Demir Kyrgyz International Bank CJSC

Financial statements

for the year ended 31 December 2023
together with independent auditor's report

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

Management is responsible for the preparation of the financial statements that present fairly the financial position of Demir Kyrgyz International Bank (the "Bank") as at 31 December 2023, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with the Kyrgyz Republic legislation and IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2023 were approved by the Management on 19 March 2024 and signed on its behalf by:

Mr. Sevki Sarilar
General Manager

19 March 2024
Bishkek, Kyrgyz Republic

Mrs. Zulfiya Djakipova
Chief Accountant

19 March 2024
Bishkek, Kyrgyz Republic

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Ernst & Young Audit LLC
Toktogula Str., 125/1
Bishkek, 720001
Kyrgyz Republic

Independent auditor's report

To the Shareholders and Board of Directors of Demir Kyrgyz International Bank CJSC

Opinion

We have audited the financial statements of Demir Kyrgyz International Bank CJSC (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in 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.

Responsibilities of management and the Audit Committee for the financial statements

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

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

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with the Audit Committee 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.

Paul Cohn
Auditor / General Director
Ernst & Young Audit LLC

Qualification certificate of the auditor:
Series A No. 0366, registration number No. 0446 of 22 October 2018
Individual registration number No. 11030 dated 11 July 2023

Individual registration number of Ernst & Young Audit LLC in the Unified State Register of Audit Organisations admitted to audit entities of public interest, large businesses No. 2100201 dated 22 June 2023 issued by the Office for Regulation and Supervision of the Financial Market under the Ministry of Economy and Commerce of the Kyrgyz Republic

Toktogul Str., 125/1, 720001
Bishkek, Kyrgyz Republic

19 March 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

(in thousands of Kyrgyz Som)

	Notes	*2023*	*2022*
Interest income calculated using the effective interest rate	5	**3,374,262**	2,127,537
Interest expense	5	**(789,254)**	(539,492)
Net interest income		**2,585,008**	1,588,045
Credit loss expense	6	**(103,725)**	(60,354)
Net interest income after credit loss expense		**2,481,283**	1,527,691
Fee and commission income	7	**1,396,120**	1,266,358
Fee and commission expense	7	**(723,583)**	(604,564)
Net fee and commission income		**672,537**	661,794
Net gains from foreign currencies:			
- dealing		**1,310,643**	1,746,803
- translation differences		**28,281**	53,012
Net losses on modification of financial assets measured at amortised cost	13	**(2,668)**	(27,434)
Other operating income	8	**82,762**	14,501
Non-interest income		**1,419,018**	1,786,882
Personnel expenses	9	**(971,947)**	(835,559)
Other operating expenses	9	**(828,136)**	(641,333)
Other impairment and provisions	17	**(10,776)**	(35,683)
Non-interest expenses		**(1,810,859)**	(1,512,575)
Profit before income tax		**2,761,979**	2,463,792
Income tax expense	10	**(282,933)**	(242,709)
Profit for the year		**2,479,046**	2,221,083
Other comprehensive income, net of income tax		–	–
Total comprehensive income for the year		**2,479,046**	2,221,083
Earnings per share, KGS	21	**1,240**	1,111

Signed and authorised for release on behalf of the Management:

Mr. Sevki Sarilar
General Manager

19 March 2024
Bishkek, Kyrgyz Republic

Mrs. Zulfiya Djakipova
Chief Accountant

19 March 2024
Bishkek, Kyrgyz Republic

The accompanying notes on pages 5-51 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(in thousands of Kyrgyz Som)

	Notes	*31 December 2023*	*31 December 2022*
Assets			
Cash and cash equivalents	11	**24,060,747**	29,275,886
Amounts due from credit institutions	12	**6,735,371**	4,133,352
Loans to customers	13	**21,658,894**	13,708,324
Investment securities at amortised cost	14	**1,130,989**	76,297
Property and equipment	15	**307,043**	335,648
Intangible assets	15	**211,908**	172,309
Right-of-use assets	16	**343,983**	364,680
Other assets	17	**989,158**	797,077
Total assets		**55,438,093**	48,863,573
Liabilities			
Amounts due to banks	18	**42,382**	56,782
Amounts due to customers	19	**43,213,915**	41,471,592
Other borrowed funds	20	**2,973,432**	759,964
Current income tax liabilities		**71,743**	41,772
Deferred income tax liabilities	10	**35,530**	28,545
Lease liabilities	16	**357,769**	376,364
Other liabilities	17	**442,734**	307,012
Total liabilities		**47,137,505**	43,042,031
Equity			
Share capital	21	**2,000,000**	2,000,000
Additional paid-in capital		**1**	1
Retained earnings		**6,300,587**	3,821,541
Total equity		**8,300,588**	5,821,542
Total liabilities and equity		**55,438,093**	48,863,573

Signed and authorised for release on behalf of the Management:

Mr. Sevki Sarilar
General Manager

19 March 2024
Bishkek, Kyrgyz Republic

Mrs. Zulfiya Djakipova
Chief Accountant

19 March 2024
Bishkek, Kyrgyz Republic

The accompanying notes on pages 5-51 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

(in thousands of Kyrgyz Som)

	Notes	*2023*	*2022*
Cash flows from operating activities			
Interest received		**3,260,721**	2,098,995
Interest paid		**(713,829)**	(469,476)
Fee and commission received		**1,396,120**	1,266,358
Fee and commission paid		**(723,649)**	(604,564)
Realised gains less losses from dealing in foreign currencies		**1,310,643**	1,746,803
Other income received		**82,150**	16,804
Personnel expenses paid		**(911,891)**	(750,714)
Other operating expenses paid		**(572,594)**	(347,356)
Cash flows from operating activities before changes in operating assets and liabilities		**3,127,671**	2,956,850
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**(2,593,861)**	(455,788)
Loans to customers		**(7,787,482)**	(990,609)
Other assets		**(125,791)**	15,379
Net (decrease)/increase in operating liabilities			
Amounts due to banks		**(15,899)**	(120,645)
Amounts due to customers		**614,777**	15,265,685
Other liabilities		**30,989**	1,199
Net cash flows (used in)/from operating activities before income tax		**(6,749,596)**	16,672,071
Income tax paid		**(245,975)**	(223,800)
Net cash (used in)/from operating activities		**(6,995,571)**	16,448,271
Cash flows from investing activities			
Purchase of investment securities at amortised cost		**(1,642,476)**	–
Proceeds from redemption of investment securities at amortised cost		**645,228**	133,544
Purchase of property and equipment and intangible assets		**(207,245)**	(177,473)
Net cash used in investing activities		**(1,204,493)**	(43,929)
Cash flows from financing activities			
Proceeds from other borrowed funds	20	**2,526,147**	528,503
Repayment of other borrowed funds	20	**(319,766)**	(304,767)
Lease payments		**(91,832)**	(84,101)
Net cash from financing activities		**2,114,549**	139,635
Effect of expected credit losses on cash and cash equivalents		**(649)**	(8,659)
Effect of changes in exchange rates on cash and cash equivalents		**871,025**	355,908
Net (decrease)/increase in cash and cash equivalents		**(5,215,139)**	16,891,226
Cash and cash equivalents as at the beginning of the year		**29,275,886**	12,384,660
Cash and cash equivalents as at the end of the year	11	**24,060,747**	29,275,886

Signed and authorised for release on behalf of the Management:

Mr. Sevki Sarilar
General Manager

19 March 2024
Bishkek, Kyrgyz Republic

Mrs. Zulfiya Djakipova
Chief Accountant

19 March 2024
Bishkek, Kyrgyz Republic

The accompanying notes on pages [illegible] are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

(in thousands of Kyrgyz Som)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
As at 1 January 2022	2,000,000	1	1,600,458	3,600,459
Profit for the year	–	–	2,221,083	2,221,083
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	2,221,083	2,221,083
As at 31 December 2022	2,000,000	1	3,821,541	5,821,542
Profit for the year	–	–	**2,479,046**	**2,479,046**
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	**2,479,046**	**2,479,046**
As at 31 December 2023	**2,000,000**	**1**	**6,300,587**	**8,300,588**

Signed and authorised for release on behalf of the Management:

Mr. Sevki Sarilar
General Manager

19 March 2024
Bishkek, Kyrgyz Republic

Mrs. Zulfiya Djakipova
Chief Accountant

19 March 2024
Bishkek, Kyrgyz Republic

The accompanying notes on pages 5-51 are an integral part of these financial statements.

(in thousands of Kyrgyz Som)

1. General information

Principal activities

Demir Kyrgyz International Bank CJSC (hereinafter – the "Bank") was established in the Kyrgyz Republic as a closed joint-stock company on 2 May 1997. The principal activities are deposit taking and customer account maintenance, lending, issuance of guarantees, processing cash and settlement operations, transactions with securities and foreign exchange operations. The activities of the Bank are regulated by the National Bank of the Kyrgyz Republic (hereinafter – the "NBKR"). The Bank has a general banking license # 035 issued on 11 March 1999, which was renewed on 22 June 2017. The Bank is a member of the state deposit insurance system in the Kyrgyz Republic.

The Bank's registered office is 245, Chui Avenue, Bishkek, 720001, the Kyrgyz Republic.

The Bank has fourteen branches and nineteen outlets in the Kyrgyz Republic.

Shareholders

As at 31 December 2023 and 2022 the following shareholders owned outstanding shares of the Bank:

	31 December 2023, %	31 December 2022, %
Mr. Halit Cingillioglu	**92.5**	92.5
HCBG Holding B.V.	**7.5**	7.5
Total	**100.0**	100.0

As at 31 December 2023 and 2022, the Bank is ultimately controlled by Mr. Halit Cingillioglu.

Operating environment

Inflation and the current economic environment

The impact of the macroeconomic and geopolitical environment has exacerbated inflationary pressures in almost all economies around the world. High and rising energy prices are having a negative impact on the cost of other goods and services, resulting in significant consumer-price increases in many countries. While prices of many commodities, including food, have fallen since their record highs earlier this year, they remain high. In 2023, inflation in the Kyrgyz Republic was 7.3% (in 2022: 14.7%) according to the official data published by the NBKR. Due to the growth of geopolitical tension, there has been a significant growth of volatility in the stock and currency markets.

The Bank continues to assess the effect of these events and changing economic conditions on its activities. Current inflationary pressures, macroeconomic and geopolitical uncertainty affect the assumptions and estimation uncertainty associated with the measurement of assets and liabilities.

2. Basis of preparation

General

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

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in *Note 27*.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These financial statements are presented in thousands of Kyrgyz Som ("KGS"), except per share amounts and unless otherwise indicated.

The financial statements for the year ended 31 December 2023 were autorised for issue by the Management Board on 19 March 2024.

(in thousands of Kyrgyz Som)

3. Summary of accounting policies

Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2023. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions

in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:

- An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
- An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The amendments will have no impact on the Bank's financial statements at 31 December 2023.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17, Insurance Contracts, which sets out the accounting requirements for contractual rights and obligations that arise from insurance contracts issued and reinsurance contracts held. The Bank evaluated whether its contracts contain insurance risk, focusing on performance guarantees and credit cards and concluded that there are no material contracts in scope of IFRS 17 considering practical expedients available.

(in thousands of Kyrgyz Som)

3. Summary of accounting policies (continued)

Fair value measurement

The Bank measures financial instruments carried at fair value throught profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) and non-financial assets such as investment property, at fair value at each balance sheet date.

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

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

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

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

(in thousands of Kyrgyz Som)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Measurement categories of financial assets and liabilities (continued)

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

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

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

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

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

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

The SPPI test

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

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

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

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

(in thousands of Kyrgyz Som)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

The SPPI test (continued)

Financial guarantees and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

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

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognised at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBKR, including obligatory reserves, and amounts due from credit institutions that mature within three months of the date of origination and are free from contractual encumbrances.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Leases

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

<u>Right-of-use assets</u>

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

(in thousands of Kyrgyz Som)

3. Summary of accounting policies (continued)

Leases (continued)

Bank as a lessee (continued)

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate (EIR), the Bank records a modification gain or loss as a separate line in the statement of profit or loss and other comprehensive income, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during half of the probation period in accordance with the modified payment schedule.

(in thousands of Kyrgyz Som)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

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

Financial liabilities

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Kyrgyz Republic.

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

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

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

There are various operating taxes in Kyrgyz Republic, that are assessed on the Bank activities. These taxes are included as a component of other operating expenses.

(in thousands of Kyrgyz Som)

3. Summary of accounting policies (continued)

Property and equipment

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

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

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

	Years
Buildings and constructions	50
Computers and office equipment	3-5
Vehicles	5
Leasehold improvements	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

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

(in thousands of Kyrgyz Som)

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar revenue and expense

The Bank calculates interest revenue on debt financial assets measured at amortised cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest income" in the statement of profit or loss and other comprehensive income.

Fee and commission income

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

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

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

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses − are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBKR exchange rate on the date of the transaction are included in net gains from foreign currencies dealing. The official NBKR exchange rates at 31 December 2023 and 31 December 2022, were 89.0853 som and 85.68 som to 1 USD, respectively.

(in thousands of Kyrgyz Som)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Bank's financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed.

The amendments are not expected to have a material impact on the Bank's financial statements.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Impairment losses on financial assets

The measurement of allowance for ECL across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

(in thousands of Kyrgyz Som)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Impairment losses on financial assets (continued)

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Leases – estimating the incremental borrowing rate

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

The Bank estimates the IBR using interest rates on term deposits of its customers.

5. Net interest income

Net interest income comprises:

	2023	*2022*
Interest income calculated using the effective interest rate		
Loans to customers	**2,115,974**	1,754,815
Cash and cash equivalents	**904,606**	181,709
Amounts due from credit institutions	**281,636**	182,814
Investment securities at amortised cost	**72,046**	8,199
Total interest income	**3,374,262**	2,127,537
Interest expense		
Amounts due to customers	**(653,674)**	(379,634)
Other borrowed funds	**(119,860)**	(79,875)
Lease liabilities	**(15,720)**	(13,774)
Other interest expense	**–**	(66,209)
Total interest expense	**(789,254)**	(539,492)
Net interest income	**2,585,008**	1,588,045

(in thousands of Kyrgyz Som)

6. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2023:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents *(Note 11)*	**(2,577)**	**1,928**	**–**	**(649)**
Amounts due from credit institutions *(Note 12)*	**(48,885)**	**–**	**–**	**(48,885)**
Loans to customers *(Note 13)*	**31,137**	**(78,299)**	**(14,549)**	**(61,711)**
Investment securities at amortised cost *(Note 14)*	**(9,015)**	**–**	**–**	**(9,015)**
Other financial assets *(Note 17)*	**–**	**–**	**12,319**	**12,319**
Loan commitments and financial guarantees *(Note 23)*	**841**	**3,375**	**–**	**4,216**
Total credit loss expense	**(28,499)**	**(72,996)**	**(2,230)**	**(103,725)**

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2022:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents *(Note 11)*	(6,448)	(2,212)	–	(8,660)
Amounts due from credit institutions *(Note 12)*	(296)	–	–	(296)
Loans to customers *(Note 13)*	(37,927)	(35,610)	24,785	(48,752)
Investment securities at amortised cost *(Note 14)*	1,795	–	–	1,795
Other financial assets *(Note 17)*	–	–	(14,788)	(14,788)
Loan commitments and financial guarantees *(Note 23)*	9,991	(71)	427	10,347
Total credit loss expense	**(32,885)**	**(37,893)**	**10,424**	**(60,354)**

7. Net fee and commission income

Net fee and commission income comprises:

	2023	*2022*
Fee and commission income		
Plastic card services	**566,921**	551,067
Settlement operations	**331,911**	255,706
Cash operations	**328,154**	320,282
Account opening and maintenance	**79,398**	73,459
Guarantees and letters of credit	**53,839**	31,416
Processing	**16,739**	12,381
Factoring	**2,215**	4,436
Other	**16,943**	17,611
Total fee and commission income	**1,396,120**	1,266,358
Fee and commission expense		
Plastic card services	**(526,173)**	(477,593)
Settlement operations	**(120,222)**	(77,818)
Cash operations	**(53,671)**	(40,552)
Other	**(23,517)**	(8,601)
Total fee and commission expense	**(723,583)**	(604,564)
Net fee and commission income	**672,537**	661,794

The Bank's revenue from contracts with customers is mostly represented by fee and commission income.

The Bank usually collects fees and commissions in advance of completion of the underlying transaction or shortly thereafter (for contracts where performance obligation is satisfied point in time, such as settlement and cash operations). For services provided over time (such as those related to account maintenance), the Bank usually charges upfront monthly, quarterly or annual fees covering respective portion of the overall contract period.

The Bank applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(in thousands of Kyrgyz Som)

8. Other operating income

Other operating income comprises:

	2023	2022
Income from sale of repossessed collateral	**63,898**	3,191
Reimbursement of expenses	**10,939**	9,289
Gain from derecognition of lease liabilities	**5,818**	–
Other	**2,107**	2,021
Total other operating income	**82,762**	14,501

9. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2023	2022
Employee compensation	**833,537**	742,549
Payroll related taxes	**138,410**	93,010
Personnel expenses	**971,947**	835,559
Depreciation and amortisation *(Note 15, 16)*	**284,746**	235,632
Repair and maintenance	**111,812**	80,001
Deposit insurance	**78,531**	51,287
Professional services	**77,140**	51,517
Security	**56,148**	29,364
Representation and corporate events	**41,688**	39,999
Communication and information services	**40,408**	34,968
Advertising and marketing	**31,522**	34,879
Insurance	**25,581**	12,768
Lease	**10,325**	8,545
Charity and sponsorship	**9,414**	3,887
Inventory write-off	**8,390**	12,869
Utilities	**7,310**	6,776
Travel expenses	**5,211**	5,654
Office supplies	**3,414**	2,974
Staff trainings	**3,000**	2,150
Taxes other than income tax	**556**	628
Other	**32,940**	27,435
Other operating expenses	**828,136**	641,333

For the year ended 31 December 2023 amount of audit and non-audit fees charged to the Bank by all EY member practices amounted to KGS 16,741 thousand and KGS 293 thousand, respectively.

10. Taxation

The corporate income tax expense comprises:

	2023	2022
Current tax charge	**283,479**	240,556
Adjustment of corporate income tax of prior periods	**(7,531)**	(614)
Deferred tax charge – origination and reversal of temporary differences	**6,985**	2,767
Income tax expense	**282,933**	242,709

Statutory corporate income tax rate for companies (including banks) in the Kyrgyz Republic comprised 10% for 2023 and 2022.

According to the Tax Code of the Kyrgyz Republic for the computation of taxable profit, the Bank is entitled to deduct allowance for impairment for loans to customers and foreclosed assets from the aggregated annual income, accrued in accordance with the Regulation *"On classification of assets and respective allocations to the provision for potential losses"* approved by the Resolution of the Management Board of the NBKR No.18/3 dated 21 July 2004 (last revised on 30 December 2023) and Regulation *"On certain transactions/operations with real estate of the commercial banks and microfinance companies of the Kyrgyz Republic"* approved by the Resolution of the Management Board of the NBKR No.36/2 dated 29 August 2012 (last revised on 30 August 2023).

(in thousands of Kyrgyz Som)

10. Taxation (continued)

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

	2023	*2022*
Profit before income tax	**2,761,979**	2,463,792
Statutory tax rate	**10%**	10%
Theoretical income tax expense at the statutory rate	**276,198**	246,379
Adjustment of income tax of prior periods	**–**	(614)
Provisions	**3,044**	–
Other differences	**3,691**	(3,056)
Income tax expense	**282,933**	242,709

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	31 December 2021	*Origination and reversal of temporary differences in profit or loss*	*31 December 2022*	*Origination and reversal of temporary differences in of profit or loss*	*31 December 2023*
Loans to customers	(12,417)	(13,338)	(25,755)	**(7,472)**	**(33,227)**
Property, equipment and intangible assets	(5,167)	5,904	737	**1,933**	**2,670**
Right-of-use assets	(16,732)	(19,736)	(36,468)	**2,070**	**(34,398)**
Foreclosed assets	(9,978)	(2,189)	(12,167)	**3,926**	**(8,241)**
Other assets	1,463	(144)	1,319	**570**	**1,889**
Lease liabilities	17,053	20,583	37,636	**(1,859)**	**35,777**
Amounts due to customers	–	6,184	6,184	**(6,184)**	**–**
Other borrowed funds	–	(31)	(31)	**31**	**–**
Deferred tax liability	(25,778)	(2,767)	(28,545)	**(6,985)**	**(35,530)**

(in thousands of Kyrgyz Som)

11. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2023	*31 December 2022*
Cash on hand	**5,551,020**	6,335,304
Nostro accounts with the NBKR:		
- rated B	**4,953,690**	4,478,961
Allowance for ECL	**(1,028)**	(943)
Total nostro accounts with the NBKR	**4,952,662**	4,478,018
Nostro accounts with other banks:		
- rated from AA- to AA+	**–**	4,865,508
- rated from A- to A+	**1,143,456**	342,677
- rated BBB- to BBB+	**1,609,699**	165,041
- rated from BB- to BB+	**412,491**	528,738
- rated from B- to B+	**5,662**	660,290
- not rated	**248,981**	1,034,360
Allowance for ECL	**(538)**	(2,436)
Total nostro accounts with other banks	**3,419,751**	7,594,178
Term deposits with the NBKR up to 3 months:		
- rated B	**–**	2,501,362
Allowance for ECL	**–**	(1,579)
Total term deposits with the NBKR up to 3 months	**–**	2,499,783
Term deposits with other banks up to 3 months:		
- rated AAA	**–**	116,208
- rated from AA- to AA+	**–**	5,920,022
- rated BBB- to BBB+	**6,858,159**	–
- rated from B- to B+	**–**	428,500
Allowance for ECL	**(102)**	(436)
Total term deposits with other banks up to 3 months	**6,858,057**	6,464,294
Notes of the NBKR rated B up to 3 months	**3,287,501**	1,908,152
Allowance for ECL	**(8,244)**	(3,843)
Total notes of the NBKR up to 3 months	**3,279,257**	1,904,309
Total cash and cash equivalents	**24,060,747**	29,275,886

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

As at 31 December 2023 nostro accounts with other banks without rating include amounts due from Credit Europe Bank (Russia) Ltd. (KGS 201,592 thousand) and RNKO Payment Center (KGS 47,389 thousand). As at 31 December 2022 nostro accounts with other banks without rating include amounts due from Raiffeisen Bank Moscow (KGS 491,456 thousand), Eurasian Development Bank (KGS 411,909 thousand) and RNKO Payment Center (KGS 90,438 thousand), ALFA-Bank (KGS 29,510 thousand) and TRANSKAPITALBANK (KGS 11,047 thousand).

As at 31 December 2023 and 2022, minimal reserve requirements of the NBKR amounted to KGS 3,217,964 thousand and KGS 2,700,068 thousand, respectively. The obligatory reserves are placed to current accounts with the NBKR. The Bank's ability to withdraw such accounts is not restricted by the Kyrgyz legislation.

As at 31 December 2023, the Bank has three banks (31 December 2022: two banks), other than NBKR, whose balances individually exceed 10% of Bank's equity. The total gross value of these balances as at 31 December 2023 amounted to KGS 8,734,705 thousand (31 December 2022: KGS 10,794,716 thousand).

(in thousands of Kyrgyz Som)

11. Cash and cash equivalents (continued)

An analysis of changes in the ECL allowance during the year ended 31 December 2023 is as follows:

	Stage 1	*Stage 2*	*Total*
ECL as at 1 January	**6,937**	**2,300**	**9,237**
Charge/(reversal) for the year *(Note 6)*	**2,577**	**(1,928)**	**649**
Foreign exchange adjustments	**2**	**24**	**26**
As at 31 December	**9,516**	**396**	**9,912**

An analysis of changes in the ECL allowance during the year ended 31 December 2022 as follows:

	Stage 1	*Stage 2*	*Total*
ECL as at 1 January	489	69	558
Charge for the year *(Note 6)*	6,448	2,212	8,660
Foreign exchange adjustments	–	19	19
As at 31 December	**6,937**	**2,300**	**9,237**

12. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2023	*31 December 2022*
Time deposits with other banks for more than 3 months:		
- rated from AA- to AA+	**244,140**	223,266
- rated from A- to A+	**308,927**	–
- rated BBB	**269,876**	–
- rated from B+ to B-	**5,838,848**	3,904,793
- not rated	**90,394**	–
Time deposits with the NBKR for more than 3 months:		
- rated B	**45,418**	19,056
	6,797,603	4,147,115
Allowance for ECL	**(62,232)**	(13,763)
Amounts due from credit institutions	**6,735,371**	4,133,352

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

As at 31 December 2023 amounts due from credit institutions without rating include amounts due from FINCA Bank CJSC of KGS 90,394 thousand.

As at 31 December 2023, the Bank has two bank accounts (31 December 2022: three bank accounts), whose balances individually exceed 10% of the Bank's equity. The gross value of these balances as at 31 December 2023 amounted to KGS 2,164,083 thousand (31 December 2022: KGS 2,087,227 thousand).

As at 31 December 2023 and 2022, amounts due from credit institutions of KGS 45,418 thousand and KGS 19,056 thousand, respectively, represent insurance deposits for operations in money transfer systems with the NBKR.

As at 31 December 2023 and 2022 all balances of amounts due from credit institutions are allocated to Stage 1 for ECL measurement purposes.

An analysis of changes in the ECL allowance during the year ended 31 December is as follows:

	2023	*2022*
As at 1 January	**13,763**	14,356
Charge for the year *(Note 6)*	**48,885**	296
Foreign exchange adjustments	**(416)**	(889)
As at 31 December	**62,232**	13,763

(in thousands of Kyrgyz Som)

13. Loans to customers

Loans to customers comprise:

	31 December 2023	*31 December 2022*
Loans to corporate customers	**17,861,597**	10,657,211
Loans to small and medium enterprises (SME)	**1,881,342**	1,502,185
Loans retail customers:		
- Mortgage loans	**1,224,029**	901,757
- Consumer loans	**841,880**	780,125
- Credit cards	**307,064**	267,054
Total loans to retail customers	**2,372,973**	1,948,936
Total gross loans to customers	**22,115,912**	14,108,332
Allowance for ECL	**(457,018)**	(400,008)
Loans to customers	**21,658,894**	13,708,324

As at 31 December 2023 loans to customers with carrying amount of KGS 5,121 thousand (31 December 2022: KGS 13,816 thousand) are pledged as collateral for the borrowings received from Russian-Kyrgyz Development Fund (*Note 26*).

Allowance for ECL on loans to customers

An analysis of changes in the gross carrying value in relation to loans to customers during the year ended 31 December 2023 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2023	**12,326,090**	**317,856**	**1,464,386**	**14,108,332**
New assets originated or purchased	**19,077,061**	**61,649**	**–**	**19,138,710**
Assets repaid	**(10,736,286)**	**(285,407)**	**(331,061)**	**(11,352,754)**
Transfers to Stage 1	**617,412**	**(617,015)**	**(397)**	**–**
Transfers to Stage 2	**(959,420)**	**1,244,325**	**(284,905)**	**–**
Transfers to Stage 3	**(37,377)**	**(231,876)**	**269,253**	**–**
Changes to contractual cash flows due to modifications not resulting in derecognition	**–**	**–**	**(2,668)**	**(2,668)**
Unwinding of discount	**–**	**–**	**13,782**	**13,782**
Amounts written off	**–**	**–**	**(21,320)**	**(21,320)**
Foreign exchange adjustments	**215,122**	**5,439**	**11,269**	**231,830**
As at 31 December 2023	**20,502,602**	**494,971**	**1,118,339**	**22,115,912**

An analysis of changes in the ECL in relation to loans to customers during the year ended 31 December 2023 is as follows:

Loans to corporate customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**95,545**	**768**	**140,024**	**236,337**
New assets originated or purchased	**108,615**	**3,698**	**–**	**112,313**
Assets repaid	**(58,054)**	**(10,239)**	**(32,349)**	**(100,642)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**(6,474)**	**8,694**	**(2,220)**	**–**
Transfers to Stage 3	**–**	**–**	**–**	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	**(83,387)**	**43,022**	**16,171**	**(24,194)**
Unwinding of discount	**–**	**–**	**6,288**	**6,288**
Amounts written off	**–**	**–**	**(14,304)**	**(14,304)**
Foreign exchange adjustments	**278**	**227**	**1,352**	**1,857**
As at 31 December 2023	**56,523**	**46,170**	**114,962**	**217,655**

(in thousands of Kyrgyz Som)

13. Loans to customers (continued)

Allowance for ECL on loans to customers (continued)

Loans to SME	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**25,846**	**11,424**	**43,532**	**80,802**
New assets originated or purchased	**21,938**	**–**	**–**	**21,938**
Assets repaid	**(15,064)**	**(11,803)**	**(14,310)**	**(41,177)**
Transfers to Stage 1	**6,366**	**(6,366)**	**–**	**–**
Transfers to Stage 2	**(14,786)**	**21,457**	**(6,671)**	**–**
Transfers to Stage 3	**–**	**(36,598)**	**36,598**	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	**(5,841)**	**37,653**	**33,247**	**65,059**
Unwinding of discount	**–**	**–**	**3,228**	**3,228**
Amounts written off	**–**	**–**	**–**	**–**
Foreign exchange adjustments	**176**	**380**	**469**	**1,025**
As at 31 December 2023	**18,635**	**16,147**	**96,093**	**130,875**

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**5,514**	**1,078**	**22,300**	**28,892**
New assets originated or purchased	**6,308**	**–**	**–**	**6,308**
Assets repaid	**(3,390)**	**(1,332)**	**(10,861)**	**(15,583)**
Transfers to Stage 1	**3,872**	**(3,872)**	**–**	**–**
Transfers to Stage 2	**(2,729)**	**3,652**	**(923)**	**–**
Transfers to Stage 3	**–**	**(3,017)**	**3,017**	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	**1,853**	**4,654**	**8,842**	**15,349**
Unwinding of discount	**–**	**–**	**1,372**	**1,372**
Amounts written off	**–**	**–**	**–**	**–**
Foreign exchange adjustments	**(36)**	**–**	**(58)**	**(94)**
As at 31 December 2023	**11,392**	**1,163**	**23,689**	**36,244**

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**6,195**	**4,553**	**10,806**	**21,554**
New assets originated or purchased	**6,564**	**–**	**–**	**6,564**
Assets repaid	**(5,673)**	**(2,889)**	**(8,770)**	**(17,332)**
Transfers to Stage 1	**12,868**	**(12,683)**	**(185)**	**–**
Transfers to Stage 2	**(5,912)**	**6,381**	**(469)**	**–**
Transfers to Stage 3	**(7)**	**(6,332)**	**6,339**	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	**(7,070)**	**13,420**	**18,495**	**24,845**
Unwinding of discount	**–**	**–**	**1,586**	**1,586**
Amounts written off	**–**	**–**	**(7,016)**	**(7,016)**
Foreign exchange adjustments	**20**	**–**	**29**	**49**
As at 31 December 2023	**6,985**	**2,450**	**20,815**	**30,250**

(in thousands of Kyrgyz Som)

13. Loans to customers (continued)

Allowance for ECL on loans to customers (continued)

Credit cards	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**2,695**	**572**	**29,156**	**32,423**
New assets originated or purchased	**5,091**	**–**	**–**	**5,091**
Assets repaid	**(3,794)**	**(2,126)**	**(8,261)**	**(14,181)**
Transfers to Stage 1	**2,605**	**(2,605)**	**–**	**–**
Transfers to Stage 2	**(3,508)**	**4,085**	**(577)**	**–**
Transfers to Stage 3	**–**	**(3,234)**	**3,234**	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	**767**	**4,241**	**12,345**	**17,353**
Unwinding of discount	**–**	**–**	**1,308**	**1,308**
Amounts written off	**–**	**–**	**–**	**–**
Foreign exchange adjustments	**–**	**–**	**–**	**–**
As at 31 December 2023	**3,856**	**933**	**37,205**	**41,994**

An analysis of changes in the gross carrying value in relation to loans to customers during the year ended 31 December 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	10,533,855	1,153,122	1,369,629	13,056,606
New assets originated or purchased	9,603,754	42,076	–	9,645,830
Assets repaid	(7,693,418)	(568,449)	(404,025)	(8,665,892)
Transfers to Stage 1	881,808	(880,981)	(827)	–
Transfers to Stage 2	(1,071,131)	1,683,436	(612,305)	–
Transfers to Stage 3	(1,627)	(1,111,165)	1,112,792	–
Unwinding of discount	–	–	11,139	11,139
Changes to contractual cash flows due to modifications not resulting in derecognition	522	(3,876)	(24,080)	(27,434)
Amounts written off	–	–	(259)	(259)
Foreign exchange adjustments	72,327	3,693	12,322	88,342
As at 31 December 2022	**12,326,090**	**317,856**	**1,464,386**	**14,108,332**

An analysis of changes in the ECL in relation to loans to customers during the year ended 31 December 2022 is as follows:

Loans to corporate customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	53,172	2,600	143,884	199,656
New assets originated or purchased	70,856	–	–	70,856
Assets repaid	(30,203)	(781)	(186)	(31,170)
Transfers to Stage 1	15,012	(15,012)	–	–
Transfers to Stage 2	(18,489)	29,539	(11,050)	–
Transfers to Stage 3	–	(22,463)	22,463	–
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	5,034	6,844	(22,162)	(10,284)
Unwinding of discount	–	–	6,761	6,761
Amounts written off	–	–	–	–
Foreign exchange adjustments	163	41	314	518
As at 31 December 2022	**95,545**	**768**	**140,024**	**236,337**

(in thousands of Kyrgyz Som)

13. Loans to customers (continued)

Allowance for ECL on loans to customers (continued)

Loans to SME	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	10,008	3,418	39,245	52,671
New assets originated or purchased	8,419	–	–	8,419
Assets repaid	(2,343)	(1,321)	(3,294)	(6,958)
Transfers to Stage 1	7,831	(7,831)	–	–
Transfers to Stage 2	(3,260)	5,381	(2,121)	–
Transfers to Stage 3	–	(6,009)	6,009	–
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	5,243	17,809	6,643	29,695
Unwinding of discount	–	–	1,658	1,658
Amounts written off	–	–	–	–
Foreign exchange adjustments	(52)	(23)	(4,608)	(4,683)
As at 31 December 2022	**25,846**	**11,424**	**43,532**	**80,802**

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	9,791	9,851	18,619	38,261
New assets originated or purchased	3,348	–	–	3,348
Assets repaid	(1,203)	(301)	(1,768)	(3,272)
Transfers to Stage 1	16,856	(16,856)	–	–
Transfers to Stage 2	(2,611)	3,517	(906)	–
Transfers to Stage 3	(8)	(3,186)	3,194	–
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(20,651)	8,054	2,772	(9,825)
Unwinding of discount	–	–	516	516
Amounts written off	–	–	(96)	(96)
Foreign exchange adjustments	(8)	(1)	(31)	(40)
As at 31 December 2022	**5,514**	**1,078**	**22,300**	**28,892**

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	8,229	445	13,897	22,571
New assets originated or purchased	4,734	–	–	4,734
Assets repaid	(1,166)	(76)	(5,530)	(6,772)
Transfers to Stage 1	3,799	(3,150)	(649)	–
Transfers to Stage 2	(3,717)	3,904	(187)	–
Transfers to Stage 3	(4)	(1,709)	1,713	–
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(5,675)	5,143	1,658	1,126
Unwinding of discount	–	–	76	76
Amounts written off	–	–	(163)	(163)
Foreign exchange adjustments	(5)	(4)	(9)	(18)
As at 31 December 2022	**6,195**	**4,553**	**10,806**	**21,554**

(in thousands of Kyrgyz Som)

13. Loans to customers (continued)

Allowance for ECL on loans to customers (continued)

Credit cards	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	3,953	871	26,616	31,440
New assets originated or purchased	8,173	39	–	8,212
Assets repaid	(7,559)	(1,028)	(8,800)	(17,387)
Transfers to Stage 1	2,683	(2,596)	(87)	–
Transfers to Stage 2	(5,468)	6,414	(946)	–
Transfers to Stage 3	(7)	(4,356)	4,363	–
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	920	1,228	5,882	8,030
Unwinding of discount	–	–	2,128	2,128
Amounts written off	–	–	–	–
Foreign exchange adjustments	–	–	–	–
As at 31 December 2022	**2,695**	**572**	**29,156**	**32,423**

During 2023 the Bank has performed an analysis of macro economical factors and forward-looking information used for calculation of ECL on loans to customers. Based on the analysis the Bank has reconsidered composition of macro economical factors based on significance of their impact on default probability forecast. More details about the forward-looking information used for ECL assessment as at 31 December 2023 and 2022 are disclosed in *Note 22*.

In 2023 the Bank decided to remove COVID-19 overlay applied as at 31 December 2022, which resulted in a decrease in ECL allowance on loans to customers by KGS 49,799 thousand.

Modified and restructured loans

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes assets that were modified during 2023 and 2022, with the related modification loss suffered by the Bank.

	2023	***2022***
Loans modified during the period		
Amortised cost before modification	**391,050**	1,077,754
Net modification loss	**(2,668)**	(27,434)
Loans modified since initial recognition	**388,382**	1,050,320

Collateral

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

(in thousands of Kyrgyz Som)

13. Loans to customers (continued)

Collateral (continued)

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, motor vehicles, equipment and inventory;
- For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit losses.

Re-appraisal of the collateral takes place once in 12 months or if obvious signs of collateral deterioration exist.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2023 and 2022 would have been higher by:

	2023	***2022***
Loans to corporate customers	**53,202**	38,866
Loans to SME	**54,285**	45,912
Mortgage loans	**24,589**	23,564
Consumer loans	**3,140**	501
Credit cards	**–**	145
	135,216	108,988

Repossessed collateral

During the year ended 31 December 2023, the Bank obtained certain assets by taking possession of collateral for loans to customers with a gross carrying amount of KGS 6,707 thousand (2022: KGS 3,427 thousand) and sold repossessed collateral with a total book value of KGS 63,704 thousand (in 2022: KGS 11,057 thousand).

Concentration of loans to customers

As at 31 December 2023 the Bank had seven borrowers or groups of related borrowers (31 December 2022: three borrowers or groups of related borrowers) whose loan balances individually exceed 10% of the Bank's equity. The total gross carrying value of these loans as at 31 December 2023 amounted to KGS 7,824,420 thousand (31 December 2022: KGS 2,303,275 thousand). As at 31 December 2023 allowance for ECL recognised by the Bank on these loans amounted to KGS 2,192 thousand (31 December 2022: KGS 1,814 thousand).

As at 31 December 2023, the Bank had a concentration of loans represented by KGS 9,079,918 thousand due from the ten largest borrowers or 41.06% of gross loan portfolio (31 December 2022: KGS 4,729,427 thousand or 33.52%). As at 31 Dcember 2023 allowance for impairment of KGS 1,415 thousand (31 December 2022: KGS 128,687 thousand) was recognised by the Bank on these loans.

An analysis of the Bank's credit risk concentration per sector is provided below.

Analysis by sector:	***31 December 2023***	***31 December 2022***
Trade	**8,843,976**	5,841,732
Manufacturing	**4,982,276**	1,676,978
Services	**3,927,051**	3,312,326
Loans to individuals	**2,372,973**	1,948,936
Construction	**1,414,857**	884,418
Other	**574,779**	443,942
Gross loans to customers	**22,115,912**	14,108,332
Allowance for ECL	**(457,018)**	(400,008)
Total loans to customers	**21,658,894**	13,708,324

(in thousands of Kyrgyz Som)

14. Investment securities at amortised cost

	31 December 2023	*31 December 2022*
Notes of the NBKR	**1,128,234**	–
Treasury bonds of the Ministry of Finance of the Kyrgyz Republic	**11,915**	76,442
Allowance for ECL	**(9,160)**	(145)
Total investment securities at amortised cost	**1,130,989**	76,297

As at 31 December 2023 investment securities at amortised cost include notes of the NBKR denominated in KGS with maturity in 2024 and nominal interest rates of 14.8%-15.0% per annum and treasury bonds of the Ministry of Finance of the Kyrgyz Republic denominated in KGS with maturity in 2026 and nominal interest rates of 15.0%-16.0% per annum.

As at 31 December 2023 treasury bonds of the Ministry of Finance of the Kyrgyz Republic with total gross carrying value of KGS 5,600 thousand (31 December 2022: KGS 8,600 thousand) were pledged as collateral on loans received from Russian-Kyrgyz Development Fund (*Note 26*).

As at 31 December 2023 and 2022 all balances of investment securities at amortised cost are allocated to Stage 1 for ECL measurement purposes.

An analysis of changes in the ECL allowance during the year ended 31 December is as follows:

	2023	*2022*
As at 1 January	**145**	1,940
Charge/(reversal) for the year *(Note 6)*	**9,015**	(1,795)
Foreign exchange adjustments	**–**	–
As at 31 December	**9,160**	145

(in thousands of Kyrgyz Som)

15. Property, equipment and intangible assets

	Buildings and constructions	*Computers and office equipment*	*Vehicles*	*Leasehold improvements*	*Construction in progress and equipment for installation*	*Total property and equipment*	*Intangible assets*
Cost							
As at 1 January 2022	129,102	329,864	28,218	60,000	25,385	572,569	274,953
Additions	–	97,369	–	1,608	3,074	102,051	80,744
Disposals and write-offs	–	(68,673)	–	(26,840)	(4,830)	(100,343)	(28,243)
Transfers	5,540	122	–	–	(5,662)	–	–
As at 31 December 2022	134,642	358,682	28,218	34,768	17,967	574,277	327,454
Additions	**–**	**60,790**	**360**	**1,778**	**2,948**	**65,876**	**141,369**
Disposals and write-offs	**–**	**(56,498)**	**(4,056)**	**(10,281)**	**(305)**	**(71,140)**	**(56,724)**
Transfers	**–**	**106**	**–**	**2,889**	**(2,995)**	**–**	**–**
As at 31 December 2023	**134,642**	**363,080**	**24,522**	**29,154**	**17,615**	**569,013**	**412,099**
Accumulated depreciation and amortisation							
As at 1 January 2022	39,137	150,026	10,038	42,108	–	241,309	112,969
Depreciation and amortisation charge	3,006	71,899	5,644	9,489	–	90,038	70,419
Disposals and write-offs	–	(65,878)	–	(26,840)	–	(92,718)	(28,243)
As at 31 December 2022	42,143	156,047	15,682	24,757	–	238,629	155,145
Depreciation and amortisation charge	**3,032**	**79,440**	**5,109**	**6,054**	**–**	**93,635**	**101,732**
Disposals and write-offs	**–**	**(55,957)**	**(4,056)**	**(10,281)**	**–**	**(70,294)**	**(56,686)**
As at 31 December 2023	**45,175**	**179,530**	**16,735**	**20,530**	**–**	**261,970**	**200,191**
Net book value							
As at 31 December 2022	92,499	202,635	12,536	10,011	17,967	335,648	172,309
As at 31 December 2023	**89,467**	**183,550**	**7,787**	**8,624**	**17,615**	**307,043**	**211,908**

There are no capitalised borrowing costs related to the acquisition or construction of property, equipment and intangible assets during 2023 and 2022.

There are no fully amortised property, equipment and intangible assets as at 31 December 2023 and 2022. All fully amortised property, equipment and intangible assets are written off.

Intangible assets are mostly represented by software and licenses.

(in thousands of Kyrgyz Som)

16. Right-of-use assets and lease liabilities

The Bank leases office premises. The lease periods vary from 2 to 10 years, with an option to extend the lease in most of the agreements. For certain leases, the Bank is restricted from entering into any sub-lease arrangements.

Analysis of changes in carrying value of right-of-use assets during the years ended 31 December is as follows:

	2023	*2022*
Cost		
As at 1 January	**432,911**	276,343
Modifications	**16,649**	257,452
Additions	**52,033**	15,083
Expiration	**(55,879)**	(115,967)
As at 31 December	**445,714**	432,911
Amortisation		
As at 1 January	**68,231**	109,023
Depreciation for the year	**89,379**	75,175
Expiration	**(55,879)**	(115,967)
As at 31 December	**101,731**	68,231
Net book value		
As at 31 December	**343,983**	364,680

Analysis of changes in carrying value of lease liabilities during the years ended 31 December is as follows:

	2023	*2022*
Balance at 1 January	**376,364**	170,532
Modifications	**16,649**	257,452
Additions	**52,033**	15,083
Interest accrual	**15,720**	13,774
Lease payments	**(107,552)**	(97,875)
Foreign exchange adjustments	**4,555**	17,398
Balance at 31 December	**357,769**	376,364

For the year ended 31 December 2023 the total cash outflow for leases amounts to KGS 117,877 thousand.

17. Other assets and liabilities

Other assets comprise:

	31 December 2023	*31 December 2022*
Money transfer receivables	**541,005**	450,466
Other receivables	**81,286**	86,164
Allowance for ECL	**(21,687)**	(33,238)
Other financial assets	**600,604**	503,392
Prepayments	**181,755**	71,163
Materials and supplies	**110,277**	81,368
Foreclosed property	**86,915**	124,244
Taxes other than income tax	**6,460**	10,104
Other advances	**3,147**	6,806
Other non-financial assets	**388,554**	293,685
Total other assets	**989,158**	797,077

In 2023 the Bank has recognised reversal of write-down of foreclosed property included in other impairment and provision in the statement of profit or loss and other comprehensive income in amount of KGS 19,668 thousand (2022: recognised expense in amount of KGS 35,683 thousand).

(in thousands of Kyrgyz Som)

17. Other assets and liabilities (continued)

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

	2023	*2022*
As at 1 January	**33,238**	22,490
Net (reversal)/charge for the year *(Note 6)*	**(12,319)**	14,788
Amounts written-off	**(253)**	(4,518)
Foreign exchange adjustments	**1,021**	478
As at 31 December	**21,687**	33,238

Other liabilities comprise:

	31 December 2023	*31 December 2022*
Accrued personnel and other operating expenses	**290,889**	223,389
Allowance for ECL for credit related commitments and guarantees *(Note 23)*	**6,978**	11,182
Subsidies received	**1,956**	4,470
Other financial liabilities	**25,010**	14,703
Total other financial liabilities	**324,833**	253,744
Taxes other than income tax	**33,882**	34,074
Provisions	**30,444**	–
Other non-financial liabilities	**53,575**	19,194
Total other non-financial liabilities	**117,901**	53,268
Total other liabilities	**442,734**	307,012

Other impairment and provisions in the statement of profit or loss and other comprehensive income include KGS 30,444 thousand provision charge recognised in relation to a legal proceeing (*Note 23*).

18. Amounts due to banks

Amounts due to banks comprise:

	31 December 2023	*31 December 2022*
Current accounts of European Bank for Reconstruction and Development	**26,235**	10,790
Current accounts of other banks	**16,147**	45,992
Amounts due to banks	**42,382**	56,782

19. Amounts due to customers

	31 December 2023	*31 December 2022*
Amounts due to corporate customers		
- Current accounts and demand deposits	**18,516,221**	19,234,970
- Term deposits	**476,698**	1,832,749
	18,992,919	21,067,719
Amounts due to retail customers		
- Current accounts and demand deposits	**15,644,090**	15,038,764
- Term deposits	**8,576,906**	5,365,109
	24,220,996	20,403,873
Total amounts due to customers	**43,213,915**	41,471,592
Held as security against loans	**138,458**	65,571
Held as security against guarantees and letters of credit *(Note 23)*	**345,730**	225,692

At 31 December 2023, amounts due to customers of KGS 4,882,016 thousand or 11.30% from total amounts due to customers were due to the ten largest customers (31 December 2022: KGS 7,272,125 thousand or 17.54%).

(in thousands of Kyrgyz Som)

19. Amounts due to customers (continued)

In accordance with the Civil Code of the Kyrgyz Republic, the Bank is obliged to repay time deposits to retail customers upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Starting from 13 February 2009, the Bank is a participant of the mandatory system of protection of bank deposits. This system operates on the basis of the legislation of the Kyrgyz Republic, and its management is carried out by the state organisation "Agency on the Protection of Deposits of the Kyrgyz Republic". The deposit protection system is aimed at protecting depositors of banks (individuals and individual entrepreneurs carrying out individual entrepreneurial activities without the formation of a legal entity) upon the occurrence of a guarantee event (failure to pay a deposit due enforcement of a final court decision on forced liquidation or bankruptcy of a bank, and if the procedure for voluntary liquidation initiated in accordance with the legislation of the Kyrgyz Republic has been transferred to the procedure of compulsory liquidation on the grounds provided by the Law of the Kyrgyz Republic On the Conservation, Liquidation and Bankruptcy of Banks in accordance with the final court decision that came into force) by providing compensation in the amount of up to 1,000 thousand som for each individual.

An analysis of the Bank's risk concentration per sector is provided below.

	31 December 2023	*31 December 2022*
Analysis by sector:		
Services	**5,230,221**	5,038,934
Trade	**4,607,432**	6,974,128
Construction	**3,013,996**	3,488,151
Manufacturing	**1,611,331**	1,237,851
Transport and communication	**1,049,519**	952,185
Public funds and charity organisations	**866,760**	198,398
Geology and mining	**627,982**	1,069,756
Exterritorial organisations	**444,030**	348,694
Tourism	**252,617**	61,707
Agriculture	**234,052**	86,390
State organisations	**94,700**	83,133
Electricity, gas and water supply	**85,859**	117,587
Culture and art	**53,021**	22,218
Other	**821,399**	1,388,587
Amounts due to corporate customers	**18,992,919**	21,067,719

20. Other borrowed funds

Counterparty	*Currency*	*Interest rate*	*Maturity date*	*31 December 2023*	*31 December 2022*
Aiyl Bank OJSC	EUR, USD	2.00% - 4.80%	2024	**1,948,246**	–
International Finance Corporation	KGS	10.45%	2027	**727,861**	394,823
European Bank for Reconstruction and Development	KGS	6.55%-16.00%	2024-2026	**248,511**	279,034
Ministry of Finance of the Kyrgyz Republic with KfW	KGS	4.25%-4.75%	2025	**30,577**	52,438
State Mortgage Company	KGS	2.00%-6.00%	2027-2030	**10,303**	14,594
Russian-Kyrgyz Development Fund	USD	1.00%	2024	**7,934**	19,075
Total other borrowed funds				**2,973,432**	759,964

(in thousands of Kyrgyz Som)

20. Other borrowed funds (continued)

Aiyl Bank OJSC

On 29 December 2023 the Bank has received funds from Aiyl Bank OJSC denominated in USD at interest rate of 4.8% per annum and denominated in EUR at interest rate of 2.0% per annum with maturity not exceeding 11 days.

International Finance Corporation

The Bank has received funds from International Finance Corporation for financing of small and medium enterprises and private entrepreneurs in working capital increase and investment projects. The Bank issued loans to borrowers, eligible to participate in the program, at 17-23% per annum in KGS with maturity not exceeding 5 years.

European Bank for Reconstruction and Development

The Bank has received funds from the European Bank for Reconstruction and Development under Energy efficiency program (KyrSEFF), which the Bank has joined in 2013. Purpose of the program is financing of corporate, small and medium enterprises, and also retail customers for energy and water efficiency in various sectors: industry, construction, trade and energy efficiency improvements of residential property. The Bank issued loans to borrowers, eligible to participate in the program with interest rates of 13%-22% per annum in KGS and of 10%-12% per annum in USD on loans to legal entities and 14%-21% per annum in KGS on loans to retail customers, with maturity not exceeding 8 years.

Ministry of Finance of Kyrgyz Republic

The Bank has received funds from the Ministry of Finance of Kyrgyz Republic jointly with KfW under the government program *"Agro business and Marketing"* on special purpose financing of the agricultural sector. The Bank issues loans to agricultural sector borrowers, eligible to participate in the program, denominated in KGS at 11%-16% per annum with maturity not exceeding 5 years.

State Mortgage Company OJSC

The Bank has received funds from State Mortgage Company OJSC under the government program *"Affordable Housing 2015 to 2021 years"* on special purpose financing of mortgage products. The Bank issues loans to borrowers, eligible to participate in the program, denominated in KGS at 6%-8% per annum, with maturity not exceeding 10 years.

Russian-Kyrgyz Development Fund

The Bank has received funds from the Russian-Kyrgyz Development Fund for special purpose financing of small and medium enterprises, development of leasing operations and agricultural sector. The Bank issued loans to borrowers, eligible to participate in the program, denominated in USD at 5.0%-8.5% per annum with maturity not exceeding 5 years.

Financial covenants

The Bank has to comply with financial covenants in relation to loans from financial institutions.

As at 31 December 2023, the Bank was not in compliance with the financial covenants related to capital adequacy leverage and the liquidity ratio under the loan agreement with Russian-Kyrgyz Development Fund. The Bank received waivers from the creditor subsequent to the reporting date.

As at 31 December 2023, the Bank was not in compliance with the financial covenants under the loan agreement with International Finance Corporation, related to cross-default.

As at 31 December 2022, the Bank was not in compliance with the financial covenants under loan agreements with International Finance Corporation, related to foreign exchange risk ratios calculated based on financial statements prepared in accordance with IFRS. The Bank has agreed to amend the ratios with the creditor in July, 2023.

Reconciliation of movements of liabilities to cash flows arising from financing activities for 2023 and 2022 is as follows:

	2023	***2022***
As at 1 January	**759,964**	532,447
Proceeds from other borrowed funds	**2,526,147**	528,503
Repayment of other borrowed funds	**(319,766)**	(304,767)
Net change in accrued interest	**9,872**	4,409
Foreign exchange adjustments	**(2,785)**	(628)
As at 31 December	**2,973,432**	759,964

(in thousands of Kyrgyz Som)

21. Equity

Issued capital and share premium

As at 31 December 2023 and 2022 he number of authorised and issued ordinary shares were 2,000,000 shares with a nominal value of KGS 1,000 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of shareholders of the Bank.

Dividends

The NBKR sets for the Bank individual requirement of capital buffer at the level of not less than 29% as at 31 December 2023 (31 December 2022: not less than 25%). The Bank's capital buffer as at 31 December 2023 was 20.29% (31 December 2022: 18.57%). According to NBKR Instruction "*On establishment of capital adequacy standards for commercial banks of the Kyrgyz Republic*" approved by the Resolution No. № 2022-П-12/63-1-(НПА) dated 12 October 2022 of the Management Board of the NBKR (last revised on 14 December 2022), banks are not allowed to make decision on dividends distribution, if the capital buffer, calculated by deducting dividends planned for payment, is below the capital buffer limit established by the NBKR. There are no other restrictions and prescriptions for non-compliance with the capital buffer requirement.

During 2023 and 2022 no dividends were declared or paid to the shareholders.

Earnings per share

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary shareholders and weighted average number of ordinary shares outstanding and is as follows:

	31 December 2023	***31 December 2022***
Net profit attributable to ordinary shareholders	**2,479,046**	2,221,083
Weighted average number of ordinary shares	**2,000,000**	2,000,000
Earnings per share, in KGS	**1,240**	1,111

There were no potentially dilutive shares for the years ended 31 December 2023 and 2022.

22. Risk management

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

Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the 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.

Board of Directors

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

Risk Management Committee

In order to assist the Board of Directors of the Bank in determining the priority directions of the Bank's activities in the area of banking risk and to assist in creating conditions for proper risk management, the Bank established a Risk Management Committee (hereinafter – "CRC"). Members of the CRC are members of the Board of Directors.

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Risk management policies and procedures (continued)

Management Board

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Board of Directors.

Asset and Liability Management Committee

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

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Overall authority for market risk management is vested in the ALCO, which is chaired by the General Manager. Market risk limits are approved by the Board of Directors based on recommendations of the Risk Management Department and ALCO.

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2023.

Currency	***Increase in basis points 2023***	***Sensitivity of net interest income 2023***
USD	100	16,875

As at 31 December 2022 the Bank did not have financial instruments with floating interest rates.

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency. Positions are monitored on a daily basis.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2023:

	KGS	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	**10,176,054**	**9,456,963**	**3,263,034**	**1,164,696**	**24,060,747**
Amounts due from credit institutions	**45,418**	**6,689,953**	**–**	**–**	**6,735,371**
Loans to customers	**11,115,007**	**10,449,377**	**94,510**	**–**	**21,658,894**
Investment securities at amortised cost	**1,130,989**	**–**	**–**	**–**	**1,130,989**
Other financial assets	**285,481**	**191,788**	**123,315**	**20**	**600,604**
Total assets	**22,752,949**	**26,788,081**	**3,480,859**	**1,164,716**	**54,186,605**
Liabilities					
Amounts due to banks	**12,057**	**20,589**	**9,736**	**–**	**42,382**
Amounts due to customers	**14,730,486**	**24,468,920**	**2,897,014**	**1,117,495**	**43,213,915**
Other borrowed funds	**1,017,252**	**1,433,869**	**522,311**	**–**	**2,973,432**
Lease liabilities	**79,119**	**278,650**	**–**	**–**	**357,769**
Other financial liabilities	**252,683**	**61,421**	**10,699**	**30**	**324,833**
Total liabilities	**16,091,597**	**26,263,449**	**3,439,760**	**1,117,525**	**46,912,331**
Net position as at 31 December 2023	**6,661,352**	**524,632**	**41,099**	**47,191**	**7,274,274**

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

	KGS	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	11,412,240	13,768,531	3,329,578	765,537	29,275,886
Amounts due from credit institutions	19,052	4,114,300	–	–	4,133,352
Loans to customers	8,245,685	5,276,129	186,467	43	13,708,324
Investment securities at amortised cost	76,297	–	–	–	76,297
Other financial assets	261,577	204,809	33,465	3,541	503,392
Total assets	**20,014,851**	**23,363,769**	**3,549,510**	**769,121**	**47,697,251**
Liabilities					
Amounts due to banks	2,242	48,556	5,984	–	56,782
Amounts due to customers	14,875,511	22,370,266	3,476,005	749,810	41,471,592
Other borrowed funds	690,726	69,238	–	–	759,964
Lease liabilities	110,512	265,852	–	–	376,364
Other financial liabilities	189,449	44,687	19,568	40	253,744
Total liabilities	**15,868,440**	**22,798,599**	**3,501,557**	**749,850**	**42,918,446**
Net position as at 31 December 2022	**4,146,411**	**565,170**	**47,953**	**19,271**	**4,778,805**

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The tables below indicate the currencies to which the Bank had significant exposure as at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kyrgyz Som, with all other variables held constant on profit or loss. The effect on equity does not differ from the effect on profit or loss. A negative amount in the table reflects a potential net reduction in profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate, in %* 2023	*Effect on profit before tax* 2023	*Change in currency rate, in %* 2022	*Effect on profit before tax* 2022
US Dollar	**+16.07**	**84,308**	+19.22	108,626
	-16.07	**(84,308)**	-19.22	(108,626)
Euro	**+18.44**	**7,579**	+21.19	10,161
	-18.44	**(7,579)**	-21.19	(10,161)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts.

Credit-related commitments risks

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

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Credit risk (continued)

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

The Bank considers a borrower to be in default when:

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

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Credit risk (continued)

Definition of default and cure (continued)

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

- Qualitative – e.g. breaches of covenant, liquidation, withdrawal or suspension of a license, catastrophic events, as a result of which the activities of the counterparty were suspended, event of cross-default on other obligations of the counterparty;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; financial institutions rated D and RD at the reporting date; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

The following criteria are used to move borrowers from Stage 3 to Stage 2:

- 6 months of regular payments according to the restructured payment schedule;
- Improvement of financial condition of the borrower;
- Absence of past due days and impairment indicators.

The following criteria are used to move borrowers from Stage 2 to Stage 1:

- 6 months of regular payments according to the restructured payment schedule;
- Improvement of financial condition of the borrower;
- Absence of past due days and indicators of significant increase in credit risk.

PD estimation process

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating.

International external rating agency (Fitch and S&P) rating	***International external rating agency (Moody's) rating***	***Internal rating description***	***PD***
AAA	Aaa		0.00%
AA- to AA+	Aa3 to Aa1		0.00% – 0.04%
A- to A+	A3 to A1	High rating	0.06% - 0.09%
BBB- to BBB+	Baa3 to Baa1		0.10% - 0.29%
BB- to BB+	Ba3 to Ba1		0.42% - 0.93%
B- to B+	B3 to B1	Standard rating	1.22% - 3.53%
C to CC	Ca	Sub standard	36.46%
D	C	Impaired	100%

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Credit risk (continued)

PD estimation process (continued)

Corporate and SME lending

In the case of commercial lending, the borrowers are assessed by the Bank's Corporate Lending Department. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Maximum number of overdue days for the assessed period.
- Historical financial information together with forecasts and budgets prepared by the borrower. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the borrower's financial performance. Some of these indicators are captured in covenants with the borrowers and are, therefore, measured with greater attention.
- Any other objectively supportable information on the quality and abilities of the borrower's management relevant for the borrower's performance.

Retail lending

Retail lending comprises retail loans, consumer loans, mortage and credit cards. These products along with mortgage loans and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

The Bank estimates LGD indicators on the basis of information on the ratios of return of funds with respect to claims against counterparties that have defaulted on their obligations. LGD valuation models take into account the structure, type of collateral, seniority of the claim, the industry in which the counterparty operates, and the cost of recovering any collateral that is an integral part of a financial asset. For loans secured by real estate of individuals, the ratio between the loan amount and the value of collateral (LTV ratio) is the main parameter for determining the amount of loss in case of default. LGD indicators are calculated based on discounted cash flows using the effective interest rate as a discount factor.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD levels are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

22. Risk management (continued)

Credit risk (continued)

Significant increase in credit risk (continued)

The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. The Bank uses following criteria for determining whether there has been a significant increase in credit risk:

- Significant deterioration of the financial condition of the borrower;
- Significant deterioration of the competitive position of the borrower in its industry;
- Significant delays in realization of investments projects (construction or other sector) of more than 6 month which resulted in deterioration of financial performance of the borrower;
- Significant decrease in the value of the financial instruments in the active market from the date of initial recognition of the instrument;
- Involvement of the borrower in litigation for the amount of the claim exceeding 20% of its assets;
- Decrease in the market value of collateral by more than 50%, external or internal factors that may lead to a complete or partial loss of collateral;
- Systematic breach of prudential standards set by the regulator;
- Implementation of the direct banking supervision procedure by the NBKR in regard to the borrower;
- Violation of the law, problems with government bodies;
- Refusal to provide financial statements for a period of more than 6 months;
- Avoidance of contacts with the Bank;
- Contractual payments are more than 30 days past due.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- Top 20 borrowers by gross exposure, regardless of the current impairment stage;
- Individually significant asset (gross carrying value exceeds 20% of total equity of the Bank);
- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and investment securities at amortised cost);
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's corporate and small business lending;
- Mortgage and consumer loans.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example overdue bucket, product type, or borrower's industry.

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Credit risk (continued)

Forward-looking information and multiple economic scenarios

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. The Bank obtains the forward-looking information from third party sources (the National Statistic Committee, the Ministry of Economy of the Kyrgyz Republic, private sector and academic forecasters). Experts of the Bank determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

The table below shows the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations as at 31 December 2023 and 2022.

31 December 2023	***Scenario***	***Probability, %***	***2024***	***2025***
USD/KGS exchange rate				
	Upside	6%	84.36	87.22
	Base case	68%	92.27	95.13
	Downside	26%	100.17	103.04
Consumer price index, %				
	Upside	14%	104.02	101.42
	Base case	66%	109.50	106.90
	Downside	20%	114.98	112.38
Unemployment rate, %				
	Upside	23%	2.51	2.46
	Base case	61%	2.82	2.77
	Downside	16%	3.13	3.08

31 December 2022	***Scenario***	***Probability, %***	***2023***	***2024***
Transfer transactions, USD million				
	Upside	20%	3,508	3,628
	Base case	63%	2,980	3,100
	Downside	17%	2,452	2,572
Consumer price index, %				
	Upside	17%	102.15	100.25
	Base case	68%	107.50	105.60
	Downside	15%	112.85	110.95
External turnover, USD million				
	Upside	10%	9,572	9,972
	Base case	78%	9,250	9,650
	Downside	12%	8,928	9,328
Unemployment rate, %				
	Upside	26%	2.66	2.66
	Base case	63%	2.98	2.98
	Downside	11%	3.31	3.31
USD/KGS exchange rate				
	Upside	6%	86.81	90.16
	Base case	71%	93.75	97.09
	Downside	23%	100.68	104.03

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Credit risk (continued)

Geographical concentration

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	Kyrgyz Republic	Other CIS countries	Other non-OECD countries	OECD countries	Total 31 December 2023
Assets					
Cash and cash equivalents	**13,787,524**	**1,532,250**	**853,369**	**7,887,604**	**24,060,747**
Amounts due from credit institutions	**134,967**	**–**	**1,328,958**	**5,271,446**	**6,735,371**
Loans to customers	**21,314,603**	**221,109**	**77,313**	**45,869**	**21,658,894**
Investment securities at amortised cost	**1,130,989**	**–**	**–**	**–**	**1,130,989**
Other financial assets	**194,445**	**19,661**	**–**	**386,498**	**600,604**
Total assets	**36,562,528**	**1,773,020**	**2,259,640**	**13,591,417**	**54,186,605**
Liabilities					
Amounts due to banks	**16,086**	**61**	**–**	**26,235**	**42,382**
Amounts due to customers	**36,652,816**	**4,161,998**	**1,124,812**	**1,274,289**	**43,213,915**
Other borrowed funds	**1,989,126**	**7,934**	**–**	**976,372**	**2,973,432**
Lease liabilities	**357,769**	**–**	**–**	**–**	**357,769**
Other financial liabilities	**275,511**	**6,236**	**–**	**43,086**	**324,833**
Total liabilities	**39,291,308**	**4,176,229**	**1,124,812**	**2,319,982**	**46,912,331**
Net position	**(2,728,780)**	**(2,403,209)**	**1,134,828**	**11,271,435**	**7,274,274**

	Kyrgyz Republic	*Other CIS countries*	*Other non-OECD countries*	*OECD countries*	*Total 31 December 2022*
Assets					
Cash and cash equivalents	15,217,413	1,357,230	857,350	11,843,893	29,275,886
Amounts due from credit institutions	19,052	–	1,168,504	2,945,796	4,133,352
Loans to customers	13,476,906	27,403	56,151	147,864	13,708,324
Investment securities at amortised cost	76,297	–	–	–	76,297
Other financial assets	306,920	–	–	196,472	503,392
Total assets	**29,096,588**	**1,384,633**	**2,082,005**	**15,134,025**	**47,697,251**
Liabilities					
Amounts due to banks	45,758	234	–	10,790	56,782
Amounts due to customers	39,624,047	862,865	606,142	378,538	41,471,592
Other borrowed funds	67,032	19,075	–	673,857	759,964
Lease liabilities	376,364	–	–	–	376,364
Other financial liabilities	246,461	5,998	–	1,285	253,744
Total liabilities	**40,359,662**	**888,172**	**606,142**	**1,064,470**	**42,918,446**
Net position	**(11,263,074)**	**496,461**	**1,475,863**	**14,069,555**	**4,778,805**

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Investment and Treasury Policy is a part of the Risk Management Policy, which is reviewed and approved by the Board of Directors.

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Liquidity risk (continued)

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other financial institutions, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation to maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- Maintaining liquidity and funding contingency plans;
- Monitoring liquidity ratios against regulatory requirements.

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

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

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2023:

As at 31 December 2023	**On demand and less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**	**Total**
Amounts due to banks	**42,382**	**–**	**–**	**–**	**–**	**–**	**42,382**
Amounts due to customers	**34,814,977**	**1,092,928**	**5,759,236**	**2,081,124**	**9,409**	**507**	**43,758,181**
Other borrowed funds	**2,723,500**	**374**	**94,987**	**193,611**	**3,335**	**585**	**3,016,392**
Lease liabilities	**13,159**	**9,676**	**70,468**	**156,801**	**95,650**	**44,606**	**390,360**
Other financial liabilities	**80,284**	**510**	**228,505**	**835**	**14,699**	**–**	**324,833**
Total financial liabilities	**37,674,302**	**1,103,488**	**6,153,196**	**2,432,371**	**123,093**	**45,698**	**47,532,148**

The maturity analysis for commitments and contingencies as at 31 December 2023 is as follows:

As at 31 December 2023	**On demand and less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**	**Total**
Credit related commitments	**9,019,147**	**–**	**–**	**–**	**–**	**–**	**9,019,147**
Performance guarantees	**862,205**	**–**	**–**	**–**	**–**	**–**	**862,205**
	9,881,352	**–**	**–**	**–**	**–**	**–**	**9,881,352**

(in thousands of Kyrgyz Som)

22. Risk management (continued)

Liquidity risk (continued)

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2022:

As at 31 December 2022	**On demand and less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**	**Total**
Amounts due to banks	56,782	–	–	–	–	–	56,782
Amounts due to customers	35,877,088	1,017,978	3,728,910	1,203,006	2,914	1,237	41,831,133
Other borrowed funds	827,258	419	21,731	56,707	5,350	2,441	913,906
Lease liabilities	12,140	10,184	70,581	159,016	93,842	67,360	413,123
Other financial liabilities	75,164	960	170,084	253	7,283	–	253,744
Total financial liabilities	**36,848,432**	**1,029,541**	**3,991,306**	**1,418,982**	**109,389**	**71,038**	**43,468,688**

The maturity analysis for commitments and contingencies as at 31 December 2022 is as follows:

As at 31 December 2022	**On demand and less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**	**Total**
Credit related commitments	6,248,289	–	–	–	–	–	6,248,289
Performance guarantees	330,463	–	–	–	–	–	330,463
	6,578,752	**–**	**–**	**–**	**–**	**–**	**6,578,752**

In accordance with Kyrgyz legislation, individual depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Bank expects that not all of the credit related commitments will be drawn before expiry of the commitments.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Compliance risk

Compliance risk encompasses regulatory and legal compliance risk. Compliance risk is the risk that the Bank incurs financial or reputational risk through imposition of penalties or fines as a result of not adhering to applicable laws, rules and regulations and good market practice (including ethical standards). The Bank's compliance function proactively seeks to enhance compliance risk management and the supporting control framework. The Bank operates in a market where there is a significant level of regulatory change activity, therefore, compliance risk is a key area of focus for Management. The compliance function monitors this risk through reference to metrics relevant to the Bank, review of incident reports and assessment, risk and control assessments pertaining to the first and second lines of defence functions, results of regulatory assessments, and review of results of internal and external audit reports.

(in thousands of Kyrgyz Som)

23. Commitments and contingencies

Operating environment

Kyrgyzstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Emerging markets such as Kyrgyz Republic are subject to different risks than more developed markets, including economic, political, social and legal risks. Laws and regulations affecting businesses in the Kyrgyz Republic continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Kyrgyz Republic is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Insurance

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

Legal

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

In 2019, the Bank won a lawsuit and claimed pledged property from a problem borrower. However, the borrower sold the pledged property to a third party before the court's decision. In June 2020, a third party, who purchased the pledged property, filed a lawsuit against the Bank in the amount of KGS 78,727 thousand for compensation of material and moral damage caused by restrictions imposed by the Bank against the property. As at 31 December 2023, the legal process with the third party related to this matter was completed in favor of the third party. According to the rulling of 5 December 2023, the Bank shall repay material and moral damage in the amount of KGS 30,444 thousand. The lawyers and management of the Bank believes that the plaintiff has no legal ground to claim any compensation from the Bank and plans to file a countersuit to wave this rulling.

The Bank's management has recognised a provision with respect to this matter in the financial statements (*Note 17*).

Taxation

The taxation system in Kyrgyzstan 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, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years. However, under certain circumstances a tax year may remain open till six calendar years.

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

As at 31 December 2023 the Bank's management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Pensions and retirement plans

In accordance with the laws and regulations of the Kyrgyz Republic, employees have rights for state pension provisions. As at 31 December 2023 and 2022, the Bank is not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

(in thousands of Kyrgyz Som)

23. Commitments and contingencies (continued)

Credit related commitments and contingencies

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

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

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

The contractual amounts of credit related commitments are set out in the following table. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced.

	31 December 2023	*31 December 2022*
Credit related commitments		
Undrawn loan commitments	**8,253,615**	5,792,362
Guarantees	**765,532**	455,927
	9,019,147	6,248,289
Performance guarantees	**862,205**	330,463
Commitments and contingencies	**9,881,352**	6,578,752
ECL allowance for credit related commitments *(Note 17)*	**6,033**	11,182
ECL on performance guarantees (*Note 17)*	**945**	–
Deposits held as security against guarantees and letters of credit *(Note 19)*	**345,730**	225,692

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan commitments do not represent an unconditional credit related commitment by the Bank.

An analysis of changes in the allowance for ECL during the year ended 31 December 2023 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**10,639**	**543**	**–**	**11,182**
New exposures	**3,144**	**–**	**–**	**3,144**
Amounts paid or expired	**(2,065)**	**(150)**	**–**	**(2,215)**
Transfers to Stage 1	**130**	**(130)**	**–**	**–**
Transfers to Stage 2	**(3,487)**	**3,487**	**–**	**–**
Transfers to Stage 3	**–**	**–**	**–**	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	**(1,920)**	**(3,225)**	**–**	**(5,145)**
Foreign exchange adjustments	**12**	**–**	**–**	**12**
As at 31 December 2023	**6,453**	**525**	**–**	**6,978**

An analysis of changes in the allowance for ECL during the year ended 31 December 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	20,603	910	–	21,513
New exposures	1,208	–	–	1,208
Amounts paid or expired	(1,369)	(145)	–	(1,514)
Transfers to Stage 1	332	(332)	–	–
Transfers to Stage 2	(321)	321	–	–
Transfers to Stage 3	–	(427)	427	–
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	(9,830)	216	(427)	(10,041)
Foreign exchange adjustments	16	–	–	16
As at 31 December 2022	10,639	543	–	11,182

(in thousands of Kyrgyz Som)

24. Related party transactions

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

During the years ended 31 December 2023 and 2022 the Bank had transactions with Management and entities under common control: Demir Halk Bank (the Netherlands), C-Bilisim (Turkey), HCBG Holding B.V. (the Netherlands), C-Technology LLC (Kyrgyz Republic) and C-Real Estate LLC (Kyrgyz Republic).

The outstanding balances of transactions with related parties are as follows:

	31 December 2023			*31 December 2022*		
	Shareholders	*Entities under common control*	*Key management personnel*	*Shareholders*	*Entities under common control*	*Key management personnel*
Loans to customers:						
Gross exposure of loans to customers	**–**	**236,885**	**2,838**	–	235,687	9,374
Allowance for ECL on loans to customers	**–**	**(510)**	**(25)**	–	(641)	(57)
Right of use assets	**–**	**138,746**	**–**	–	157,438	–
Other assets	**–**	**34,381**	**–**	–	22,271	–
Amounts due to customers	**715**	**50,608**	**68,270**	665	606	49,069
Lease liabilities	**–**	**151,106**	**–**	–	163,271	–
Other liabilities	**–**	**1,456**	**–**	–	1,962	–

During the year ended 31 December 2023 the Bank has purchased intangible assets in amount of KGS 86,382 thousand (2022: KGS 40,133 thousand) from an entity under common control.

Terms and conditions of transactions with related parties are as follows:

	31 December 2023			*31 December 2022*		
	Shareholders	*Entities under common control*	*Key management personnel*	*Shareholders*	*Entities under common control*	*Key management personnel*
Loans to customers	**–**	**7%-30%**	**30%**	–	7%-30%	12%-30%
Other assets	**–**	**–**	**–**	–	–	–
Amounts due to customers	**–**	**2%-7%**	**2.0%-12.5%**	–	–	1%-13%
Other liabilities	**–**	**–**	**–**	–	–	–

The income and expense arising from related party transactions are as follows:

	31 December 2023			*31 December 2022*		
	Shareholders	*Entities under common control*	*Key management personnel*	*Shareholders*	*Entities under common control*	*Key management personnel*
Interest income calculated using effective interest rate	**–**	**16,320**	**583**	–	11,346	1,341
Interest expense	**–**	**(4,425)**	**(1,751)**	–	(1,299)	(122)
Reversal of credit losses/(credit loss expense)	**–**	**131**	**32**	–	(11,641)	28
Fee and commission income	**–**	**308**	**–**	–	135	–
Other impairment and provisions	**–**	**(421)**	**–**	–	1,596	–
Other operating expenses	**(4,430)**	**(78,580)**	**–**	(4,047)	(53,016)	–

(in thousands of Kyrgyz Som)

24. Related party transactions (continued)

Compensation of key management personnel was comprised of the following:

	2023	*2022*
Salaries and other short-term benefits, including social security costs	**186,746**	183,965

25. Fair value measurements

Fair value hierarchy

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

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

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

	Date of	*Fair value measurement using*			
As at 31 December 2023	***valuation***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2023	**5,551,020**	**18,509,727**	**–**	**24,060,747**
Amounts due from credit institutions	31 December 2023	**–**	**6,735,371**	**–**	**6,735,371**
Loans to customers	31 December 2023	**–**	**–**	**21,752,793**	**21,752,793**
Investment securities at amortised cost	31 December 2023	**–**	**1,129,039**	**–**	**1,129,039**
Other financial assets	31 December 2023	**–**	**–**	**600,604**	**600,604**
Liabilities for which fair values are disclosed					
Amounts due to banks	31 December 2023	**–**	**42,382**	**–**	**42,382**
Amounts due to customers	31 December 2023	**–**	**43,248,470**	**–**	**43,248,470**
Other borrowed funds	31 December 2023	**–**	**2,936,831**	**–**	**2,936,831**
Lease liabilities	31 December 2023	**–**	**–**	**357,769**	**357,769**
Other financial liabilities	31 December 2023	**–**	**–**	**324,833**	**324,833**

	Date of	*Fair value measurement using*			
As at 31 December 2022	***valuation***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2022	6,335,304	22,940,582	–	29,275,886
Amounts due from credit institutions	31 December 2022	–	4,133,352	–	4,133,352
Loans to customers	31 December 2022	–	–	13,811,392	13,811,392
Investment securities at amortised cost	31 December 2022	–	74,347	–	74,347
Other financial assets	31 December 2022	–	–	503,392	503,392
Liabilities for which fair values are disclosed					
Amounts due to banks	31 December 2022	–	56,782	–	56,782
Amounts due to customers	31 December 2022	–	41,473,675	–	41,473,675
Other borrowed funds	31 December 2022	–	689,653	–	689,653
Lease liabilities	31 December 2022	–	–	376,364	376,364
Other financial liabilities	31 December 2022	–	–	253,744	253,744

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

(in thousands of Kyrgyz Som)

25. Fair value measurements (continued)

Fair value hierarchy

	As at 31 December 2023			As at 31 December 2022		
	Carrying value	*Fair value*	*Unrecog-nised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecog-nised gain/(loss)*
Financial assets						
Cash and cash equivalents	**24,060,747**	**24,060,747**	**–**	29,275,886	29,275,886	–
Amounts due from credit institutions	**6,735,371**	**6,735,371**	**–**	4,133,352	4,133,352	–
Loans to customers	**21,658,894**	**21,752,793**	**93,899**	13,708,324	13,811,392	103,068
Investment securities at amortised cost	**1,130,989**	**1,129,039**	**(1,950)**	76,297	74,347	(1,950)
Other financial assets	**600,604**	**600,604**	**–**	503,392	503,392	–
Financial liabilities						
Amounts due to banks	**42,382**	**42,382**	**–**	56,782	56,782	–
Amounts due to customers	**43,213,915**	**43,248,470**	**(34,555)**	41,471,592	41,473,675	(2,083)
Other borrowed funds	**2,973,432**	**2,936,831**	**36,601**	759,964	689,653	70,311
Lease liabilities	**357,769**	**357,769**	**–**	376,364	376,364	–
Other financial liabilities	**324,833**	**324,833**	**–**	253,744	253,744	–
Total unrecognised change in fair value			**93,995**			169,346

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortised cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions, amounts due to banks, other borrowed funds and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

During the year ended 31 December 2023 and 2022, there were no transfers between levels of the fair value hierarchy.

26. Assets pledged as collateral

The table below provides a summary of assets pledged by the Bank.

	Carrying value of liabilities (Note 20)	*Loans to customers (Note 13)*	*Investment securities at amortised cost (Note 14)*	*Net*
As at 31 December 2023				
Other borrowed funds:				
Russian-Kyrgyz Development Fund	**(7,934)**	**5,121**	**5,600**	**2,787**
As at 31 December 2022				
Other borrowed funds:				
Russian-Kyrgyz Development Fund	(19,075)	13,816	8,600	3,341

(in thousands of Kyrgyz Som)

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 22 "Risk management"* for the Bank's contractual undiscounted repayment obligations.

	31 December 2023			*31 December 2022*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Assets						
Cash and cash equivalents	**24,060,747**	**–**	**24,060,747**	29,275,886	–	29,275,886
Amounts due from credit institutions	**6,445,812**	**289,559**	**6,735,371**	3,891,035	242,317	4,133,352
Loans to customers	**7,853,775**	**13,805,119**	**21,658,894**	4,863,076	8,845,248	13,708,324
Investment securities at amortised cost	**1,119,365**	**11,624**	**1,130,989**	76,297	–	76,297
Property and equipment	**–**	**307,043**	**307,043**	–	335,648	335,648
Intangible assets	**–**	**211,908**	**211,908**	–	172,309	172,309
Right-of-use assets	**–**	**343,983**	**343,983**	–	364,680	364,680
Other assets	**899,855**	**89,303**	**989,158**	672,833	124,244	797,077
Total assets	**40,379,554**	**15,058,539**	**55,438,093**	38,779,127	10,084,446	48,863,573
Liabilities						
Amounts due to banks	**42,382**	**–**	**42,382**	56,782	–	56,782
Amounts due to customers	**41,427,371**	**1,786,544**	**43,213,915**	40,465,351	1,006,241	41,471,592
Other borrowed funds	**2,692,902**	**280,530**	**2,973,432**	698,535	61,429	759,964
Current income tax liabilities	**71,743**	**–**	**71,743**	41,772	–	41,772
Deferred income tax liabilities	**–**	**35,530**	**35,530**	–	28,545	28,545
Lease liabilities	**80,911**	**276,858**	**357,769**	79,535	296,829	376,364
Other liabilities	**427,200**	**15,534**	**442,734**	299,476	7,536	307,012
Total liabilities	**44,742,509**	**2,394,996**	**47,137,505**	41,641,451	1,400,580	43,042,031
Net	**(4,362,955)**	**12,663,543**	**8,300,588**	(2,862,324)	8,683,866	5,821,542

As at 31 December 2023 and 2022 liabilities exceeded assets by KGS 4,362,955 thousand and by KGS 2,862,324 thousand, respectively, in "within one year" bucket. Negative liquidity gap is mainly attributable to amounts due to customers and other borrowed funds. Despite the available early withdrawal option and the fact that substantial portion of customer accounts are on demand, the management of the Bank believes that customers accounts provide a long-term and stable source of funding due to diversified portfolio of customers.

The management of the Bank expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms. The Bank performs regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions. Based on the results of the stress testing the management estimates that the Bank has sufficient liquidity to cover negative current liquidity gap, without incurring unacceptable losses or damage to the Banks's reputation.

28. Capital management

The NBKR sets and monitors capital requirements for the Bank.

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

- Total capital adequacy ratio (K2.1) – not less than 12.5%: The ratio is defined as the ratio of net total equity to the amount of risk-weighted assets and contingent liabilities less special provisions to cover potential losses and general reserves plus 8.33 ratio multiply by amount of capital reserved to cover operational risks.
- Tier 1 capital adequacy ratio (K2.2) – not less than 7.5%: The ratio is defined as the ratio of tier 1 capital to the amount of risk-weighted assets and contingent liabilities less special provisions to cover potential losses and general reserves not included in the tier 2 capital (i.e. exceeding 1.25% of the amount of risk-weighted assets and contingent liabilities).
- Tier 1 basic capital adequacy ratio (K2.3) – not less than 6%. The ratio is defined as the ratio of tier 1 basic capital to the amount of risk-weighted assets and contingent liabilities less special provisions to cover potential losses.
- Leverage (K2.4) – not less than 6%. The ratio is defined as the ratio of tier 1 capital to total assets of the Bank plus off-balance liabilities considering credit conversion factor. Total assets of the Bank represent the total assets on the balance sheet of the periodic regulatory bank report less intangible assets and special provisions.

The Bank was in compliance with the statutory capital ratios as at 31 December 2023 and 2022.

(in thousands of Kyrgyz Som)

28. Capital management (continued)

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

	31 December 2023	***31 December 2022***
Tier 1 capital	**5,258,497**	3,243,257
Tier 2 capital	**2,798,631**	2,255,756
Less: investments	**–**	–
Net total equity	**8,057,128**	5,499,013
Total risk-weighted assets and contingent liabilities less provision for losses for K 2.1	**39,702,133**	29,609,797
Total assets and contingent liabilities less provision for losses for K2.4	**61,531,662**	48,012,885
Capital to cover operational risk	**523,249**	368,867
Capital adequacy ratio K 2.1	**18%**	17%
Capital adequacy ratio K 2.2	**13%**	11%
Capital adequacy ratio K 2.3	**13%**	11%
Leverage K 2.4	**9%**	11%