for discounting contractual cash flows on placements with banks is the effective interest rate on the financial asset.

Losses at default are the share of difference between cash flows, which are due to the National Bank in accordance with the contract, and cash flows, which National Bank expects to receive in case of default of the counterparty. LGD vary from nil to 100% and are calculated using the following formula:

LGD =100% - RR, where

RR (recovery rate) is an indicator of the share of the refund in case of default of the counterparty or instrument according to rating agencies.

The average cumulative default rates, published and updated by the international rating agency Moody's, are used as the probability of default (PD). Similar rates from the rating agency S&P are used as an alternative. If the counterparty does not have a rating agency both from Moody's and S&P, a similar rating from Fitch is used.

Estimation of expected credit losses for loans to banks and international organisations

At initial recognition a loan is assigned low risk of default, i.e. the loan is included in Stage 1 loans, except for loans of last resort and loans to maintain liquidity issued to a bank, which was defined as unreliable under the risk-based supervision system of the National Bank, PD for which is determined as being equal to 100%.

Approach to identifying significant increase in credit risk. If value of PD of a bank or financial institution in the reporting period is among the banks with the highest PD throughout the banking system of the Kyrgyz Republic over the past 60 months, this fact is regarded as a significant increase in credit risk of the bank.

Indicator of credit impairment of a loan issued is the failure to fulfil contractual obligations for following periods:

- For overnight loans and 7-day loan – for a period of more than one day without taking into account the officially granted grace period;
- For other loans, with the exception of liquidity loan issued to unreliable bank – for a period of more than 30 days without taking into account the officially granted period of deferment of payments.

Calculation of expected credit losses on loans to banks and other financial institutions.

EAD for loans issued is equal to the present value of the principal amount of the loan and interest on loans receivable in the future.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(ii) Measurement of ECL for assets, continued

LGD for loans issued depends on the structure of the collaterals, and the following formula is used:

$$LGD = \frac{EAD - [\sum_{i=1}^{n} Collateral_i * (1 - Disc\_factor_i)]}{EAD}$$, where

EAD – exposure at default;

$Collateral_i$ – value of a specific type of collateral;

$Disc\_factor_i$ – discount factor corresponding to a specific type of collateral.

PD for loans issued is calculated on the basis of a specialised model, which is based on trend of borrowers' financial ratios and trend of the main macroeconomic indicators of banks and financial institutions that received loans.

(iii) Presentation of allowance for ECL in the separate statement of financial position

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

- For financial assets at amortised cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no impairment allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the impairment allowance is included as part of the revaluation amount in the revaluation reserve for investments.

(iv) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified the National Bank assesses whether this modification results in derecognition. Modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the National Bank considers qualitative and quantitative factors. If the difference in present value is greater than 10% the National Bank deems the modified terms are substantially different from the original contractual terms leading to derecognition.

The National Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the National Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial assets, continued

(iv) Modification and derecognition of financial assets, continued

The National Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the National Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, it recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the National Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

If the National Bank repurchases its own debt, it is excluded from the separate statement of financial position and the difference between the carrying amount of the liability and the consideration is included in gains or losses arising from early retirement of debt.

The National Bank writes off assets that are deemed to be uncollectible after all measures on collection of debt have been undertaken.

(e) Impairment of 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 reversed is only reversed 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 in the separate financial statements.

(f) Investments in subsidiaries and associates

Investments in subsidiaries are accounted at historical cost less impairment losses.

At each reporting date, the National Bank tests the carrying amount of investments in subsidiaries for impairment, and such expenses are recognised in other expenses in the statement of profit or loss.

Investments in the associates of the National Bank are accounted for using the equity method, according to which the investments are initially measured at cost, and then their value is adjusted to reflect the change in the investor's share in the net assets of the investee after the acquisition. The investor's profit or loss includes the investor's share in the profit or loss of the investee, and the investor's other comprehensive income includes the investor's share of the investee's other comprehensive income.

Dividends received from the investee as a result of the distribution of profits reduce the carrying amount of the investment.

The National Bank discontinues recognising its share of further losses when the National Bank's cumulative share of losses of an investee equals or exceeds its interest in that investee.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Property, plant and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses in the separate financial statements. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

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

Buildings	75 years
Constructions	20 years
Furniture and equipment	7 years
Computer equipment	7 years
Motor vehicles	7 years
Land improvements	10 years

(h) Intangible assets

Acquired intangible assets are stated in the separate financial statements at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses and expenses to bring to use the specific software are included in the cost of the relevant intangible asset.

Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are no more than 5 years.

(i) Financial liabilities

Financial liabilities are recorded in the separate statement of the financial position of the National Bank when the National Bank becomes a party to the contract in respect of the relevant financial instrument. The National Bank recognises regular way acquisitions and sales of financial liabilities using settlement date accounting.

All financial liabilities of the National Bank are measured at amortised cost.

The National Bank derecognises financial liabilities when, and only when, the National Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the National Bank exchanges with the existing lender one debt instrument into another one with substantially different terms such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The National Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that 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 rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) Banknotes and coins in circulation

Banknotes and coins are recorded in the separate statement of financial position at their nominal value. Banknotes and coins in circulation are recorded as a liability. Banknote and coins in national currency held in the vaults and cash offices are not included in the currency in circulation.

Expenses on production of banknotes and coins issued into circulation include expenses for security, transportation, insurance and other expenses. Expenses on production of banknotes and coins are recognised upon their issuance into circulation and are recorded as a separate item in the separate statement of profit or loss.

(k) Charter capital and reserves

The National Bank has a fixed amount of charter capital. Increases and decreases of the amount of charter capital are implemented through amendments to the Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity". Charter capital is recognised at cost.

The obligatory reserve has been created through the capitalisation of a portion of net profit upon its distribution to the state budget as established by the Law. The obligatory reserve is recognised at cost.

(l) Taxation

In accordance with legislation of the Kyrgyz Republic, the National Bank is exempt from income tax. All other compulsory payments to the budget, which are assessed on the National Bank's activities, are accrued and paid in accordance with the Tax Code of the Kyrgyz Republic. Taxes that the National Bank pays as a tax agent are included as a component of administrative expenses in the separate statement of profit or loss.

Subsidiaries and associates are payers for all types of taxes.

The amount of income tax includes the amount of current tax and the amount of deferred tax. Income tax is recognised in profit or loss in full, with the exception of amounts related to transactions recorded in other comprehensive income, or to transactions with owners reflected directly in capital accounts, which are accordingly reflected in other comprehensive income or directly in the capital. Current income tax is calculated on the basis of the estimated taxable profit for the year, taking into account income tax rates in effect at the reporting date, as well as the amount of liabilities resulting from the specification of income tax amounts for previous reporting years.

(m) Income and expense recognition

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) Income and expense recognition, continued

The interest income / interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities.

For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

(n) Fiduciary assets

The National Bank provides agency services that result in holding of assets on behalf of third parties. These assets and income arising thereon are excluded from these separate financial statements as they are not assets of the National Bank.

(o) Offsetting

Financial assets and liabilities are offset and the net amount reported in the separate statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

4 ADOPTION OF NEW AND REVISED IFRSS

A number of new standards and interpretations are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these separate financial statements.

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

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

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES

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

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES, CONTINUED

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

Significant assumptions

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The National Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The National Bank monitors financial assets at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the National Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase in credit risk. As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL (for Stage 1 assets) or lifetime ECL (for Stage 2 or Stage 3 assets). An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the National Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The appropriateness of the credit risk characteristics is monitored on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES, CONTINUED

Models and assumptions used. The National Bank uses various models and assumptions in measuring the ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Sources of uncertainty in the estimates

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario. When measuring ECL the National Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (PD). PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

Calculation of the impairment allowance for investments in subsidiaries.

The National Bank must determine at the end of each reporting period whether there is any indication of impairment of investments in the subsidiary. If any such indication exists, the National Bank estimates the recoverable amount of investment in the subsidiary.

The recoverable amount of investment in the subsidiary is defined as the higher of the fair value less costs of disposal or its value in use (fair value less costs of disposal or value in use). When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The National Bank estimates the impairment amount based on detailed budgets and forecast calculations which are prepared separately for each of the cash generating units to which individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years.

In measuring the value in use of the investment in OJSC Keremet Bank, existing assets and liabilities as at the reporting date are assumed to be realised without any renewals and improvements. Cash flows from financial assets are assumed to take place in accordance with the existing contractual obligations of issuers of securities and borrowers, except for credit-impaired assets. At the end of the fifth year, the balance of financial assets is adjusted for an estimated discount on sale. Liabilities are assumed in full, operating income and expenses are calculated using the amounts actually received in the reporting period and adjusted for the consumer price index in the Kyrgyz Republic.

In measuring the value in use of the investment in the subsidiary, the estimated cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For assets and liabilities except loans to customers and investment securities the following weighted average market interest rate was used: in 2021 - 14.24%, in 2020 - 13.88%, in 2019 - 14.77%. For loans to customers the discount rate used is the lending weighted average market interest rate of local commercial banks by types of loans. For investment securities, the National Bank used base rate of 8%, 5% and 4.25%, respectively, since these securities are issued by the government of Kyrgyz Republic with low credit risk.

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES, CONTINUED

Changes in the above estimates may have an impact on the provision for impairment, for example, if the discount rate for future cash flows changes by plus/minus one percent, the provision for impairment of investment in the subsidiary as at 31 December 2021 will be KGS 343,000 thousand or KGS 343 000 thousand, respectively.

Impairment losses on investments in subsidiaries are recognised in the separate statement of profit or loss and statement of comprehensive income. For investments excluding goodwill, an assessment is made by the National Bank at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the National Bank estimates the recoverable amount of investments. A previously recognised impairment loss is reversed only if there has been a change in the assumption used to determine the investments' recoverable amount since when the last impairment loss was recognised. Any impairment loss is only reversed to the extent that the investment's carrying amount does not exceed its recoverable amount and also does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised. Such reversal is recognised in the separate statement of profit or loss and the separate statement of other comprehensive income.

6 GOLD

	31 December 2021	31 December 2020
Gold		
Gold in deposits with foreign banks and in bullion	50 159 119	84 129 763
	50 159 119	**84 129 763**

Gold comprises gold deposits with foreign banks and gold bullion. Gold meets the standards of London Bullion Market Association.

Concentration of gold on deposits in foreign banks

As at 31 December 2021 the National Bank placed gold in deposits with foreign banks with a credit rating of AA (2020: the National Bank did not place gold in deposits with foreign banks).

7 CASH ON HAND, DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	23 063 873	21 805 101
- rated from A- to AA+	8 516 502	8 242 894
- rated from B to BBB	958 934	630 932
Total nostro accounts with foreign banks	**32 539 309**	**30 678 927**
Loss allowance	(5 708)	(15)
	32 533 601	**30 678 912**
Term deposits with foreign banks		
- rated from AA- to AA+	15 940 100	8 081 829
- rated from A- to A+	11 072 756	13 348 197
Total term deposits with foreign banks	**27 012 856**	**21 430 026**
Loss allowance	(1 139)	(1 754)
	27 011 717	**21 428 272**
Account with the International Monetary Fund (IMF)	31 796 843	10 357 826
Accounts with the Bank for International Settlements (BIS)		
- Term deposit with BIS	18 364 935	1 040 728
- Nostro accounts with BIS	16 530 835	8 218 244
Total accounts with international financial institutions	**66 692 613**	**19 616 798**
Loss allowance	(5)	-
	66 692 608	**19 616 798**
Cash on hand in foreign currencies	4 420 502	3 322 681
Total cash on hand, due from banks and other financial institutions	**130 658 428**	**75 046 663**

Concentration of due from banks and other financial institutions

As at 31 December 2021, the National Bank has balances with five banks and other financial institutions rated from AAA to AA- (2020: four banks and other financial institutions rated from AAA to A-), whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2021 is KGS 106 401 451 thousand (2020: KGS 46 336 670 thousand).

Movement in the allowance for expected credit losses is disclosed in Note 22.

Cash and cash equivalents

Cash and cash equivalents for the purposes of the separate statement of cash flows are comprised of the following:

	31 December 2021	31 December 2020
Nostro accounts with foreign banks	32 539 309	30 678 927
Account with the IMF	31 796 843	10 357 826
Nostro accounts with BIS	16 530 835	8 218 244
Cash on hand in foreign currencies	4 420 502	3 322 681
Cash and cash equivalents in the separate statement of cash flows	**85 287 489**	**52 577 678**

None of cash and cash equivalents are past due.

CONTENT

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS

	31 December 2021	31 December 2020
Loans issued to resident commercial banks	2 764 596	4 363 168
Loans issued to international organisations	2 750 682	2 750 682
Loans issued to banks owned by the Government of the Kyrgyz Republic	1 676 727	2 268 675
	7 192 005	**9 382 525**
Loss allowance	(558 930)	(374 933)
Loans issued net of loss allowance	**6 633 075**	**9 007 592**

Interest received during the year on loans issued to commercial banks owned by the Government of the Kyrgyz Republic was KGS 99 196 thousand (2020: KGS 89 632 thousand).

Movement in the allowance for expected credit losses is disclosed in Note 22.

Analysis of collateral

The following table provides information on collateral securing loans issued to resident commercial banks and international organisations by types of collateral as at 31 December 2021 and 2020, excluding the effect of overcollateralisation.

	31 December 2021	% of loan portfolio	31 December 2020	% of loan portfolio
Deposits in foreign currencies	3 543 478	54	4 043 591	45
Loans to customers	1 665 520	25	2 832 648	31
State securities	1 279 532	19	2 131 353	24
Unsecured	144 545	2	-	-
	6 633 075	**100**	**9 007 592**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral. The fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral.

Concentration of loans extended

As at 31 December 2021 and 2020 the National Bank does not have loans issued to commercial banks whose balances exceed 10% of its own equity.

9 INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2021	31 December 2020
Debt instruments		
State securities		
Treasury bills of the Government of Canada	1 390 414	5 916 233
Treasury bills of the Government of Great Britain	-	999 866
Total government securities	**1 390 414**	**6 916 099**
Debt securities of international financial institutions	35 973 583	41 145 897
Agency securities with credit rating AAA	34 238 192	24 876 847
Total debt instruments	**71 602 189**	**72 938 843**

As at 31 December 2021 and 2020 investments measured at fair through other comprehensive income are not past due.

10 INVESTMENTS AT AMORTISED COST

	31 December 2021	31 December 2020
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	3 010 634	3 021 258
Allowance for expected credit losses	(54 667)	(54 046)
	2 955 967	**2 967 212**

Movement in the allowance for loss is disclosed in Note 22.

11 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The movement of investments in subsidiaries and associates is as follows:

	Carrying amount
31 December 2019 (restated)	**2 410 756**
Acquisition of shares of subsidiaries	7 358 000
Share of profit of associates	8 562
Impairment loss	(1 524 443)
31 December 2020 (restated)	**8 252 875**
Acquisition of shares of subsidiaries	3 000 000
Share of profit of associates	62 722
Impairment loss	(376 140)
31 December 2021	**10 939 457**

Investments in subsidiaries and associates	Type of activity	Share of ownership, %	31 December 2021	Share of ownership, %	31 December 2020 (restated)
OJSC Keremet Bank	Bank services	97,45	3 834 993	97,45	4 211 133
OJSC Guarantee Fund	Guarantee issue services	91,22	6 050 000	85,91	3 550 000
CJSC Kyrgyz Cash Collection	Valuables transportation services	100,00	720 000	100,00	220 000
CJSC Interbank Process Center	Processing services	46,71	334 464	46,71	271 742
			10 939 457		**8 252 875**

All subsidiaries and associates of the National Bank are registered and operate in the Kyrgyz Republic.

In 2021 the National Bank recognised an impairment loss of KGS 376 140 thousand on OJSC Keremet Bank.

On 10 November 2021, to support business entities and promote further development of their operations through increasing access to the financial resources in conditions where there is a need to mitigate the negative consequences of COVID-19 pandemic, the National Bank purchased shares of the seventh issue of OJSC Guarantee Fund for the amount of KGS 2 500 000 thousand. Based on results of placement of the seventh issue of shares of the OJSC Guarantee Fund, the share of the National Bank in the charter capital was 91,22%.

11 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, CONTINUED

On 8 December 2021, to support the material base of CJSC Kyrgyz Cash Collection for implementation of the public and social tasks, including an uninterrupted provision of services of ATM replenishment and delivery of cash to the regions of Kyrgyzstan, the National Bank made decision to increase the charter capital of the CJSC Kyrgyz Cash Collection through the third issue of the CJSC Kyrgyz Cash Collection's shares for the amount of KGS 500 000 thousand. Based on results of the third issue the CJSC Kyrgyz Cash Collection's charter capital was KGS 720 000 thousand. The share of the National Bank in the charter capital is 100%.

12 PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment to be installed	Total
Cost						
Balance at 1 January 2021	**910 226**	**587 093**	**697 278**	**75 349**	**450 010**	**2 719 956**
Additions	7 727	71 538	16 056	15 144	189 308	299 773
Disposals	-	(48 439)	(78 817)	(11 098)	(16 599)	(154 953)
Transfers	224 019	5 511	77	-	(229 607)	-
Balance at 31 December 2021	**1 141 972**	**615 703**	**634 594**	**79 395**	**393 112**	**2 864 776**
Depreciation						
Balance at 1 January 2021	**(145 877)**	**(229 968)**	**(408 559)**	**(40 540)**	**-**	**(824 944)**
Charge for the year	(33 450)	(83 787)	(94 453)	(11 354)	-	(223 044)
Disposals	-	48 444	78 811	11 099	-	138 354
Balance at 31 December 2021	**(179 327)**	**(265 311)**	**(424 201)**	**(40 795)**	**-**	**(909 634)**
Carrying amount						
At 31 December 2021	**962 645**	**350 392**	**210 393**	**38 600**	**393 112**	**1 955 142**

12 PROPERTY, PLANT AND EQUIPMENT, CONTINUED

	Land, buildings and structures	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment to be installed	Total
Cost						
Balance at 1 January 2020	**731 144**	**613 112**	**766 030**	**69 910**	**362 573**	**2 542 769**
Additions	820	5 909	24 047	8 470	113 706	152 952
Disposals	(1 007)	(35 016)	(92 173)	(3 031)	(218)	(131 445)
Transfers	179 269	3 088	(626)	-	(26 051)	155 680
Balance at 31 December 2020	**910 226**	**587 093**	**697 278**	**75 349**	**450 010**	**2 719 956**
Depreciation						
Balance at 1 January 2020	**(132 843)**	**(180 383)**	**(398 499)**	**(33 736)**	**-**	**(745 461)**
Charge for the year	(13 969)	(83 157)	(101 633)	(9 835)	-	(208 594)
Disposals	935	33 572	91 573	3 031	-	129 111
Balance at 31 December 2020	**(145 877)**	**(229 968)**	**(408 559)**	**(40 540)**	**-**	**(824 944)**
Carrying amount						
At 31 December 2020	**764 349**	**357 125**	**288 719**	**34 809**	**450 010**	**1 895 012**

During 2021, property, plant and equipment transferred to intangible assets amounted to KGS 15 192 thousand (2020: there were no property, plant and equipment transferred to intangible assets).

During 2021 and 2020, there were no capitalised borrowing costs associated with the acquisition or construction of property, plant and equipment.

13 NON-MONETARY GOLD AND GOLD RESERVES

	31 December 2021	31 December 2020
Gold reserves	33 341 168	12 627 098
Non-monetary gold	2 069 985	881 927
	35 411 153	**13 509 025**

During 2021, the National Bank conducted operations to purchase gold that is not part of international reserves with the aim to form the National Bank's reserves as part of the prospects for development of the domestic precious metals market. Non-monetary gold and gold reserves do not participate in the National Bank's active investment operations and are not part of the National Bank's investment assets in gold.

The carrying amount of gold reserves recognised in the separate financial statements approximately equals to their fair values as at 31 December 2021 and 2020.

14 OTHER ASSETS

	31 December 2021	31 December 2020
Accounts receivable	535 943	448 527
Allowance for expected credit losses	(50 933)	(49 344)
Total other financial assets	**485 010**	**399 183**
Advances paid	2 570 060	2 028 134
Inventories	1 190 279	722 309
Numismatic items	82 630	53 393
Other	12 529	6 872
Total other non-financial assets	**3 855 498**	**2 810 708**
	4 340 508	**3 209 891**

Movement in the allowance for expected credit losses is disclosed in Note 22.

Advances paid comprise prepayment of a part of the current year profit to the budget of the Kyrgyz Republic in the amount of KGS 2 500 000 thousand which will be recognised as a distribution in 2022, in accordance with the accounting policy disclosed in Note 2(a).

15 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2021 and 2020, banknotes and coins in circulation comprise:

	31 December 2021	31 December 2020
Banknotes and coins in circulation	143 784 566	137 455 778
Less banknotes and coins on hand and cash desk	(3 862 346)	(2 826 617)
	139 922 220	**134 629 161**

Banknotes and coins in circulation represent the face value of the amount of banknotes and coins in circulation held by the general public and organisations.

16 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Current accounts of commercial banks	28 204 265	20 041 571
Current accounts of other financial institutions	5 778 130	3 912 214
Current accounts of commercial banks owned by the Government of the Kyrgyz Republic	5 597 729	4 886 824
	39 580 124	**28 840 609**

16 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

As at 31 December 2021, one commercial bank has balances with the National Bank that exceed 10 percent of equity (2020: there were no commercial banks that have balances with the National Bank that exceed 10 percent of equity). The gross value of these balances as at 31 December 2021 is KGS 13 265 015 thousand. Interest paid during the year on amounts due to commercial banks owned by the Government of the Kyrgyz Republic was KGS 77 957 thousand (2020: KGS 66 567 thousand).

17 DUE TO THE GOVERNMENT OF THE KYRGYZ REPUBLIC

Due to the Government of the Kyrgyz Republic comprise accounts of the Ministry of Finance of the Kyrgyz Republic.

	31 December 2021	31 December 2020
In national currency	21 256 608	6 561 512
In foreign currency	1 474 118	10 187 013
	22 730 726	**16 748 525**

18 DEBT SECURITIES ISSUED

As at 31 December 2021 and 2020 debt securities issued include securities with the following maturities and carrying amounts:

	31 December 2021	31 December 2020
Notes of the National Bank with a term of 7 days	-	999 332
Notes of the National Bank with a term of 14 days	6 986 580	4 325 046
Notes of the National Bank with a term of 28 days	11 507 704	5 614 944
Notes of the National Bank with a term of 91 days	-	2 051 341
	18 494 284	**12 990 663**

The National Bank is entitled to issue notes and conduct all kinds of operations with them in accordance with accepted international practice in order to conduct its monetary policy. The notes of the National Bank are placed through Automated Trading System of the National Bank, members of which are commercial banks in the Kyrgyz Republic. The amount of debt securities issued to commercial banks owned by the Government of the Kyrgyz Republic as at 31 December 2021 is KGS 3 519 443 thousand (in 2020: KGS 1 887 309 thousand).

19 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS

	31 December 2021	31 December 2020
Liabilities to the IMF in respect of SDR allocations	30 258 833	9 994 865

19 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS, CONTINUED

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by the provision of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 27). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes Kyrgyz Republic, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84 737 thousand. In 2021, the IMF allocated an additional allocation of SDR to IMF members in response to the financial impact of the COVID-19 pandemic. On 23 August 2021, the IMF increased the amount of SDR allocated to the Kyrgyz Republic by SDR 170 222 thousand. The interest rate is determined weekly by the IMF and is the same for all recipients of SDR allocations in the world.

The table below details changes in the National Bank's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the National Bank's separate statement of cash flows as cash flows from financing activities.

			Non-cash changes		
	1 January 2021	**Cash flow from financing activities (i)**	**Foreign currency exchange rate adjustment**	**Other changes (ii)**	**31 December 2021**
Liabilities to the IMF in respect of SDR allocations	9 994 865	20 424 704	(161 716)	980	30 258 833
	9 994 865	**20 424 704**	**(161 716)**	**980**	**30 258 833**

			Non-cash changes		
	1 January 2020	**Cash flow from financing activities (i)**	**Foreign currency exchange rate adjustment**	**Other changes (ii)**	**31 December 2020**
Liabilities to the IMF in respect of SDR allocations	8 146 676	-	1 857 713	(9 524)	9 994 865
	8 146 676	**-**	**1 857 713**	**(9 524)**	**9 994 865**

(i) Cash flows from liabilities to the IMF in respect of SDR allocations constitute the gross amount of proceeds from borrowing and repayment of borrowings in the separate statement of cash flows.

(ii) Other changes include accruals and interest payments.

20 CHARTER CAPITAL

Paid-up capital

In accordance with the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” charter capital of the National Bank amounts to KGS 2 000 000 thousand.

Distribution to the state budget and obligatory reserve

In accordance with the Law “On amendment of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” the National Bank’s profit shall be distributable as follows:

– if the amount of the National Bank’s charter capital and obligatory reserve is less than 10% of the monetary liabilities of the National Bank, then 90% of profit shall be distributed to the state budget of the Kyrgyz Republic. The remaining profit, after distributions to the state budget, shall be transferred to the National Bank’s obligatory reserve;
– if the amount of the National Bank’s charter capital and obligatory reserve equals or exceeds 10% of the monetary liabilities of the National Bank, then 100% of profit shall be distributed to the state budget of the Kyrgyz Republic.

In accordance with the Clause 23 of the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, profit shall be distributed upon the financial year end, once the independent external audit is completed and the annual report is approved by the Management Board of the National Bank.

On 21 April 2021, the net profit of the National Bank for 2020 was approved in the amount of KGS 8 484 811 thousand, of which KGS 7 636 330 thousand were transferred to the state budget of the Kyrgyz Republic taking into account the prepayment (in 2020: net profit for 2019 was approved in the amount of KGS 2 565 273 thousand and distributed to the state budget of the Kyrgyz Republic in full).

The amounts of distribution to the state budget and obligatory reserve are excluded from the separate statement of cash flow due to the fact that these amounts were recorded as an increase in funds due to the Government of the Kyrgyz Republic.

Capital management

The capital of the National Bank comprises the residual value of the National Bank’s assets after deduction of all its liabilities.

The National Bank’s objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the National Bank and ability to perform its functions. The National Bank considers total capital under management to be equity shown in the separate statement of financial position.

No external capital requirements exist for the National Bank, except for the size of the charter capital stipulated by the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, which is KGS 2 000 000 thousand.

21 NET INTEREST (EXPENSE)/INCOME

	Year ended 31 December 2021	Year ended 31 December 2020
Interest income		
Loans to banks and international organisations	368 410	384 515
Investments at amortised cost	334 596	30 506
Term deposits in foreign banks and international financial institutions	198 688	441 906
Investments measured at fair value through other comprehensive income	151 027	469 263
Nostro accounts with foreign banks and international financial institutions	68 899	130 159
Other	-	64
	1 121 620	**1 456 413**
Interest expense		
Debt securities issued	(802 796)	(550 365)
Due to banks and other financial institutions	(252 991)	(105 438)
Unwinding of discount on other assets	(47 016)	(95 628)
Liabilities to the IMF in respect of SDR allocations	(9 362)	(17 391)
Other	(20 435)	(22 351)
	(1 132 600)	**(791 173)**
	(10 980)	**665 240**

During 2021 the total interest income calculated using the effective interest rate method for financial assets at FVTOCI is KGS 219 926 thousand (in 2020: KGS 599 422 thousand) and for financial assets at amortised cost is KGS 901 694 thousand (in 2020: KGS 856 991 thousand). During 2021 the total interest expense calculated using the effective interest rate method for financial liabilities at amortised cost is KGS 1 132 600 thousand (in 2020: KGS 791 173 thousand).

22 ALLOWANCE FOR EXPECTED CREDIT LOSSES

	Cash on hand, due from banks and other financial institutions (Note 7)			Loans to banks and international organisations (Note 8)				Investments measured at fair value through other comprehensive income		Investments at amortised cost (Note 10)	Other assets (Note 14)		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Originated or purchased credit-impaired financial assets	Stage 1	Stage 2	Stage 1	Stage 1	Stage 3	Total
Loss allowance as at 1 January 2021	**1 769**	**-**	**-**	**213 297**	**13 518**	**148 118**	**-**	**11**	**-**	**54 046**	**7 391**	**41 953**	**480 103**
Change in ECL allowance													
Transfer to stage 2	(160)	160	-	(98 052)	98 052	-	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	-	-	-	-	350 701	-	-	-	-	-	-	-	350 701
Write-off of assets against allowance	-	-	-	-	-	(378)	-	-	-	-	-	-	(378)
New financial assets originated or purchased	6 685	-	-	14 264	-	-	-	8	-	4 364	554	1 851	27 726
Financial assets that have been derecognised	(1 602)	-	-	(65 595)	(118 852)	-	-	(10)	-	(3 743)	(823)	-	(190 625)
Changes in exchange rates and other changes	-	-	-	-	-	3 857	-	-	-	-	-	7	3 864
Loss allowance as at 31 December 2021	**6 692**	**160**	**-**	**63 914**	**343 419**	**151 597**	**-**	**9**	**-**	**54 667**	**7 122**	**43 811**	**671 391**

CONTENT

22 ALLOWANCE FOR EXPECTED CREDIT LOSSES, CONTINUED

	Cash on hand, due from banks and other financial institutions (Note 7)			Loans to banks and international organisations (Note 8)				Investments measured at fair value through other comprehensive income		Investments at amortised cost (Note 10)	Other assets (Note 14)		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Originated or purchased credit-impaired financial assets	Stage 1	Stage 2	Stage 1	Stage 1	Stage 3	Total
Allowance for expected credit losses at 1 January 2020	**5 173**	**2 397**	**255 424**	**-**	**1 528**	**127 039**	**47 796**	**10**	**-**	**1 962**	**619**	**40 658**	**482 606**
Changes in ECL allowance													
- Transfer to Stage 1	2 260	(2 260)	-	-	-	-	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	-	(137)	-	-	(1 528)	-	(47 796)	-	-	-	-	(384)	(49 845)
(Write-off)/recovery of assets against allowance	-	-	(303 297)	-	-	94	-	-	-	-	-	-	(303 203)
New financial assets originated or purchased	266 205	-	-	213 297	13 518	-	-	11	-	53 115	6 772	3 519	556 437
Financial assets that have been derecognised	(271 869)	-	-	-	-	(2 614)	-	(10)	-	(1 031)	-	(1 838)	(277 362)
Changes in exchange rates and other changes	-	-	47 873	-	-	23 599	-	-	-	-	-	(2)	71 470
Allowance for expected credit losses as at 31 December 2020	**1 769**	**-**	**-**	**213 297**	**13 518**	**148 118**	**-**	**11**	**-**	**54 046**	**7 391**	**41 953**	**480 103**

23 NET REALISED GAIN ON FOREIGN CURRENCIES AND GOLD OPERATIONS

	Year ended 31 December 2021	Year ended 31 December 2020
Realised gain from operations with foreign currencies and gold	14 545 597	8 870 337
Income from spot transactions	459 857	508 529
	15 005 454	**9 378 866**

24 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2021	Year ended 31 December 2020
Personnel costs		
Employee compensation	648 300	532 691
Payments to the Social fund	110 946	91 613
	759 246	**624 304**
Depreciation and amortisation	293 583	284 212
Repair and maintenance	121 835	123 234
Security	56 179	49 198
Communications and information services	30 485	26 188
Professional services	26 652	16 062
Publication and subscription	14 923	18 148
Expenses for social events	7 281	6 695
Business trip expenses	5 865	2 483
Office supplies and stationery	5 840	5 379
Staff training	3 904	2 075
Other	25 532	9 130
	1 351 325	**1 167 108**

25 RISK MANAGEMENT

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank's operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

The Management Board of the National Bank, committees, commissions review regularly matters related to the monetary, investing and currency policies of the National Bank and set up limits on the scope of transactions, as well as requirements for the assessment of the National Bank's counterparties.

25 RISK MANAGEMENT, CONTINUED

(a) Risk management policies and procedures, continued

In accordance with Investment policy on International Reserve Management of the National Bank (the "Investment policy") approved by the Board on 20 December 2020, the main goals of risk management are safety and liquidity of the assets and profitability growth of the National Bank. Operations are conducted within the limitations imposed by this Investment policy.

In accordance with these goals, gold and foreign currency assets of the National Bank are separated into the following portfolios: working portfolio and investment portfolio.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and balance of risks and profitability.

(i) 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 National 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.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2021 and 2020. These interest rates are an estimation of the yields to maturity of these assets and liabilities.

25 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates, continued

	Weighted average effective interest rate, % 31 December 2021	Weighted average effective interest rate, % 31 December 2020
Interest-bearing assets		
Due from banks and other financial institutions		
Nostro accounts		
- USD	0.05	0.003
- EUR	(0.51)	(0.51)
- CAD	0.02	0.01
- CNY	1.60	1.90
- NOK	0.01	0.01
- KRW	0.10	0.10
- CHF	(0.04)	(1.32)
- SDR	0.08	0.08
Term deposits		
- USD	0.17	0.24
- CAD	0.21	0.15
- GBP	0.10	0.04
- AUD	-	0.06
- RUB	7.72	3.01
- CNY	2.85	2.49
- SGD	0.08	0.03
Loans to banks and international organisations		
- KGS	4.71	4.89
Investments measured at fair value through other comprehensive income		
- USD	0.16	0.30
- AUD	0.13	0.08
- CAD	0.24	0.23
- GBP	0.27	0.02
- CNY	2.90	2.86
Investments at amortised cost		
- KGS	11.21	11.11
Interest-bearing liabilities		
Due to banks and other financial institutions		
- KGS	5.50	2.75
Debt securities issued		
- KGS	7.49	4.71
Liabilities to the IMF in respect of SDR allocations	0.08	0.08

25 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets measured at fair value through other comprehensive income due to changes in the interest rates based on positions existing as at 31 December 2021 and 2020 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2021		31 December 2020	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
20 bp parallel rise	-	(55 433)	-	(76 261)
20 bp parallel fall	-	55 433	-	76 261

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management policy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the separate statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

25 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the National Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2021 is presented in the table below:

	KGS	USD	EUR	CAD	AUD	SDR	GBP	CNY	RUB	Other currencies	Total 31 December 2021
Non-derivative financial assets											
Cash on hand, due from banks and other financial institutions	-	73 214 659	3 797 046	2 077 285	899 440	31 796 840	1 150 344	12 233 915	4 089 077	1 399 822	130 658 428
Loans to banks and international organisations	6 633 075	-	-	-	-	-	-	-	-	-	6 633 075
Investments measured at fair value through other comprehensive income	-	59 913 082	-	6 081 103	1 300 326	-	2 159 388	2 148 290	-	-	71 602 189
Investments at amortised cost	2 955 967	-	-	-	-	-	-	-	-	-	2 955 967
Other financial assets	485 010	-	-	-	-	-	-	-	-	-	485 010
Total non-derivative financial assets	**10 074 052**	**133 127 741**	**3 797 046**	**8 158 388**	**2 199 766**	**31 796 840**	**3 309 732**	**14 382 205**	**4 089 077**	**1 399 822**	**212 334 669**

CONTENT

CONTENT

25 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	USD	EUR	CAD	AUD	SDR	GBP	CNY	RUB	Other currencies	Total 31 December 2021
Financial liabilities											
Banknotes and coins in circulation	139 922 220	-	-	-	-	-	-	-	-	-	139 922 220
Due to banks and other financial institutions	31 267 622	8 120 931	191 571	-	-	-	-	-	-	-	39 580 124
Due to the Government of the Kyrgyz Republic	21 256 608	44 369	1 249 215	-	-	-	-	-	168 066	12 468	22 730 726
Debt securities issued	18 494 284	-	-	-	-	-	-	-	-	-	18 494 284
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	30 258 833	-	-	-	-	30 258 833
Other financial liabilities	143 923	1 442	1 086	-	-	-	-	-	-	462	146 913
Total financial liabilities	**211 084 657**	**8 166 742**	**1 441 872**	**-**	**-**	**30 258 833**	**-**	**-**	**168 066**	**12 930**	**251 133 100**
Net position	**(201 010 605)**	**124 960 999**	**2 355 174**	**8 158 388**	**2 199 766**	**1 538 007**	**3 309 732**	**14 382 205**	**3 921 011**	**1 386 892**	**(38 798 431)**

25 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(ii) Currency risk, continued

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2020 is presented in the table below:

	KGS	USD	EUR	CAD	AUD	SDR	GBP	CNY	RUB	Other currencies	Total 31 December 2020
Financial assets											
Cash on hand, due from banks and other financial institutions	-	37 586 254	4 699 249	1 851 605	3 936 244	10 357 826	1 717 407	11 116 884	2 032 633	1 748 561	75 046 663
Loans to banks and international organisations	9 007 592	-	-	-	-	-	-	-	-	-	9 007 592
Investments measured at fair value through other comprehensive income	-	64 498 418	-	5 998 966	697 291	-	999 866	744 302	-	-	72 938 843
Investments at amortised cost	2 967 212	-	-	-	-	-	-	-	-	-	2 967 212
Other financial assets	399 183	-	-	-	-	-	-	-	-	-	399 183
Total financial assets	**12 373 987**	**102 084 672**	**4 699 249**	**7 850 571**	**4 633 535**	**10 357 826**	**2 717 273**	**11 861 186**	**2 032 633**	**1 748 561**	**160 359 493**

25 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	USD	EUR	CAD	AUD	SDR	GBP	CNY	RUB	Other currencies	Total 31 December 2020
Financial liabilities											
Banknotes and coins in circulation	134 629 161	-	-	-	-	-	-	-	-	-	134 629 161
Due to banks and other financial institutions	22 178 743	6 298 632	363 234	-	-	-	-	-	-	-	28 840 609
Due to the Government of the Kyrgyz Republic	6 561 513	8 731 714	1 295 742	-	-	-	-	-	150 715	8 841	16 748 525
Debt securities issued	12 990 663	-	-	-	-	-	-	-	-	-	12 990 663
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	9 994 865	-	-	-	-	9 994 865
Other financial liabilities	90 116	-	2 005	-	-	-	-	-	-	-	92 121
Total financial liabilities	**176 450 196**	**15 030 346**	**1 660 981**	**-**	**-**	**9 994 865**	**-**	**-**	**150 715**	**8 841**	**203 295 944**
Net position	**(164 076 209)**	**87 054 326**	**3 038 268**	**7 850 571**	**4 633 535**	**362 961**	**2 717 273**	**11 861 186**	**1 881 918**	**1 739 720**	**(42 936 451)**

25 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(ii) Currency risk, continued

Depreciation of KGS, as indicated in the table below, against following currencies as at 31 December 2021 and 2020 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	31 December 2021		31 December 2020	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of USD against KGS	-	12 496 100	-	8 705 433
10% appreciation of CNY against KGS	-	1 438 221	-	1 186 119
10% appreciation of CAD against KGS	-	815 839	-	785 057
10% appreciation of RUB against KGS	-	392 101	-	188 192
10% appreciation of GBP against KGS	-	330 973	-	271 727
10% appreciation of EUR against KGS	-	235 517	-	303 827
10% appreciation of AUD against KGS	-	219 977	-	463 354
10% appreciation of other currencies against KGS	-	138 689	-	173 972

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

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

(iii) Other price risks

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

As at 31 December 2020 the National Bank was exposed to price risk of gold in deposits with foreign banks. As at 31 December 2021 gold is represented by physical gold held at the vault and gold in deposits. Although gold is not considered to be a financial asset under IFRS, the bank is exposed to price changes in physical gold due to the fact that its accounting policy is to measure gold at fair value.

25 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(iii) Other price risks, continued

An increase or decrease in prices in KGS equivalent of gold, as indicated below, at 31 December 2021 and 2020 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on gold price movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

	31 December 2021		31 December 2020	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of gold prices in KGS equivalent	-	5 015 912	-	8 412 976
10% depreciation of gold prices in KGS equivalent	-	(5 015 912)	-	(8 412 976)

(c) Credit risk

Credit risk is the risk of financial losses occurring as a result of default by a borrower or counterparty of the National Bank. The National Bank has developed policies and procedures for credit risk management, including guidelines to limit portfolio concentration. There is an Investment Committee, which is responsible for the monitoring of credit risk on management of international reserves.

In order to minimise the credit risk, the National Bank uses risk management policy, which sets out requirements for the counterparty of the National Bank. According to this policy, the counterparties of the National Bank can only be central banks, financial institutions or commercial banks with high rating classification of Moody’s Investors Service and / or the same rating level classification of other leading rating agencies (Standard & Poor’s Corporation, Fitch IBCA).

Financial assets are graded according to the current credit rating they have been issued by internationally regarded agencies such as Moody’s, Fitch and etc. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB of according to classification of Fitch are classed as speculative grade. Taking into consideration the National Bank’s status as a central bank the counterparties are divided into two categories:

Category A

- Central banks of advanced developed industrial countries with stable economic and political situation and sovereign rating not less than A- per Fitch classification;
- International financial organisations, institutions and banks, such as IMF, BIS, EBRD, ADB, KfW, etc.
- Foreign commercial banks with rating not less than A- per Fitch classification.

Category B

- Central banks of countries with sovereign rating less than A- per Fitch classification;
- Financial institutions indicated in international agreements signed by the Kyrgyz Republic;
- Foreign commercial banks with rating less than A- but not less than BBB per Fitch classification.

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

Decisions on investment deals with the counterparties of the Category A, i.e. limitations on certain counterparties, investment instruments and amount of deals are established based on power of the Investment Committee of the National Bank. Decisions on investment deals with each counterparty of Category B are approved by the Management Board of the National Bank upon submission by the Investment Committee.

One of the criteria for control of credit risk is the maximum exposure to credit risk per one counterparty, as well as the geographical segments.

The National Bank's maximum exposure to credit risk per one counterparty varies significantly and is dependent on both individual risks and general market economy risks. The National Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	31 December 2021	31 December 2020
FINANCIAL ASSETS		
Gold in deposits with foreign banks	6 702 618	-
Cash on hand, due from banks and other financial institutions*	126 237 926	71 723 982
Loans to banks and international organisations	6 633 075	9 007 592
Investments measured at fair value through other comprehensive income	71 602 189	72 938 843
Investments at amortised cost	2 955 967	2 967 212
Other financial assets	485 010	399 183
Total maximum exposure	**214 616 785**	**157 036 812**

* This amount does not include cash balances in foreign currencies

Internal credit risk ratings

In order to minimise credit risk, the National Bank has developed a credit rating system for categorising risks depending on the degree of default risk. Credit rating information is based on a set of data that is defined as forward-looking data with respect to default risk and uses expert judgment regarding credit risk. The analysis takes into account the nature of the risk and the type of borrower. Credit ratings are determined using qualitative and quantitative factors that indicate the risk of default. The credit rating system of the National Bank includes ten categories.

Internal credit ratings	Description
1	Low or moderate risk
2	Watch
3	Impaired

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

The analysis of credit risk for each class of financial assets, taking into account the internal credit rating and stage in accordance with IFRS 9, without taking into account the effect of collateral and other mechanisms to improve the quality of a loan, is presented in the tables below. Unless otherwise indicated, the amounts presented in the tables for financial assets represent their gross carrying amount.

	31 December 2021			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Cash on hand, due from banks and other financial institutions				
Credit rating 1: Low or moderate risk	130 654 471	-	-	130 654 471
Credit rating 2: Watch	-	10 809	-	10 809
Total gross carrying amount	**130 654 471**	**10 809**	**-**	**130 665 280**
Allowance for expected credit losses	(6 692)	(160)	-	(6 852)
Carrying amount	**130 647 779**	**10 649**	**-**	**130 658 428**

	31 December 2021				
	Stage 1	Stage 2	Stage 3	Originated or purchased credit-impaired financial assets	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses		Total
Loans to banks and international organisations					
Credit rating 1: Low or moderate risk	4 875 663	-	-	-	4 875 663
Credit rating 2: Watch	-	1 780 510	-	-	1 780 510
Credit rating 3: Impaired	-	-	151 597	384 235	535 832
Total gross carrying amount	**4 875 663**	**1 780 510**	**151 597**	**384 235**	**7 192 005**
Loss allowance for expected credit losses	(63 914)	(343 419)	(151 597)	-	(558 930)
Carrying amount	**4 811 749**	**1 437 091**	**-**	**384 235**	**6 633 075**

	31 December 2021			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments measured at fair value through other comprehensive income				
Credit rating 1: Low or moderate risk	71 602 189	-	-	71 602 189
Total carrying amount	**71 602 189**	**-**	**-**	**71 602 189**

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

	31 December 2021			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at amortised cost				
Credit rating 1: Low or moderate risk	3 010 634	-	-	3 010 634
Total gross carrying amount	**3 010 634**	**-**	**-**	**3 010 634**
Loss allowance for expected credit losses	(54 667)	-	-	(54 667)
Carrying amount	**2 955 967**	**-**	**-**	**2 955 967**

	31 December 2021			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Other financial assets				
Credit rating 1: Low or moderate risk	490 887	-	-	490 887
Credit rating 3: Impaired	-	-	45 056	45 056
Total gross carrying amount	**490 887**	**-**	**45 056**	**535 943**
Loss allowance for expected credit losses	(7 122)	-	(43 811)	(50 933)
Carrying amount	**483 765**	**-**	**1 245**	**485 010**

	31 December 2020			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Cash on hand, due from banks and other financial institutions				
Credit rating 1: Low or moderate risk	75 037 898	-	-	75 037 898
Credit rating 2: Watch	-	10 534	-	10 534
Total gross carrying amount	**75 037 898**	**10 534**	**-**	**75 048 432**
Loss allowance for expected credit losses	(1 769)	-	-	(1 769)
Carrying amount	**75 036 129**	**10 534**	**-**	**75 046 663**

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

	31 December 2020				
	Stage 1	Stage 2	Stage 3		
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Loans to banks and international organisations					
Credit rating 1: Low or moderate risk	8 524 035	-	-	-	8 524 035
Credit rating 2: Watch	-	326 137	-	-	326 137
Credit rating 3: Impaired	-	-	148 118	384 235	532 353
Total gross carrying amount	**8 524 035**	**326 137**	**148 118**	**384 235**	**9 382 525**
Loss allowance for expected credit losses	(213 297)	(13 518)	(148 118)	-	(374 933)
Carrying amount	**8 310 738**	**312 619**	**-**	**384 235**	**9 007 592**

	31 December 2020			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments measured at fair value through other comprehensive income				
Credit rating 1: Low or moderate risk	72 938 843	-	-	72 938 843
Total carrying amount	**72 938 843**	**-**	**-**	**72 938 843**

	31 December 2020			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at amortised cost				
Credit rating 1: Low or moderate risk	3 021 258	-	-	3 021 258
Total gross carrying amount	**3 021 258**	**-**	**-**	**3 021 258**
Loss allowance for expected credit losses	(54 046)	-	-	(54 046)
Carrying amount	**2 967 212**	**-**	**-**	**2 967 212**

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

	31 December 2020			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Other financial assets				
Credit rating 1: Low or moderate risk	405 329	-	-	405 329
Credit rating 3: Impaired	-	-	43 198	43 198
Total gross carrying amount	**405 329**	**-**	**43 198**	**448 527**
Loss allowance for expected credit losses	(7 391)	-	(41 953)	(49 344)
Carrying amount	**397 938**	**-**	**1 245**	**399 183**

The tables below analyse information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in loss allowance during the year 2021, by classes of financial assets:

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

	2021				
	Stage 1	Stage 2	Stage 3		
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Originated or purchased credit-impaired financial assets	Total
Loans to banks and international organisations					
Gross carrying amount at 1 January 2021	**8 524 035**	**326 137**	**148 118**	**384 235**	**9 382 525**
Changes in gross carrying amount					
- Transfer to Stage 2	(2 268 675)	2 268 675	-	-	-
Write-off / recovery of assets against allowance	-	-	(378)	-	(378)
New financial assets originated or purchased	144 544	-	-	-	144 544
Derecognised financial assets	(1 524 241)	(814 302)	-	-	(2 338 543)
Foreign exchange and other changes	-	-	3 857	-	3 857
Gross carrying amount at 31 December 2021	**4 875 663**	**1 780 510**	**151 597**	**384 235**	**7 192 005**
Loss allowance for expected credit losses at 31 December 2021	**(63 914)**	**(343 419)**	**(151 597)**	**-**	**(558 930)**

	2021			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2021	**72 938 843**	**-**	**-**	**72 938 843**
Changes in gross carrying amount	-	-	-	-
New financial assets originated or purchased	77 338 879	-	-	77 338 879
Derecognised financial assets	(80 380 560)	-	-	(80 380 560)
Foreign exchange and other changes	1 705 027	-	-	1 705 027
Carrying amount as at 31 December 2021	**71 602 189**	**-**	**-**	**71 602 189**

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

	2021			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at amortised cost				
Gross carrying amount as at 1 January 2021	**3 021 258**	**-**	**-**	**3 021 258**
Changes in gross carrying amount				
New financial assets originated or purchased	164 094	**-**	**-**	164 094
Derecognised financial assets	(174 718)	-	-	(174 718)
Gross carrying amount as at 31 December 2021	**3 010 634**	**-**	**-**	**3 010 634**
Loss allowance for expected credit losses as at 31 December 2021	**(54 667)**	**-**	**-**	**(54 667)**

	2021			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Other financial assets				
Gross carrying amount as at 1 January 2021	**405 329**	**-**	**43 198**	**448 527**
Changes in gross carrying amount				
- Transfer to Stage 3				
New financial assets originated or purchased	122 908	-	1 851	124 759
Derecognised financial assets	(37 350)	-	-	(37 350)
Foreign exchange and other changes	-	-	7	7
Gross carrying amount as at 31 December 2021	**490 887**	**-**	**45 056**	**535 943**
Loss allowance for expected credit losses as at 31 December 2021	**(7 122)**	**-**	**(43 811)**	**(50 933)**

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

The tables below analyse information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in loss allowance during the year 2020, by classes of financial assets:

	2020				
	Stage 1	Stage 2	Stage 3	Originated or purchased credit-impaired financial assets	Total
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses		
Loans to banks and international organisations					
Gross carrying amount as at 1 January 2020	**6 858 210**	**183 243**	**127 039**	**540 564**	**7 709 056**
Change in gross carrying amount					
New financial assets originated or purchased	2 939 131	291 638	-	-	3 230 769
Derecognised financial assets	(1 273 306)	(148 744)	(2 614)	(156 329)	(1 580 993)
Recovery of assets against allowance	-	-	94	-	94
Foreign exchange and other changes	-	-	23 599	-	23 599
Gross carrying amount as at 31 December 2020	**8 524 035**	**326 137**	**148 118**	**384 235**	**9 382 525**
Loss allowance for expected credit losses as at 31 December 2020	**(213 297)**	**(13 518)**	**(148 118)**	**-**	**(374 933)**

CONTENT

25 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

	2020			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2020	**32 983 156**	**-**	**-**	**32 983 156**
Changes in gross carrying amount				
New financial assets originated or purchased	95 186 566	-	-	95 186 566
Derecognised financial assets	(64 852 218)	-	-	(64 852 218)
Other changes	9 621 339	-	-	9 621 339
Carrying amount as at 31 December 2020	**72 938 843**	**-**	**-**	**72 938 843**

	2020			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at amortised cost				
Gross carrying amount at 1 January 2020	**127 014**	**-**	**-**	**127 014**
Changes in gross carrying amount	2 957 377	-	-	2 957 377
Derecognised financial assets	(63 133)	-	-	(63 133)
Gross carrying amount at 31 December 2020	**3 021 258**	**-**	**-**	**3 021 258**
Carrying amount as at 31 December 2020	**(54 046)**	**-**	**-**	**(54 046)**

	2020			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Other financial assets				
Gross carrying amount at 1 January 2020	**326 586**	**-**	**41 843**	**368 429**
Changes in gross carrying amount				
- Transfer to Stage 3	-	-	-	-
New financial assets originated or purchased	81 666	-	3 519	85 185
Derecognised financial assets	(2 923)	-	(2 162)	(5 085)
Foreign exchange and other changes	-	-	(2)	(2)
Gross carrying amount at 31 December 2020	**405 329**	**-**	**43 198**	**448 527**
Loss allowance for expected credit losses at 31 December 2020	**(7 391)**	**-**	**(41 953)**	**(49 344)**

25 RISK MANAGEMENT, CONTINUED

(d) Geographical concentrations

The Investment Committee of the National Bank monitors the country risk of its counterparties. This approach is aimed at minimising potential losses from investment climate changes in those countries where the National Bank's currency reserves are placed.

The following table shows the geographical concentration of assets and liabilities at 31 December 2021:

	The Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2021 Total
Financial assets					
Cash on hand, due from banks and other financial institutions	4 420 502	31 908 997	27 636 322	66 692 607	130 658 428
Loans to banks and international organisations	6 633 075	-	-	-	6 633 075
Investments measured at fair value through other comprehensive income	-	35 628 606	-	35 973 583	71 602 189
Investments at amortised cost	2 955 967	-	-	-	2 955 967
Other financial assets	485 010	-	-	-	485 010
Total financial assets	**14 494 554**	**67 537 603**	**27 636 322**	**102 666 190**	**212 334 669**
Financial liabilities					
Banknotes and coins in circulation	139 922 220	-	-	-	139 922 220
Due to banks and other to financial institutions	39 220 342	-	328 447	31 335	39 580 124
Due to the Government of the Kyrgyz Republic	22 730 726	-	-	-	22 730 726
Debt securities issued	18 494 284	-	-	-	18 494 284
Liabilities to the IMF in respect of SDR allocations	-	-	-	30 258 833	30 258 833
Other financial liabilities	143 145	3 761	7	-	146 913
Total financial liabilities	**220 510 717**	**3 761**	**328 454**	**30 290 168**	**251 133 100**
Net position	**(206 016 163)**	**67 533 842**	**27 307 868**	**72 376 022**	**(38 798 431)**

25 RISK MANAGEMENT, CONTINUED

(d) Geographical concentrations, continued

The following table shows the geographical concentration of assets and liabilities at 31 December 2020:

	The Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2020 Total
Financial assets					
Cash on hand, due from banks and other financial institutions	3 322 681	36 278 771	15 828 414	19 616 797	75 046 663
Loans to banks and international organisations	9 007 592	-	-	-	9 007 592
Investments measured at fair value through other comprehensive income	-	31 792 946	-	41 145 897	72 938 843
Investments at amortised cost	2 967 212	-	-	-	2 967 212
Other financial assets	399 183	-	-	-	399 183
Total financial assets	**15 696 668**	**68 071 717**	**15 828 414**	**60 762 694**	**160 359 493**
Financial liabilities					
Banknotes and coins in circulation	134 629 161	-	-	-	134 629 161
Due to banks and other to financial institutions	28 567 372	-	236 609	36 628	28 840 609
Due to the Government of the Kyrgyz Republic	16 748 525	-	-	-	16 748 525
Debt securities issued	12 990 663	-	-	-	12 990 663
Liabilities to the IMF in respect of SDR allocations	-	-	-	9 994 865	9 994 865
Other financial liabilities	88 118	3 983	20	-	92 121
Total financial liabilities	**193 023 839**	**3 983**	**236 629**	**10 031 493**	**203 295 944**
Net position	**(177 327 171)**	**68 067 734**	**15 591 785**	**50 731 201**	**(42 936 451)**

(e) Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in meeting the obligations associated with its financial liabilities. Liquidity risk exists when maturities of assets and liabilities denominated in foreign currency do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the risk management of financial institutions, including the National Bank. It is not a common practice for financial institutions to completely match maturity of assets and liabilities due to the diversity of operations and associated uncertainty.

The National 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 National Bank's liquidity policy is reviewed and approved by the National Bank's Management Board.

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

CONTENT

25 RISK MANAGEMENT, CONTINUED

(e) Liquidity risk, continued

Since the National Bank is the emission bank (the National Bank carries out the issue of national currency - the Kyrgyz Som), the default risk on fulfilment its obligations in national currency is minimal, and liquidity risk is more applicable for obligations of the National Bank denominated in foreign currency.

The liquidity management policy requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Maintaining a portfolio of highly marketable assets that can easily be sold as protection against any interruption to cash flow;
- Maintaining liquidity and funding contingency plans;
- Monitoring balance sheet liquidity ratios of the National Bank against regulatory requirements.

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	31 December 2021 Carrying amount
Due to banks and other financial institutions	39 580 124	-	-	-	-	39 580 124	39 580 124
Due to the Government of the Kyrgyz Republic	22 730 726	-	-	-	-	22 730 726	22 730 726
Debt securities issued	18 543 770	-	-	-	-	18 543 770	18 494 284
Liabilities to the IMF in respect of SDR allocations	30 256 065	2 768	-	-	-	30 258 833	30 258 833
Other financial liabilities	76 427	4 715	1 645	62 594	1 532	146 913	146 913
	111 187 112	**7 483**	**1 645**	**62 594**	**1 532**	**111 260 366**	**111 210 880**

The tables above show cash outflows of financial liabilities that are not equal to carrying amounts of those liabilities in current financial statements because these amounts include remaining interest payable, which is not yet recognised using the effective interest rate method.

25 RISK MANAGEMENT, CONTINUED

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	31 December 2020 Carrying amount
Due to banks and other financial institutions	28 840 609	-	-	-	-	28 840 609	28 840 609
Due to the Government of the Kyrgyz Republic	16 748 525	-	-	-	-	16 748 525	16 748 525
Debt securities issued	11 361 900	1 662 850	-	-	-	13 024 750	12 990 663
Liabilities to the IMF in respect of SDR allocations	9 993 127	1 738	-	-	-	9 994 865	9 994 865
Other financial liabilities	35 069	5 864	16	46 177	4 995	92 121	92 121
	66 979 230	**1 670 452**	**16**	**46 177**	**4 995**	**68 700 870**	**68 666 783**

The tables above show cash outflows of financial liabilities that are not equal to carrying amounts of those liabilities in current financial statements because these amounts include remaining interest payable, which is not yet recognised using the effective interest rate method.

CONTENT

CONTENT

25 RISK MANAGEMENT, CONTINUED

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	31 December 2021 Total
FINANCIAL ASSETS							
Cash on hand, due from banks and other financial institutions	107 885 736	18 177 887	4 594 805	-	-	-	130 658 428
Loans to banks and international organisations	299 499	2 388 489	3 945 087	-	-	-	6 633 075
Investments measured at fair value through other comprehensive income	5 570 157	22 050 796	38 874 541	5 106 695	-	-	71 602 189
Investments at amortised cost	-	-	20 339	-	2 935 628	-	2 955 967
Other financial assets	83 055	5 745	28 473	183 139	184 598	-	485 010
	113 838 447	**42 622 917**	**47 463 245**	**5 289 834**	**3 120 226**	**-**	**212 334 669**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	139 922 220	139 922 220
Due to banks and other financial institutions	39 580 124	-	-	-	-	-	39 580 124
Due to the Government of the Kyrgyz Republic	22 730 726	-	-	-	-	-	22 730 726
Debt securities issued	18 494 284	-	-	-	-	-	18 494 284
Liabilities to the IMF in respect of SDR allocations	30 256 065	2 768	-	-	-	-	30 258 833
Other financial liabilities	76 427	4 715	64 239	1 532	-	-	146 913
	111 137 626	**7 483**	**64 239**	**1 532**	**-**	**139 922 220**	**251 133 100**
Net position	**2 700 821**	**42 615 434**	**47 399 006**	**5 288 302**	**3 120 226**	**(139 922 220)**	**(38 798 431)**

25 RISK MANAGEMENT, CONTINUED

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	31 December 2020 Total
FINANCIAL ASSETS							
Cash on hand, due from banks and other financial institutions	55 525 077	11 004 426	8 517 160	-	-	-	75 046 663
Loans to banks and international organisations	253 423	3 265 529	5 488 640	-	-	-	9 007 592
Investments measured at fair value through other comprehensive income	3 480 527	25 981 900	35 770 736	7 705 680	-	-	72 938 843
Investments at amortised cost	-	-	82 388	-	2 884 824	-	2 967 212
Other financial assets	15 297	6 887	29 266	166 919	180 814	-	399 183
	59 274 324	**40 258 742**	**49 888 190**	**7 872 599**	**3 065 638**	**-**	**160 359 493**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	134 629 161	134 629 161
Due to banks and other financial institutions	28 840 609	-	-	-	-	-	28 840 609
Due to the Government of the Kyrgyz Republic	16 748 525	-	-	-	-	-	16 748 525
Debt securities issued	11 341 590	1 649 073	-	-	-	-	12 990 663
Liabilities to the IMF in respect of SDR allocations	9 993 127	1 738	-	-	-	-	9 994 865
Other financial liabilities	35 069	5 864	16	46 177	4 995	-	92 121
	66 958 920	**1 656 675**	**16**	**46 177**	**4 995**	**134 629 161**	**203 295 944**
Net position	**(7 684 596)**	**38 602 067**	**49 888 174**	**7 826 422**	**3 060 643**	**(134 629 161)**	**(42 936 451)**

26 COMMITMENTS

(a) Insurance

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

(b) Litigation

In the ordinary course of business, the National Bank is subject to legal actions and complaints. Management of the National Bank believes that the ultimate liability, if any, arising from such actions or complaints, will not have a significant adverse impact on the National Bank's financial position and operating results.

(c) Taxation contingencies

The taxation system in the Kyrgyz Republic continues to develop 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. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open within six calendar years.

Taking into consideration that the National Bank has exemption from income tax and some other taxes, tax liabilities origination is not obvious and their influence on the separate financial statements of the National Bank is not significant.

27 AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992, the Kyrgyz Republic joined the International Monetary Fund ("the IMF"). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2021 and 2020, the quota of the Kyrgyz Republic amounted to SDR 177 600 thousand.

To secure a part of the membership quota, the Ministry of Finance of the Kyrgyz Republic issued securities to the IMF. The other part was secured by funds placed on the current account of the IMF with the National Bank.

The National Bank was designated as a depository for these securities and funds and as a financial agency authorised to carry out transactions with the IMF on behalf of the Kyrgyz Republic. Accordingly, the following assets and liabilities are not assets and liabilities of the National Bank and were not included in the National Bank's separate financial statements:

	31 December 2021	31 December 2020
IMF membership quota	**21 078 092**	**20 733 276**
Securities issued to the IMF	(20 988 468)	(20 645 118)
Current accounts of the IMF	(64 878)	(67 849)
	(21 053 346)	**(20 712 967)**

28 RELATED PARTY TRANSACTIONS

(a) Control relationship

In considering each possible related party, substance of the relationship is considered and not only the legal form.

In accordance with the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" the National Bank is the central bank of the Kyrgyz Republic and is owned by the Kyrgyz Republic. The National Bank has the authority to independently run its own operations under powers given by the Law.

(b) Transactions with the members of the Management Board

Total remuneration received by the members of the National Bank's Management Board for the years ended 31 December 2021 and 2020 was KGS 30 936 thousand and KGS 27 960 thousand, respectively. The remuneration consists of salary and other payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2021 and 2020 were KGS 15 552 thousand and KGS 17 646 thousand, respectively. The loans are KGS-denominated and repayable by 2032. Interest income from loans to the Management Board for the years ended 31 December 2021 and 2020 was KGS 152 thousand and KGS 192 thousand, respectively.

(c) Transactions with other related parties

The following related party transactions took place during 2021, which are not separately disclosed elsewhere in these separate financial statements.

	Subsidiaries	Average interest rate %	Associates	31 December 2021 Total
Separate statement of financial position				
Loans to banks and international organisations	384 235	5.00	-	384 235
Investments in subsidiaries and associates	10 604 993	-	334 464	10 939 457
Due to banks and other financial institutions	514 565	5.50	-	514 565
Debt securities issued	94 113	7.66	-	94 113

The following related party transactions took place during 2020, which are not separately disclosed elsewhere in these separate financial statements.

	Subsidiaries	Average interest rate %	Associates	31 December 2020 Total (restated)
Separate statement of financial position				
Loans to banks and international organisations	384 235	5.00	-	384 235
Investments in subsidiaries and associates	7 981 133	-	271 742	8 252 875
Due to banks and other financial institutions	3 390 256	2.75	-	3 390 256
Debt securities issued	1 497 572	4.68	-	1 497 572

28 RELATED PARTY TRANSACTIONS, CONTINUED

(c) Transactions with other related parties, continued

Related profit or loss amounts of transactions for the year ended 31 December 2021 with other related parties are as follows:

	Subsidiaries	Associates	The year ended 31 December 2021 Total
Separate statement of profit or loss			
Share of profit of associates	-	73 081	73 081
Interest income	19 399	-	19 399
Fee and commission income	3 306	160	3 466
Other income	23 861	1 286	25 147
Loss on impairment of investments in subsidiaries	(376 140)	-	(376 140)
Interest expense	(60 819)	-	(60 819)
Other expenses	(7 939)	(475)	(8 414)

Related profit or loss amounts of transactions for the year ended 31 December 2020 with other related parties are as follows:

	Subsidiaries	Associates	The year ended 31 December 2020 Total
Separate statement of profit or loss			
Share of profit of associates	-	38 442	38 442
Interest income	24 446	-	24 446
Fee and commission income	2 881	240	3 121
Other income	15 561	734	16 295
Loss on impairment of investments in subsidiaries	(1 524 443)	-	(1 524 443)
Interest expense	(41 579)	-	(41 579)
Other expenses	(879)	-	(879)

29 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2021:

	At amortised cost	At fair value through other comprehensive income	31 December 2021 Total carrying amount	31 December 2021 Fair value
Cash on hand, due from banks and other financial institutions	49 797 155	80 861 273	130 658 428	130 658 428
Loans to banks and international organisations	6 633 075	-	6 633 075	6 633 075
Investments measured at fair value through other comprehensive income	-	71 602 189	71 602 189	71 602 189
Investments at amortised cost	2 955 967	-	2 955 967	2 955 967
Other financial assets	485 010		485 010	485 010
	59 871 207	**152 463 462**	**212 334 669**	**212 334 669**
Banknotes and coins in circulation	139 922 220	-	139 922 220	139 922 220
Due to banks and other financial institutions	39 580 124	-	39 580 124	39 580 124
Due to the Government of the Kyrgyz Republic	22 730 726	-	22 730 726	22 730 726
Debt securities issued	18 494 284	-	18 494 284	18 494 284
Liabilities to the IMF in respect of SDR allocations	30 258 833	-	30 258 833	30 258 833
Other financial liabilities	146 913	-	146 913	146 913
	251 133 100	**-**	**251 133 100**	**251 133 100**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2020:

	At amortised cost	At fair value through other comprehensive income	31 December 2020 Total carrying amount	31 December 2020 Fair value
Cash on hand, due from banks and other financial institutions	25 791 681	49 254 982	75 046 663	75 046 663
Loans to banks and international organisations	9 007 592	-	9 007 592	9 007 592
Investments measured at fair value through other comprehensive income	-	72 938 843	72 938 843	72 938 843
Investments at amortised cost	2 967 212	-	2 967 212	3 089 250
Other financial assets	399 183	-	399 183	399 183
	38 165 668	**122 193 825**	**160 359 493**	**160 481 531**
Banknotes and coins in circulation	134 629 161	-	134 629 161	134 629 161
Due to banks and other financial institutions	28 840 609	-	28 840 609	28 840 609
Due to the Government of the Kyrgyz Republic	16 748 525	-	16 748 525	16 748 525
Debt securities issued	12 990 663	-	12 990 663	12 966 662
Liabilities to the IMF in respect of SDR allocations	9 994 865	-	9 994 865	9 994 865
Other financial liabilities	92 121	-	92 121	92 121
	203 295 944	**-**	**203 295 944**	**203 271 943**

29 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES, CONTINUED

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. 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 National Bank measures fair values of financial instruments recognised in the separate statement of financial position using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at 31 December 2021, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2021 Total
Cash on hand, due from banks and other financial institutions	-	80 861 273	-	**80 861 273**
Investments measured at fair value through other comprehensive income	71 602 189	-	-	**71 602 189**

CONTENT

29 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES, CONTINUED

(b) Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2020 Total
Nostro accounts in banks and other financial institutions	-	49 254 982	-	**49 254 982**
Investments measured at fair value through other comprehensive income	72 938 843	-	-	**72 938 843**

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

	Level 1	Level 2	Level 3	31 December 2021 Total
Cash on hand, term deposits in banks and other financial institutions	-	49 797 155	-	**49 797 155**
Loans to banks and international organisations	-	6 633 075	-	**6 633 075**
Investments at amortised cost	-	2 955 967	-	**2 955 967**
Other financial assets	-	485 010	-	**485 010**
Banknotes and coins in circulation	-	139 922 220	-	**139 922 220**
Due to banks and other financial institutions	-	39 580 124	-	**39 580 124**
Due to the Government of the Kyrgyz Republic	-	22 730 726	-	**22 730 726**
Debt securities issued	-	18 494 284	-	**18 494 284**
Liabilities to the IMF in respect of SDR allocations	-	30 258 833	-	**30 258 833**
Other financial liabilities	-	146 913	-	**146 913**

29 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES, CONTINUED

(b) Fair value hierarchy, continued

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

	Level 1	Level 2	Level 3	31 December 2020 Total
Cash on hand, term deposits in banks and other financial institutions	-	25 791 681	-	**25 791 681**
Loans to banks and international organisations	-	9 007 592	-	**9 007 592**
Investments at amortised cost	-	3 089 250	-	**3 089 250**
Other financial assets	-	399 183	-	**399 183**
Banknotes and coins in circulation	-	134 629 161	-	**134 629 161**
Due to banks and other financial institutions	-	28 840 609	-	**28 840 609**
Due to the Government of the Kyrgyz Republic	-	16 748 525	-	**16 748 525**
Debt securities issued	-	12 966 662	-	**12 966 662**
Liabilities to the IMF in respect of SDR allocations	-	9 994 865	-	**9 994 865**
Other financial liabilities	-	92 121	-	**92 121**

30 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2021 and 2020, the National Bank had not any financial assets or financial liabilities that would had met the criteria for offsetting in the separate statement of financial position, and the National Bank had not entered into any master netting or similar agreements.

31 SUBSEQUENT EVENTS

The start of 2022 was characterised by instability on the geopolitical stage in February 2022 which entailed the unprecedented sanctions against certain financial institutions, in particular disconnection from SWIFT of certain Russian institutions and freezing of their assets. The imposed restrictions have resulted in downgrading of international ratings for Russian financial institutions. In particular, the international conducted two rounds of downgrading the sovereign ratings of the Russian Federation and the Republic of Belarus up to near-default ratings.

The National Bank took an extraordinary decision on the refinancing rate level due to the need to maintain stability of prices against the background of realisation of risks on the part of the external sector in the event of a significant worsening of the geopolitical situation, which was considered as part of the negative scenario and plans for anti-crisis measures of the National Bank and the Cabinet of Ministers. Starting from 10 March 2022, the base rate is set at 14% per annum.

31 SUBSEQUENT EVENTS, CONTINUED

The National Bank stays committed to a free-floating currency exchange rate and retains the right to perform currency interventions under conditions of excessive volatility to ensure the stability of the financial system. At the same time, the flexible exchange rate of the national currency will enable to ensure the safety of gold and foreign currency assets, the importance of which has increased because of realization of the risks on the part of the external sector. The official exchange rate of the USD to the national currency from the beginning of the year to the date of issue of the financial statements was in the range from KGS 81.5205 to KGS 105.00 per one USD.

Liquidity risk

Realisation of geopolitical risks has increased demand for gold. Thus, during February the price of gold rose from USD 1 884,80 to USD 1 936,30 per ounce, or by 2.3%, and was multi-year high in early March, having exceeded the level of USD 2 039,05 per ounce.

Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies. A weakening of the national currency against the US dollar and other foreign currencies was of a short-term nature, and therefore there was no effect on capital as a result of fluctuations in the exchange rate of the national currency.

Credit risk

The negative effect of the sanctions imposed on the Russian banks and downgrading of the ratings of the Russian Federation and the Republic of Belarus, is likely to increase credit risk in relation to the requirements of the National Bank on the correspondent accounts in the banks of these countries (0.3% of all assets), which may result in recognition of an additional amount of expected credit losses.

Market risk

Market risk is reduced through a diversified structure of gold and foreign currency assets. In particular, the gold and foreign currency assets of the National Bank include assets in gold, SDR and a portfolio of foreign currencies.