КЫРГЫЗ БАНКЫ

ANNUAL REPORT 2019

Bishkek-2020

Annual Report of the National Bank of the Kyrgyz Republic for 2019

The report of the National Bank of the Kyrgyz Republic for the year of 2019 is prepared in accordance with Articles 54 and 55 of the Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" No.206 of December 16, 2016.

The annual report of the National Bank for 2019 is approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No. *2020-П-10/15-1-(ВД) of March 24, 2020.*

The consolidated financial statements of the National Bank for the year ended on December 31, 2019 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No. *2020-П-15/21-2-(ВД) of April 9, 2020*.

The separate financial statements of the National Bank for the year ended on December 31, 2019 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No. *2020-П-15/21-3-(ВД) of April 9, 2020*.

On issues related to the contents and distribution of this publication, please contact: Chui Avenue, 168, Bishkek, 720010, National Bank of the Kyrgyz Republic, Financial Statistics and Review Department, Publications Group.

Phone: (996 312) 61 08 59
Fax: (996 312) 61 09 92
E-mail: nsyrdybaeva@nbkr.kg
веб-сайт: www.nbkr.kg

Deviations in last digits may occur because of rounding numbers when summing up.

Prepared for publication by M-MAXIMA LLC, Tynystanov Street, 197/1, Bishkek

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of the National Bank of the Kyrgyz Republic ("the National Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with financial reporting principles disclosed in Note 2 of the consolidated financial statements.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of the National Bank for the year 2019, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless going concern assumption is not applicable.

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

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

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

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

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

Kanyshai Sadyrbekova

Managing Director
LLC Deloitte & Touche

Qualified Auditor of the Kyrgyz Republic
Qualification certificate №0151, Series A
dated 1 June 2012

Nurlan Bekenov

Engagement Partner

9 April 2020
Bishkek, the Kyrgyz Republic

Consolidated statement of financial position as at 31 december 2019

(in thousands of Soms)

	Notes	31 December 2019	31 December 2018
ASSETS			
Gold	6	48 833 361	32 151 881
Cash on hand, due from banks and other financial institutions	7	87 275 244	84 648 482
Loans to banks and international organisations	8	7 039 925	9 136 922
Loans to customers	9	4 691 714	2 377 037
Financial assets at fair value through profit or loss	19	-	1 254
Investments at fair value through other comprehensive income	10	33 977 002	33 843 622
Investments at amortised cost	11	125 052	186 424
Investments in associates	12	885 297	185 136
Property and equipment	13	2 103 242	2 600 505
Right-of-use assets	14	278 081	-
Intangible assets		338 028	314 849
Non-current assets held for sale	15	832 781	957 679
Non-monetary gold and gold reserves	16	6 728 933	322 367
Deferred tax assets	33	-	18 608
Prepaid income tax		93	2 057
Other assets	17	1 076 247	1 123 215
Total assets		**194 185 000**	**167 870 038**
LIABILITIES			
Banknotes and coins in circulation	18	106 058 051	93 502 438
Financial liabilities at fair value through profit or loss	19	12 480	13 322
Due to banks and other financial institutions	20	21 886 229	18 728 886
Due to the Government of the Kyrgyz Republic	21	17 033 154	12 468 565
Customer accounts	22	3 621 044	2 950 284
Debt securities issued	23	8 048 501	7 942 309
Loans received	24	-	171 922
Liabilities to the IMF in respect of SDR allocations	25	8 146 676	8 222 162
Lease liabilities	14	299 335	-
Deferred tax liability	33	8 037	-
Other liabilities	26	291 461	495 083
Total liabilities		**165 404 968**	**144 494 971**
EQUITY			
Charter capital	27	2 000 000	2 000 000
Obligatory reserve		7 476 561	7 266 168
Revaluation reserve for foreign currency and gold		17 151 905	11 838 087
Revaluation reserve for investments at fair value through other comprehensive income		3 553	9 375
Retained earnings		1 984 421	2 240 420
Total capital attributable to shareholders of the bank		**28 616 440**	**23 354 050**
Non-controlling interest		163 592	21 017
Total equity		**28 780 032**	**23 375 067**
Total liabilities and equity		**194 185 000**	**167 870 038**

Abdygulov T.S.
Chairman of the National Bank

9 April 2020

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

Consolidated statement of profit or loss for the year ended 31 december 2019

(in thousands of Soms)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Interest income	28	3 313 451	2 603 484
Interest expense	28	(798 531)	(556 319)
Net interest income	28	**2 514 920**	**2 047 165**
Commission income		144 289	88 239
Commission expense		(36 412)	(16 448)
Net commission income		**107 877**	**71 791**
(Impairment losses)/ recovery of impairment on interest bearing assets	29	(426 913)	55 213
Net realised gain on foreign currencies and gold operations	30	1 466 988	1 600 253
Net gain/(loss) from transactions with financial instruments measured at fair value through profit or loss		15 834	(4 699)
Net loss from derecognition of investments at fair value through other comprehensive income		(3 194)	-
Recovery of provision/(provision) for other assets and contingent liabilities	29	267 477	(199 786)
Share of profits of associates		140 100	-
Other income		171 054	142 907
Net non-interest income		**1 631 346**	**1 593 888**
Operating income		**4 254 143**	**3 712 844**
Expenses on production of banknotes and coins, issued into circulation		(359 241)	(232 173)
Administrative expenses	31	(1 576 763)	(1 160 856)
Other expenses		(266 617)	(105 269)
Operating expenses		**(2 202 621)**	**(1 498 298)**
Profit before income tax		**2 051 522**	**2 214 546**
Income tax (expense)/benefit	33	(59 800)	11 163
Profit for the year		**1 991 722**	**2 225 709**
Loss attributable to non-controlling interest		(91 432)	(28 282)
Profit attributable to the National Bank		**2 083 154**	**2 253 991**

Abdygulov T.S.
Chairman of the National Bank

9 April 2020

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

CONTENT

Consolidated statement of other comprehensive income for the year ended 31 december 2019

(in thousands of Soms)

	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year	**1 991 722**	**2 225 709**
Items that may be reclassified subsequently to statement of profit or loss		
Revaluation reserve for foreign currency and gold:		
- net gain/(loss) on revaluation of assets and liabilities in foreign currency and gold	6 734 772	(985 120)
- net gain on foreign currency and gold transferred to profit or loss	(1 420 954)	(1 461 161)
Net (loss)/gain on fair value of investments at fair value through other comprehensive income including impairment during the period (net of income tax – nil Som)	(10 226)	17 402
Less: cumulative loss on investments at fair value through other comprehensive income reclassified to profit or loss on disposal (net of income tax – nil Som)	3 194	-
Other comprehensive income/(loss) for the year	**5 306 786**	**(2 428 879)**
Total comprehensive income/(loss) for the year	**7 298 508**	**(203 170)**
Related to:		
- National Bank	7 391 150	(176 490)
- share of non-controlling shareholders	(92 642)	(26 680)
	7 298 508	**(203 170)**

Abdygulov T.S.
Chairman of the National Bank

9 April 2020

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

Consolidated statement of cash flows for the year ended 31 december 2019

(in thousands of Soms)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		2 977 067	2 617 426
Interest paid		(749 442)	(476 402)
Fee and commission received		144 289	88 239
Fee and commission paid		(36 412)	(16 448)
Realised gain on foreign exchange operations		37 222	97 235
Other income		127 994	95 915
Payroll expenses		(743 801)	(608 781)
Expenses on production of banknotes and coins, issued into circulation		(238 284)	(165 022)
Administrative expenses, excluding payroll expenses		(509 416)	(343 945)
Cash flows from operating activities before changes in operating assets and liabilities		**1 009 217**	**1 288 217**
(Increase)/decrease in operating assets			
Gold		(9 872 254)	(11 843 852)
Due from banks and other financial institutions		4 414 878	(7 670 577)
Investments at fair value through other comprehensive income		(92 026)	8 957 762
Loans to banks and international organisations		2 086 447	(2 826 510)
Loans to customers		(2 166 997)	141 598
Financial assets at fair value through profit or loss		-	648
Non-current assets held for sale		167 305	-
Non-monetary gold and gold reserves		(6 406 298)	125 716
Other assets		(124 337)	(41 449)
Increase/(decrease) in operating liabilities			
Banknotes and coins in circulation		12 555 613	2 461 868
Financial liabilities measured at fair value through profit or loss		18 368	(1 178)
Due to banks and other financial institutions		3 176 780	(1 994 560)
Due to the Government of the Kyrgyz Republic		2 718 311	1 116 630
Customer accounts		662 857	(419 313)
Debt securities issued		137 523	2 704 363
Other liabilities		84 601	(47 242)
Cash inflow/(outflow) from operating activities		**8 369 988**	**(8 047 879)**
Income tax paid		(31 191)	-
Net cash inflow/(outflow) from operating activities		**8 338 797**	**(8 047 879)**

Consolidated statement of cash flows (continued) for the year ended 31 december 2019

(in thousands of Soms)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of shares in associate organisation	12	(560 061)	-
Cash received as a result of obtaining control in subsidiary		-	32 743
Purchase of property, equipment and intangible assets		(406 039)	(186 196)
Proceeds on disposal of property and equipment		388	2 401
Proceeds on redemption of investments at amortised cost		64 352	64 352
Interest received on investments at amortised cost		9 652	12 870
Dividends received		8 555	8 807
Net cash used in investing activities		**(883 153)**	**(65 023)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans received	24	(160 155)	(742 956)
Repayment of lease liabilities	14	(55 780)	-
Net cash used in financing activities		**(215 935)**	**(742 956)**
Net increase/(decrease) in cash and cash equivalents		**7 239 709**	**(8 855 858)**
Effect of changes in exchange rates on cash and cash equivalents		(169 961)	(619 686)
Cash and cash equivalents as at the beginning of the year		**45 006 401**	**54 481 945**
Cash and cash equivalents as at the end of the year	**7**	**52 076 149**	**45 006 401**

Abdygulov T.S.
Chairman of the National Bank

9 April 2020

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

Consolidated statement of changes in equity for the year ended 31 december 2019

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments at fair value through other comprehensive income	Retained earnings	Total capital attributable to shareholders of the bank	Non-controlling interest	Total
Balance as at 1 January 2018	**2 000 000**	**7 036 083**	**14 284 368**	**(6 425)**	**2 300 849**	**25 614 875**	**-**	**25 614 875**
Impact of adopting IFRS 9	-	-	-	-	(13 571)	(13 571)	-	(13 571)
Restated opening balance in accordance with IFRS 9	**2 000 000**	**7 036 083**	**14 284 368**	**(6 425)**	**2 287 278**	**25 601 304**	**-**	**25 601 304**
Total comprehensive financial result								
Profit for the year	-	-	-	-	2 253 991	2 253 991	(28 282)	2 225 709
Other comprehensive financial result								
Net gain on investments at fair value through other comprehensive income	-	-	-	15 800	-	15 800	1 602	17 402
Loss on revaluation of assets and liabilities in foreign currencies and gold	-	-	(985 120)	-	-	(985 120)	-	(985 120)
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 461 161)	-	-	(1 461 161)	-	(1 461 161)
Total comprehensive financial result for the year	**-**	**-**	**(2 446 281)**	**15 800**	**2 253 991**	**(176 490)**	**(26 680)**	**(203 170)**
Transactions recorded directly in equity								
Distribution of prior year profit to the state budget (Note 27)	-	-	-	-	(2 070 764)	(2 070 764)	-	(2 070 764)
Transfer to obligatory reserve (Note 27)	-	230 085	-	-	(230 085)	-	-	-
Total amounts of transactions recorded directly to equity	**-**	**230 085**	**-**	**-**	**(2 300 849)**	**(2 070 764)**	**-**	**(2 070 764)**
Obtaining control of the subsidiary OJSC Keremet Bank	-	-	-	-	-	-	47 697	47 697
Balance as at 31 December 2018	**2 000 000**	**7 266 168**	**11 838 087**	**9 375**	**2 240 420**	**23 354 050**	**21 017**	**23 375 067**

Consolidated statement of changes in equity (continued) for the year ended 31 december 2019

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments at fair value through other comprehensive income	Retained earnings	Total capital attributable to shareholders of the bank	Non-controlling interest	Total
Balance as at 1 January 2019	**2 000 000**	**7 266 168**	**11 838 087**	**9 375**	**2 240 420**	**23 354 050**	**21 017**	**23 375 067**
Profit for the year	-	-	-	-	2 083 154	2 083 154	(91 432)	1 991 722
Other comprehensive financial result								
Net loss on investments at fair value through other comprehensive income	-	-	-	(5 822)	-	(5 822)	(1 210)	(7 032)
Gain on revaluation of assets and liabilities in foreign currencies and gold	-	-	6 734 772	-	-	6 734 772	-	6 734 772
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 420 954)	-	-	(1 420 954)	-	(1 420 954)
Total comprehensive financial result for the year	**-**	**-**	**5 313 818**	**(5 822)**	**2 083 154**	**7 391 150**	**(92 642)**	**7 298 508**
Transactions recorded directly in equity								
Distribution of prior year profit to the state budget (Note 27)	-	-	-	-	(1 893 543)	(1 893 543)	-	(1 893 543)
Transfer to obligatory reserve (Note 27)	-	210 393	-	-	(210 393)	-	-	-
Total amounts of transactions recorded directly to equity	**-**	**210 393**	**-**	**-**	**(2 103 936)**	**(1 893 543)**	**-**	**(1 893 543)**
Adjustment arising from change in non-controlling interest in the subsidiary OJSC Keremet Bank	-	-	-	-	(235 217)	(235 217)	235 217	-
Balance as at 31 December 2019	**2 000 000**	**7 476 561**	**17 151 905**	**3 553**	**1 984 421**	**28 616 440**	**163 592**	**28 780 032**

Abdygulov T.S.
Chairman of the National Bank

9 April 2020

Bishkek,

Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,

Kyrgyz Republic

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of Soms)

1 GENERAL INFORMATION

(a) Organisation and operations

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

The principal objective of the National Bank is to achieve and maintain price stability in the Kyrgyz Republic. To attain this goal, the National Bank performs the following functions: formulate and execute monetary policy for the country; foster well-functioning and effective payment system and interbank transfers; issue and supply banknotes and coins for circulation in economy; maintain and manage international reserves; control and regulate the activities of commercial banks, and license banks and certain financial institutions pursuant to the legislation. It also acts as a fiscal agent of the Government of the Kyrgyz Republic.

The address of the National Bank's registered office is 168 Chuy Avenue, Bishkek, Kyrgyz Republic, 720001.

As at 31 December 2019 and 2018, the National Bank has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2019 and 2018, the total number of the National Bank's employees is 679 and 657, respectively.

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

Title	Percentage of voting shares (%) 31 December 2019	31 December 2018	Type of activity
OJSC Keremet Bank (2018: OJSC Russian Investment Bank)	95,07	71,66	Banking services
CJSC Kyrgyz Cash Collection	100	100	Transportation of valuables

On 2 October 2018, the National Bank obtained shares of OJSC Russian Investment Bank as a result of Compensation Agreement with its shareholders and became the owner of 71,66% of shares of OJSC Russian Investment Bank.

On 27 September 2019, OJSC Russian Investment Bank has underwent re-registration in the Ministry of Justice of the Kyrgyz Republic, changing the name of OJSC Russian Investment Bank to OJSC Keremet Bank.

1 GENERAL INFORMATION (CONTINUED)

(a) Organisation and operations (continued)

On 18 January 2019 and 24 May 2019, the National Bank increased its share in the authorised capital of OJSC Keremet Bank within the framework of recovery of OJSC Keremet Bank. As a result of the fifth issue of ordinary registered shares of subsidiary bank in the amount of KGS 716 575 thousand (including cash paid in 2018 for the amount of KGS 500 000 thousand) and the sixth issue in the amount of KGS 3 000 000 thousand, the share of the National Bank equaled to 85,21% and 95,07%, respectively.

On 17 June 2019, the Decree of the Government of the Kyrgyz Republic No. 222-p was signed to increase the authorised capital of the OJSC Guarantee Fund in order with the aim of ensuring its further effective operation by issuing additional ordinary shares in the amount of KGS 550 000 thousand and offering the National Bank to purchase the additional issue of shares. On 12 July 2019, the National Bank made the decision on participation in the capital of OJSC Guarantee Fund. Pursuant to this decision, the National Bank purchased shares of the additional 4th issue of OJSC Guarantee Fund for an amount of KGS 550 000 thousand. Following the acquisition of these shares, the National Bank's share in the charter capital of OJSC Guarantee Fund was 48,59%.

As at 31 December 2019 and 2018, the National Bank also has an investment in associated organisation CJSC Interbank Processing Center (49,42% and 48,07%, respectively).

The financial statements of CJSC Kyrgyz Cash Collection are not consolidated in the financial statements of the National Bank as the impact on the consolidated statements of the National Bank is insignificant.

These consolidated financial statements were approved by the Management Board of the National Bank on 9 April 2020.

(b) Business environment

The Kyrgyz Republic is undergoing significant political, economic and social changes. As an emergency market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result, operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. Kyrgyz Republic's high degree of integration with the economies of the countries in the region determines the exposure of the Kyrgyz Republic's economy to the influence of unstable situation in international capital markets, a sharp drop in energy prices in March 2020 and a slowdown in economic growth in the main trading partner countries.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant negative impact on global economy and global financial markets. The significance of the effect of COVID-19 on the National Bank’s business largely depends on the duration and the incidence of the pandemic effects on the world economy and the economy of the Kyrgyz Republic.

These consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the National Bank’s consolidated financial statements in the period when or if they become known and estimable.

CONTENT

2 MAIN FINANCIAL REPORTING PRINCIPLES

(a) Statement of compliance with IFRS with certain exceptions

In accordance with the Law of the Kyrgyz Republic “On National Bank of the Kyrgyz Republic, Banks and Banking Activity” the National Bank determines policies and methods of accounting for itself based on International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) with the principal modifications as described below.

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

These consolidated financial statements have been prepared for the purpose of a fair presentation of the consolidated financial position of the National Bank and the results of its activities in accordance with the accounting policies of the National Bank approved by the Board of the National Bank on 10 December 2003, with all amendments, the last of which were submitted on 19 December 2018 and which the National Bank regards as the relevant nature of the activities of the central bank.

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

(b) Basis of measurement

These consolidated financial statements have been prepared in accordance with the cost principle, with the exception of gold and certain financial instruments measured at fair value.

(c) Functional and presentation currency

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

In these consolidated financial statements for the year ended 31 December 2019, the same accounting policies, presentation and calculation methods were used as in the preparation of the National Bank's financial statements for the year ended 31 December 2018, except for the accounting policies and the impact of the application of the following new and revised standards and interpretations:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to other IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle
IFRIC 23	Uncertainty over Income Tax Treatments

New and amended IFRS Standards that are effective for the current year

IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended IFRS Standards that are effective for the current year (continued)

The date of initial application of IFRS 16 for the Group is 1 January 2019.

The Group has chosen the model of modified retrospective application of IFRS 16 in accordance with IFRS 16. Accordingly, no restatement of comparative figures has been made.

Impact of the new definition of a lease. The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control.

IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019.

Impact on lease accounting

Operating leases: IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17.

Applying IFRS 16, the Group:

a) Recognised right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows

For short-term leases (up to 12 months) and leases of low value assets (less than USD 5 thousand) the Group recognises lease expenses on a straight-line basis as permitted by IFRS 16. These expenses are presented within "administrative expenses" in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended IFRS Standards that are effective for the current year (continued)

The application of IFRS 16 to leases previously classified as operating leases in accordance with IAS 17 resulted in the recognition of right-of-use assets of KGS 257 125 thousand and lease liabilities of KGS 257 125 thousand as at 1 January 2019 (Note 14). The impact on profit or loss for the year ended 31 December 2019 is a decrease in operating expenses by KGS 55 780 thousand, an increase in depreciation by KGS 55 551 thousand and an increase in interest expenses by KGS 22 388 thousand.

In accordance with IFRS 16, lessees are required to present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include interest paid as part of financing activities, and cash payments for the principal portion for a lease liability, as part of financing activities;
- Under IAS 17, all payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has decreased by KGS 55 780 thousand, and net cash used in financing activities has increased by the same amount. The adoption of IFRS 16 did not have an impact on net cash flows.

Amendments to IFRS 9 Prepayment features with negative compensation. The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the ‘solely payments of principal and interest’ (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Application of amendments to IFRS 9 did not have a significant impact on the consolidated financial statements of the Group.

Amendments to IAS 28 Long-term interests in Associates and Joint Ventures. The Group has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. Besides, in applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Application of amendments to IAS 28 did not significantly affect the consolidated financial statements of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended IFRS Standards that are effective for the current year (continued)

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs. The Group has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes. The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations. The amendments clarify that when the Group obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements. The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Group does not remeasure its PHI in the joint operation.

The application of the Annual Improvements to IFRS Standards 2015-2017, did not have a significant impact on the consolidated financial statements of the Group.

IFRIC 23 Uncertainty over Income Tax Treatment. IFRIC 23 sets out how to determine the accounting for tax positions when there is uncertainty over income tax treatments. The adoption of the amendments to IFRIC 23 did not have a significant impact on the consolidated financial statements of the Group.

(a) Accounting of gold

(i) Gold

Gold comprises gold on deposits with foreign banks and gold bullions with a Good Delivery status. Gold is an investment asset formed to execute monetary policy and generate investment income.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Accounting of gold, continued

(i) Gold, continued

Gold in the consolidated financial statements is measured at market price. Market price is determined by reference to the London Bullion Market Association Gold Price PM at the day preceding the reporting date. Gain on revaluation of gold is recognised in other comprehensive income in equity. Loss arising from revaluation is presented in the statement of profit or loss in the amount exceeding any accumulated gains previously recognised within comprehensive income in equity. Realised gain and loss on gold is subsequently recognised in the consolidated statement of profit or loss.

(ii) Non-monetary gold and gold reserves

Non-monetary gold is represented by bullions that are not in compliagold pnce with standards of the London Bullion Market Association.

Gold reserves are bullions that are in compliance with standards of the London Bullion Market Association.

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

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates prevailing on the dates of the transactions. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Gains on foreign currency differences arising on retranslation are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in the statement of profit or loss in the amount exceeding previously accumulated gains in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Realised gains and losses on foreign currencies are recorded in the consolidated statement of profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency transactions, continued

Exchange rates

The exchange rates used by the Group in the preparation of the consolidated financial statements as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
- Som/US Dollar	69,6439	69,8500
- Som/Euro	77,9803	80,0446
- Som/Special drawing rights	96,0159	96,8578
- Som/Canadian Dollar	53,1977	51,3226
- Som/Australian Dollar	48,4952	49,2512
- Som/Great British Pound Sterling	91,0661	88,3742
- Som/Chinese Renminbi	9,9591	10,1489
- Som/Norwegian Krone	7,8510	7,9915
- Som/troy ounce of gold	105 493,0975	89 338,1500

(c) Cash and cash equivalents

For the purposes of determining cash flows, cash and cash equivalents include cash on hand in foreign currencies and unrestricted balances (nostro accounts) held with other banks.

Cash on hand in national currency is recorded as a decrease in the amount of banknotes and coins in circulation.

(d) Basis of consolidation

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

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Basis of consolidation, continued

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

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

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

(e) Business Combinations

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

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

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Business Combinations, continued

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

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

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

(f) Financial assets

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

(i) Classification and measurement of financial assets

All recognised financial assets included in the scope of application IFRS 9, after initial recognition, should be measured at amortised cost or at fair value in accordance with the business model of the Group for management of financial assets and characteristics of the contractual cash flows.

In particular:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

(i) Classification and measurement of financial assets, continued

At initial recognition of financial asset, the Group shall be entitled to make an irrevocable selection/ classification in each individual case. In particular:

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

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

Financial assets measured at amortised cost include the following assets:

- Gold in deposits with foreign banks (Note 6);
- Term deposits in foreign banks, term deposits in international financial institutions and cash on hand in foreign currency (Note 7);
- Loans to banks and international organisations (Note 8);
- Loans to customers (Note 9);
- Securities of the Government of the Kyrgyz Republic, including Treasury bills of the Ministry of Finance of the Kyrgyz Republic (Note 11); and
- Accounts receivable (Note 17).

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

(i) Classification and measurement of financial assets, continued

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

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

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

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

<u>Financial assets at fair value through profit or loss</u>. All other debt instruments (e.g., debt instruments managed on a fair value basis, or held for sale) and equity investments, after initial recognition, are measured at fair value through profit or loss.

The fair value of financial assets of FVTPL is determined in accordance with IFRS 13 "Fair value measurement" ("IFRS 13").

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

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

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

In the course of its business, the Group enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”). Repos and reverse repos are utilised by the Group as an element of liquidity management.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

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

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

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

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

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

Financial assets at fair value through profit or loss are derivative financial instruments and include interest rate swaps, currency interest rate swaps and credit default swaps. Derivative financial instruments are initially recognised at fair value at the date of recognition of the instrument, and then re-measured at fair value at each reporting date. The resulting gains/losses are recognised in profit or loss at the date of re-measurement.

Derivative financial instruments with a positive fair value are recognised as a financial asset, while derivative financial instruments with a negative fair value are recognised as a financial liability.

(iv) Measurement of expected credit losses for assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

- Gold in deposits with foreign banks (Note 6);
- Due from banks and other financial institutions (Note 7);
- Loans to banks and international organisations (Note 8);
- Loans to customers (Note 9);
- Investments at fair value through other comprehensive income (Note 10);
- Investments at amortised cost (Note 11);
- Other financial assets (Note 17); and
- Financial guarantees issued (Note 32).

No impairment loss is recognised on equity instruments.

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

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

An impairment allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

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

Following formula is used to calculate ECL:

ECL = EAD * LGD * PD, where

ECL – expected credit loss;

EAD – exposure at default;

LGD – loss given default;

PD – probability of default.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

When evaluating a significant increase in the credit risk of a financial instrument since its initial recognition, the Group compares the risk of default on an instrument at the reporting date based on the remaining maturity with the default risk projected at the specified reporting date for the remaining maturity at initial recognition financial instrument. When conducting such an assessment, the Group takes into account sound and verifiable quantitative and qualitative information, including historical data and forecast information, which can be obtained without undue costs or effort based on the experience and expert assessments of the Group, including forecast data.

Credit impaired financial assets. A financial asset is considered credit-impaired if one or more events occur that adversely affect the estimated future cash flows of such a financial asset. In relation to credit impaired financial assets, the term "Stage 3 assets" is used.

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

Estimation of expected credit losses for gold in deposits with foreign banks, cash on hand, due from banks and other financial institutions and investments at fair value through other comprehensive income

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

Impairment indicators of gold in deposits with foreign banks and cash on hand, due from banks and other financial institutions are:

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

Calculation of expected credit losses on gold deposits with foreign banks, cash on hand, banks and other financial institutions and investments at fair value through other comprehensive income.

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

EAD for term deposits in foreign banks, term deposits in international financial institutions and investments in government (sovereign), municipal and agency debt obligations, as well as debt obligations of international financial institutions is equal to the discounted value of contractual cash flows on assets (principal and interest), converted to soms at the official exchange rate of the National Bank as at the reporting date.

Losses given default are the share of difference between cash flows, which are due to the National Bank in accordance with the contract, and cash flows, which National Bank expects to receive in case of default of the counterparty. LGD vary from nil to 100% and are calculated based on market prices for non-default instruments using the following formula:

LGD =100% - RR, where

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

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

CONTENT

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

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

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

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

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

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

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

As PD of securities of the Government of the Kyrgyz Republic, weighted cumulative default rates are used, corresponding to the sovereign rating of the Kyrgyz Republic, the type of the government security of the Kyrgyz Republic and the period to its expiration.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

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

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

Calculation of expected credit losses on loans to banks and international organisations

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

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

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

EAD – exposure at default;

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

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

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

Estimation of expected credit losses for loans to customers

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

Approach to identifying significant increase in credit risk. Indicators of significant increase in credit risk for loans to customers are:

- Delay in fulfillment of obligations for 30 days or more;
- At least one case of a delay of more than 60 days in the last 6 months, despite the number of overdue days less than 30 on the reporting date;
- Restructured loan with less than 30 days overdue and more than 1 year but less than 3 years since the restructuring date;
- At the reporting date, the balance is not classified as defaulted, but the debt has been at least once in Stage 3 during the last 12 months.

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

- the borrower has a significant credit obligation to the Group that is more than 90 days overdue;
- the Group believes that it is unlikely that the borrower will repay its loan obligations in full without selling collateral, regardless of whether there is any overdue amount or number of days overdue;
- restructured loan with the number of days overdue less than 90 days and less than 1 year has passed since restructuring.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

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

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

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

Financial guarantee contracts.

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

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

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

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

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

Loan commitments at a below market rate.

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

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

CONTENT

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

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

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

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

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

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

(vi) Modification and derecognition of financial assets

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets, continued

(vi) Modification and derecognition of financial assets, continued

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

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

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

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

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

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

(g) Impairment of non-financial assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investments in subsidiaries and associates

Investments in subsidiaries are carried at cost less impairment losses.

At each reporting date, the Group tests the carrying amount of the investment for impairment, and such expenses are recorded as other expenses in the statement of profit or loss.

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

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

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

(i) Property and equipment

(i) Owned assets

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

(ii) Depreciation

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

- Buildings	70 to 75 years
- Constructions	15 to 20 years
- Furniture and equipment	5 to 10 years
- Computer equipment	5 to 10 years
- Motor vehicles	5 to 7 years

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets

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

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

Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

(k) Non-current assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

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

(l) Financial liabilities

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial liabilities, continued

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

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

(m) Banknotes and coins in circulation

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

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

(n) Charter capital and reserves

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Taxation

In accordance with legislation of the Kyrgyz Republic, the National Bank is exempt from income tax. All other compulsory payments to the budget, which are assessed on the National Bank's activities, are accrued and paid in accordance with the Tax Code of the Kyrgyz Republic. Taxes that the National Bank pays as a tax agent and which are not recoverable are included as a component of administrative expenses in the consolidated statement of profit or loss.

Subsidiaries and associates are payers for all types of taxes.

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

Deferred tax assets and deferred tax liabilities are recognised in respect of the temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax assets and deferred tax liabilities are not recognised in respect of the following temporary differences: differences arising from recognition of goodwill in the consolidated financial statements and that do not reduce the taxable base, and initial of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax assets and deferred tax liabilities are not recognised for taxable temporary differences associated with investments in subsidiaries when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recorded to the extent that it is probable that taxable income will be received in the future, sufficient to cover temporary differences, expenses that have not been deducted and unused tax benefits. The amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the asset to be recovered.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income and expense recognition in the financial statements

Other fees and other income and expenses are recognised in profit or loss on the date the service is provided.

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

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

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

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

(q) Fiduciary assets

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

(r) Offsetting

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

Income and expenses are not presented on a net basis in consolidated statement of profit or loss except for cases when permitted under IFRS.

CONTENT

4 ADOPTION OF NEW AND REVISED STANDARDS

(a) While preparing the consolidated financial statements the Group adopted all new and revised IFRSs applicable to its operations and effective for annual periods beginning from 1 January 2019.

(b) New and revised standards in issue but not yet effective

New and revised standards, amendments, and interpretations that are not yet effective as at 31 December 2019 have not been applied when preparing the given financial statements.

- IFRS 17	Insurance contracts
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or joint Venture
- Amendments to IFRS 3	Definition of business
- Amendments to IAS 1 and IAS 8	Definition of materiality
- Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

The management does not expect that the application of the Standards specified above will have a significant impact on the consolidated financial statements of the Group in subsequent periods.

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES

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

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

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

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

Significant increase of credit risk. As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL (for Stage 1 assets) or lifetime ECL (for Stage 2 or Stage 3 assets). An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

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

Lease

The Group used the weighted average discount rates of 9.24% for contracts in USD and 21.03% for contracts in KGS to calculate leases in accordance with IFRS 16 for obligations in local and foreign currencies. This rate was calculated on the basis of statistics of the National Bank of the Kyrgyz Republic on loans issued by maturity. Management believes that this rate corresponds to the weighted average rate of borrowed funds.

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

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

Sources of uncertainty in the estimates

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

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

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

Fair value measurement. In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available (Note 37), the Group uses valuation models to determine the fair value of its financial instruments.

6 GOLD

	31 December 2019	31 December 2018
Gold		
Gold in deposits with foreign banks and bullions	48 833 361	32 151 881
	48 833 361	**32 151 881**

Gold is placed in deposits in foreign banks and gold bullions that meet the standards of London Bullion Market Association.

Concentration of gold in accounts with foreign banks

As at 31 December 2019 and 2018 the National Bank placed gold in deposits with foreign banks with credit ratings of AA- and A +.

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

	31 December 2019	31 December 2018
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	28 395 023	23 790 991
- rated from A- to AA +	7 199 117	6 598 511
- rated from B- to BBB+	1 253 141	818 432
- not rated	2 222	4 735
Total nostro accounts with foreign banks included in cash equivalents	**36 849 503**	**31 212 669**
Impairment allowance	(5 782)	(5 547)
	36 843 721	**31 207 122**
Nostro accounts not included in cash equivalents	-	25
Impairment allowance	-	(25)
Total nostro accounts with foreign banks	**36 843 721**	**31 207 122**
Term deposits with foreign banks		
- rated from AA- to AA+	16 739 443	21 583 658
- rated from A- to A+	15 069 521	15 537 795
- rated from B- to BBB+	2 159	2 165
- not rated	255 424	269 932
Total term deposits with foreign banks	**32 066 547**	**37 393 550**
Impairment allowance	(257 336)	(272 625)
	31 809 211	**37 120 925**
Account at the International Monetary Fund (IMF)	10 261 522	9 551 340
Accounts with the Bank for International Settlements (BIS)		
- Nostro accounts with BIS	3 442 789	2 765 800
- Term deposit with BIS	3 395 668	2 526 706
Total accounts in the BIS and the IMF	**17 099 979**	**14 843 846**
Impairment allowance	(2)	(3)
	17 099 977	**14 843 843**
Cash on hand in foreign currencies	1 522 335	1 476 592
	87 275 244	**84 648 482**

As at 31 December 2019 and 2018 the National Bank created an allowance for an impaired term deposit with the foreign bank with no credit rating in the amount of KGS 255 424 thousand and KGS 269 932 thousand, respectively.

Concentration of due from banks and other financial institutions

As at 31 December 2019 the National Bank has balances with eight banks and other financial institutions rated from AAA to A- (2018: ten banks and other financial institutions rated from AAA to AA-) whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2019 is KGS 72 277 926 thousand (2018: KGS 74 674 626 thousand).

Movement in the impairment allowance is disclosed in Note 29.

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

Cash and cash equivalents

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

	31 December 2019	31 December 2018
Nostro accounts with international banks included in cash equivalents	36 849 503	31 212 669
Account with the IMF	10 261 522	9 551 340
Nostro account with the BIS	3 442 789	2 765 800
Cash on hand in foreign currencies	1 522 335	1 476 592
Cash and cash equivalents in the statement of cash flows	**52 076 149**	**45 006 401**

None of cash and cash equivalents are past due.

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS

	31 December 2019	31 December 2018
Loans to resident commercial banks	4 617 810	7 014 181
Loans to international organisations	2 550 682	2 250 704
	7 168 492	**9 264 885**
Impairment allowance	(128 567)	(127 963)
Loans issued net of impairment allowance	**7 039 925**	**9 136 922**

Movement in the impairment allowance is disclosed in Note 29.

Analysis of collateral

The following table provides information on collateral securing loans issued to resident commercial banks and international organisations by types of collateral as at 31 December 2019 and 2018, excluding the effect of overcollateralisation.

	31 December 2019	% of loan portfolio	31 December 2018	% of loan portfolio
Deposits in foreign currencies	2 740 578	39	3 116 180	34
Loans to customers	2 584 305	37	4 217 636	46
State securities	1 715 042	24	1 803 106	20
	7 039 925	**100**	**9 136 922**	**100**

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

Concentration of loans extended

As at 31 December 2019 and 2018, the National Bank does not have loans issued to commercial banks whose balances exceed 10% of its own equity.

9 LOANS TO CUSTOMERS

Loans to customers provided by OJSC Keremet Bank as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Loans to legal entities		
Corporate loans	2 221 210	1 546 039
Small and medium enterprises (SME)	1 128 800	595 068
Total loans to legal entities	**3 350 010**	**2 141 107**
Loan to individuals		
Mortgage loans	1 232 800	158 619
Consumer loans	111 613	78 399
Total loans to individuals	**1 344 413**	**237 018**
Net investment in financial lease	**436 759**	**-**
Gross loans to customers	**5 131 182**	**2 378 125**
Impairment allowance	(439 468)	(1 088)
	4 691 714	**2 377 037**

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

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

9 LOANS TO CUSTOMERS (CONTINUED)

Social mortgage is issued for purchase of residential real estate to individuals - public sector employees aged 21 and up to 65 years (at the time of full repayment of the loan) for a period of up to 15 years at 6-8% per annum in the amount of KGS 350 thousand to KGS 3 000 thousand. Management believes that this loan product has a distinct nature and represents a separate segment in the mortgage lending market. As a result, loans issued under the terms of the Social Mortgage loan product were issued as part of a regular transaction and as such were recorded at fair value at the date of recognition.

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

The components of net investment in financial lease as at 31 December 2019 are as follows:

	31 December 2019
Accounts receivable under finance lease:	
Less than 1 year	128 661
From 1 to 5 years	441 721
More than 5 years	46
Undiscounted lease payments	**570 428**
Less: unearned finance income	(133 669)
	436 759
Net investments in finance lease analysed as:	
Short-term	98 512
Long-term	338 247

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

	31 December 2019	31 December 2018
Loans secured by real estate and related rights	4 110 359	2 056 203
Loans secured by vehicles	36 436	233 121
Loans secured by deposits and cash	31 504	33 343
Loans secured by other collateral	436 623	16 689
Unsecured loans	76 792	37 681
Total loans to customers	**4 691 714**	**2 377 037**

9 LOANS TO CUSTOMERS (CONTINUED)

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

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

	31 December 2019	31 December 2018
Analysis by economy sector:		
Trade	2 142 955	1 622 843
Mortgage	1 678 283	161 853
Industry and production	339 627	63 035
Construction	333 290	335 223
Consumer sector	108 302	84 475
Transportation	26 835	6 698
Agriculture	23 076	19 623
Harvesting and processing	2 187	-
Social services	1 041	524
Communication	87	-
Other	475 499	83 851
	5 131 182	**2 378 125**
Impairment allowance	(439 468)	(1 088)
	4 691 714	**2 377 037**

	31 December 2019		
	Gross loans	Impairment allowance	Loans net of impairment allowance
No-overdue	**3 513 386**	**(43 210)**	**3 470 176**
Overdue:			
- up to 30 days	12 692	(963)	11 729
- from 31 to 60 days	83 079	(15)	83 064
- from 61 to 90 days	4 581	(32)	4 549
- from 91 to 180 days	17 169	(4 029)	13 140
- from 181 to 360 days	1 500 275	(391 219)	1 109 056
Total overdue	**1 617 796**	**(396 258)**	**1 221 538**
Total loans to customers	**5 131 182**	**(439 468)**	**4 691 714**

9 LOANS TO CUSTOMERS (CONTINUED)

	31 December 2018		
	Gross loans	Impairment allowance	Loans net of impairment allowance
Non-overdue	**1 182 318**	**(1 088)**	**1 181 230**
Overdue:			
- up to 30 days	18 050	-	18 050
- from 31 to 60 days	24 525	-	24 525
- from 61 to 90 days	65 228	-	65 228
- from 91 to 180 days	130 342	-	130 342
- from 181 to 360 days	395 028	-	395 028
- more than 360 days	562 634	-	562 634
Total overdue	**1 195 807**	**-**	**1 195 807**
Total loans to customers	**2 378 125**	**(1 088)**	**2 377 037**

10 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
Debt instruments		
Government securities		
Government of Canada Treasury bills	3 150 377	3 031 230
Government of Great Britain Treasury bills	1 273 293	2 115 554
Government of the Kyrgyz Republic Treasury bills	993 846	211 378
Government of the Republic of Korea Treasury bills	598 533	1 069 157
Government of the United States of America Treasury bills	351 225	348 651
Government of Australia Treasury bills	-	2 705 769
Government of the Russian Federation Treasury bills	-	70 877
Total government securities	**6 367 274**	**9 552 616**
Debt securities of international financial institutions	21 366 444	22 546 486
Debt instruments of agencies with credit ratings from AA to AAA	6 243 284	1 744 520
Total debt instruments	**33 977 002**	**33 843 622**

As at 31 December 2019 and 2018 investments measured at fair through other comprehensive income are not past due.

11 INVESTMENTS AT AMORTISED COST

	31 December 2019	31 December 2018
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	127 014	189 485
Impairment allowance	(1 962)	(3 061)
	125 052	**186 424**

12 INVESTMENTS IN ASSOCIATES

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

	Carrying amount
31 December 2017	**185 079**
Purchase of shares	57
31 December 2018	**185 136**
Acquisition of shares in associate	560 061
Share of profits of associates	140 100
31 December 2019	**885 297**

Investments in subsidiaries and associates	Type of activity	Share of ownership,%	31 December 2019	Share of ownership,%	31 December 2018
OJSC Keremet Bank (2018: OJSC Russian Investment Bank)	Commercial Bank	95,07	-*	71,66	-*
OJSC Guarantee Fund	Warranty Services	48,59	564 999	-	-
CJSC Interbank Process Center	Processing services	49,42**	258 298	48,07**	123 136
CJSC Kyrgyz Cash Collection	Transportation of valuables	100,00	62 000	100,00	62 000
			885 297		**185 136**

* The investment in subsidiary OJSC Keremet Bank was eliminated on consolidation in these financial statements.

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

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

On 18 January 2019, the National Bank paid for the additionally placed shares of OJSC Keremet Bank (OJSC Russian Investment Bank) in the quantity of 2 165 745 shares in the amount of KGS 216 575 thousand, thus, taking into account the cash paid in 2018 for the amount KGS 500 000 thousand participation in the additionally issued capital comprised of KGS 716 575 thousand, increasing the share of ownership of the National Bank to 85,21%.

On 24 May 2019, as part of the activities aimed at recovery of the subsidiary bank, the National Bank increased its share in authorised capital of the latter. As a result of the sixth issue of ordinary registered shares of OJSC Keremet Bank (OJSC Russian Investment Bank) for amount of KGS 3 000 000 thousand, the share of the National Bank amounted to 95,07%.

On 12 July 2019, the National Bank decided to participate in the capital of the Guarantee Fund OJSC. In accordance with this decision, the National Bank purchased shares of the additional 4th issue of the Guarantee Fund OJSC in the amount of KGS 550 000 thousand. As a result of the acquisition of these shares, the National Bank's share in the authorised capital of the Guarantee Fund OJSC amounted to 48,59%.

During 2019, OJSC Keremet Bank increased its ownership share in CJSC Interbank Processing Center from 0,02% as at 31 December 2018 to 2,85% as at 31 December 2019.

13 PROPERTY AND EQUIPMENT

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Total
Cost						
Balance at 1 January 2019	**1 431 348**	**391 448**	**1 016 915**	**89 911**	**356 090**	**3 285 712**
Acquisitions	12 839	23 891	7 596	8 638	310 026	362 990
Disposals	(33 059)	(180 098)	(81 153)	(13 773)	-	(308 083)
Movements	12 121	284 010	3 797	-	(299 928)	-
Transfers	(553 138)	-	(124 313)	(13 115)	(3 615)	(694 181)
Balance at 31 December 2019	**870 111**	**519 251**	**822 842**	**71 661**	**362 573**	**2 646 438**
Depreciation						
Balance at 1 January 2019	**(129 206)**	**(166 629)**	**(350 938)**	**(38 434)**	**-**	**(685 207)**
Depreciation for the year	(36 458)	(53 016)	(134 506)	(13 921)	-	(237 901)
Disposals	28 019	176 722	80 429	13 773	-	298 943
Transfer	24 350	-	46 035	10 584	-	80 969
Balance at 31 December 2019	**(113 295)**	**(42 923)**	**(358 980)**	**(27 998)**	**-**	**(543 196)**
Carrying amount						
At 31 December 2019	**756 816**	**476 328**	**463 862**	**43 663**	**362 573**	**2 103 242**

During 2019, property, plant and equipment with cost of KGS 127 928 thousand and accumulated depreciation of KGS 46 035 thousand were transferred to intangible assets and property, plant and equipment with cost of KGS 566 253 thousand and accumulated depreciation of KGS 34 934 thousand were reclassified to non-current assets held for sale.

During 2019 and 2018 there were no capitalised borrowing costs related to the acquisition or construction of property, plant and equipment.

As at December 31, 2019 and 2018, fully depreciated assets with a cost of KGS 30 037 thousand and KGS 216 008 thousand were recorded within property, plant and equipment, respectively.

13 PROPERTY AND EQUIPMENT (CONTINUED)

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Total
Cost						
Balance at 1 January 2018	**632 585**	**312 215**	**868 576**	**75 045**	**349 398**	**2 237 819**
Acquisitions	69 653	16 783	33 096	-	30 152	149 684
As a result of acquisition of subsidiary	717 266	52 278	114 653	18 029	6 707	908 933
Disposals	(487)	(5 211)	(1 498)	(3 163)	(9)	(10 368)
Movements	12 331	15 383	2 088	-	(29 802)	-
Transfers	-	-	-	-	(356)	(356)
Balance at 31 December 2018	**1 431 348**	**391 448**	**1 016 915**	**89 911**	**356 090**	**3 285 712**
Depreciation						
Balance at 1 January 2018	**(110 768)**	**(126 896)**	**(231 171)**	**(27 625)**	**-**	**(496 460)**
Depreciation for the year	(18 639)	(43 754)	(121 167)	(11 906)	-	(195 466)
Disposals	201	4 021	1 400	1 097	-	6 719
Balance at 31 December 2018	**(129 206)**	**(166 629)**	**(350 938)**	**(38 434)**	**-**	**(685 207)**
Carrying amount						
At 31 December 2018	**1 302 142**	**224 819**	**665 977**	**51 477**	**356 090**	**2 600 505**

During 2018, property and equipment in the amount of KGS 356 thousand were transferred to intangible assets.

14 RIGHT-OF-USE ASSETS

	Buildings and other property	Equipment	Total
Cost			
As at 1 January 2019	**257 125**	-	**257 125**
Additions	6 657	69 850	76 507
As at 31 December 2019	**263 782**	**69 850**	**333 632**
Accumulated depreciation			
As at 1 January 2019	-	-	-
Charge for the year	(54 516)	(1 035)	(55 551)
As at 31 December 2019	**(54 516)**	**(1 035)**	**(55 551)**
Carrying amount			
As at 1 January 2019	**257 125**	**-**	**257 125**
As at 31 December 2019	**209 266**	**68 815**	**278 081**

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

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

Part of the leases for buildings expired in the current financial year. The expired contracts were replaced by new leases for identical underlying assets. This resulted in additions to right-of-use assets of KGS 6 657 thousand in 2019.

Lease liabilities:

	31 December 2019	1 January 2019
Maturity analysis:		
Year 1	60 732	54 368
Year 2	74 558	53 493
Year 3	71 225	51 611
Year 4	69 070	50 771
Year 5	86 403	50 561
More than 5 years	-	69 644
Total minimum lease payments	**361 988**	**330 448**
Less: unearned finance income	(62 653)	(73 323)
	299 335	**257 125**
By type:		
Current	38 619	32 888
Non-current	260 716	224 237

Total cash outflow for leases included in the consolidated statement of cash flows is KGS 69 873 thousand, including KGS 14 093 thousand from operating activities and KGS 55 780 thousand from financial activities.

15 NON-CURRENT ASSETS HELD FOR SALE

	31 December 2019	31 December 2018
Non-residential premises	551 023	556 963
Houses	198 502	267 006
Apartments	49 462	56 471
Land	29 456	40 063
Equipment	-	32 612
Other	4 338	4 564
	832 781	**957 679**

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

Within the next 12 months, OJSC Keremet Bank intends to sell the property owned by OJSC Keremet Bank as a result of foreclosure of loans and property of the bank's closed branches no longer utilised, for which a decision was made to sell. An active search for a buyer is underway.

As at the date of collection, collateral is measured at the lower of the carrying amount of the outstanding loan commitment and fair value of the collateral sold. The fair value of non-current assets is determined using level 2 of the fair value hierarchy.

16 NON-MONETARY GOLD AND GOLD RESERVES

	31 December 2019	31 December 2018
Non-monetary gold	3 556 484	322 367
Gold reserves	3 172 449	-
	6 728 933	**322 367**

During 2019, the National Bank conducted operations to purchase gold that is not part of international reserves with the aim of forming reserves of the National Bank in the framework of the development prospect of the domestic precious metals market. Non-monetary gold and gold reserves do not participate in the National Bank’s active investment operations and are not part of the National Bank’s investment assets in gold.

17 OTHER ASSETS

	31 December 2019	31 December 2018
Accounts receivable	525 216	470 677
Impairment allowance	(184 765)	(151 480)
Total other financial assets	**340 451**	**319 197**
Inventories	500 823	629 418
Prepayments	105 848	41 871
Numismatic values	97 296	100 605
Other	31 829	32 124
Total other non-financial assets	**735 796**	**804 018**
	1 076 247	**1 123 215**

Movements in impairment allowance on other assets are disclosed in Note 29.

18 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2019 and 2018, banknotes and coins in circulation comprise:

	31 December 2019	31 December 2018
Banknotes and coins in circulation	107 987 726	95 435 458
Less banknotes and coins on hand and in cash desk	(1 929 675)	(1 933 020)
	106 058 051	**93 502 438**

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

19 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The table below shows the net position of derivative financial instruments, recorded as assets or liabilities, together with their nominal amounts. The nominal amount, recorded gross, is the amount of a derivative's underlying asset or nominal amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. Nominal amounts indicate the volume of transactions outstanding at the reporting date and do not indicate the market or credit risk.

	31 December 2019			**31 December 2018**		
	Nominal amount	**Fair value of assets**	**Fair value of liabilities**	**Nominal amount**	**Fair value of assets**	**Fair value of liabilities**
Foreign currency swaps	**251 700**	**-**	**12 480**	**458 890**	**1 254**	**13 322**

As at 31 December 2019, claims under swap transactions amounted to KGS 222 275 thousand and RUB 23 489 thousand (31 December 2018: KGS 231 787 thousand, RUB 84 570 thousand and EUR 1 600 thousand). The amount of obligations under the swap transactions as at 31 December 2019 and 2018 amounted to USD 3 805 thousand and USD 6 552 thousand, respectively.

20 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Current accounts of commercial banks	18 565 113	15 838 962
Current accounts of other financial institutions	3 218 740	2 852 626
Loans under repurchase agreements	102 376	37 298
	21 886 229	**18 728 886**

As at 31 December 2019, two commercial banks have balances at the National Bank that exceed 10 percent of equity (in 2018: three commercial bank and one financial organisation). The total amount of these balances as at 31 December 2019 is KGS 6 391 035 thousand (as at 31 December 2018: KGS 10 561 757 thousand).

21 DUE TO THE GOVERNMENT OF THE KYRGYZ REPUBLIC

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

	31 December 2018	31 December 2017
In national currency	12 067 219	11 296 232
In foreign currency	4 965 935	1 172 333
	17 033 154	**12 468 565**

22 CUSTOMER ACCOUNTS

Customer accounts of OJSC Keremet Bank as at 31 December 2019 are as follows:

	31 December 2019	31 December 2018
Legal entities		
Current/Settlement accounts	378 020	399 582
Term deposits	172 821	102 532
Total accounts of legal entities	**550 841**	**502 114**
Individuals		
Current/Settlement accounts	624 702	664 700
Term deposits	2 445 501	1 783 470
Total accounts of individuals	**3 070 203**	**2 448 170**
	3 621 044	**2 950 284**

As at 31 December 2019 and 2018, deposits from customers totaling KGS 87 997 thousand and KGS 45 079 thousand, respectively, were held as security under loans and credit lines related to contingent obligations issued by OJSC Keremet Bank.

As at 31 December 2019 and 2018 deposits from customers totaling KGS 16 514 thousand and KGS 20 787 thousand, respectively, were held as security against guarantees issued by OJSC Keremet Bank.

As at 31 December 2019 and 2018, deposits from customers totaling KGS 487 473 thousand and KGS 390 586 thousand, respectively, were due to ten customers, which represents a significant concentration for the subsidiary bank.

As at 31 December 2019 and 2018, accrued interest on customer accounts amounted to KGS 42 552 thousand and KGS 36 796 thousand, respectively.

	31 December 2019	31 December 2018
Analysis by sectors of economy/customer types:		
Individuals	3 070 203	2 448 170
Construction	151 481	100 606
Transportation and communication	63 608	44 768
State entities	51 563	62 318
Mining and metallurgy	44 189	3 311
Energy	30 999	331
Trade	30 855	49 905
Education	10 274	6 021
Real estate	7 104	5 853
Charity and labour unions	5 595	2 074
Agriculture	1 518	5 869
Healthcare	1 387	1 948
Consulting	1 051	5 988
Financial organisations	212	5 510
Other	151 005	207 612
	3 621 044	**2 950 284**

23 DEBT SECURITIES ISSUED

As of 31 December 2019 and 2018, debt securities issued include securities (notes of the National Bank) with the following maturities and carrying amounts:

	31 December 2019	31 December 2018
Notes of the National Bank with a term of 14 days	3 896 726	261 775
Notes of the National Bank with a term of 28 days	3 599 202	765 098
Notes of the National Bank with a term of 91 days	552 573	5 359 690
Notes of the National Bank with a term of 182 days	-	1 555 746
	8 048 501	**7 942 309**

The notes of the National Bank are placed through Automated Trading System of the National Bank, members of which are commercial banks in the Kyrgyz Republic.

24 LOANS RECEIVED

During 2019, the National Bank has not received new loans. As at 31 December 2019 and 2018, terms and conditions of loans received are as follows:

Issuer	CCY	Interest rate	Issue date	Maturity date	31 December 2019	31 December 2018
IMF, ESF (Exogenous Shocks Facility)	SDR	0%	24 December 2008	7 June 2019	-	161 268
Accrued interest	USD				-	10 654
					-	**171 922**

Borrowings under the External Shocks Facility (ESF) are expressed in the SDR and are provided to support the actions of the authorities of the Kyrgyz Republic aimed at overcoming certain external shocks. The loan has a zero interest rate. On 3 October 2016 the IMF Executive Board extended the interest exemption until the end of 2018. This condition was announced for all ESF credit recipients across the world. On 7 June 2019, the loan was fully repaid.

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

24 LOANS RECEIVED (CONTINUED)

	1 January 2019	Cash flow from financing activities (i)	Non-cash changes: Foreign currency exchange rate adjustment	Non-cash changes: Other changes (ii)	31 December 2019
Loans received	171 922	(160 155)	(1 113)	(10 654)	-
	171 922	**(160 155)**	**(1 113)**	**(10 654)**	**-**

	1 January 2018	Cash flow from financing activities (i)	Non-cash changes: Foreign currency exchange rate adjustment	Non-cash changes: Other changes (ii)	31 December 2018
Loans received	925 499	(742 956)	(10 775)	154	171 922
	925 499	**(742 956)**	**(10 775)**	**154**	**171 922**

(i) The cash flows from loans received amount to the net amount of the proceeds from borrowings and the repayment of borrowings in the statement of cash flows.

(ii) Other changes include accruals and interest payments.

25 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS

	31 December 2019	31 December 2018
Liabilities to the IMF in respect of SDR allocations	8 146 676	8 222 162

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by the provision of significant unconditional financial resources to liquidity-constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 35). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes the Kyrgyz Republic, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84 737 thousand. In 2019 and 2018 this right has not yet been utilised. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

25 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS (CONTINUED)

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

			Non-cash changes		
	1 January 2019	**Cash flow from financing activities (i)**	**Foreign currency exchange rate adjustment**	**Other changes (ii)**	**31 December 2019**
Liabilities to the IMF in respect of SDR allocations	8 222 162	-	(71 340)	(4 146)	8 146 676
	8 222 162	**-**	**(71 340)**	**(4 146)**	**8 146 676**

			Non-cash changes		
	1 January 2018	**Cash flow from financial activities (i)**	**Foreign currency exchange rate adjustment**	**Other changes (ii)**	**31 December 2018**
Liabilities to the IMF in respect of SDR allocations	8 311 236	-	(93 872)	4 798	8 222 162
	8 311 236	**-**	**(93 872)**	**4 798**	**8 222 162**

(i) Cash flows from the obligations under the SDR received from the IMF in the order of the distribution of loans constitute the net amount of proceeds from borrowing and repayment of borrowings in the statement of cash flows.

(ii) Other changes include accruals and interest payments.

26 OTHER LIABILITIES

	31 December 2019	31 December 2018
Accounts payable	133 349	112 348
Total other financial liabilities	**133 349**	**112 348**
Provision for contingent liabilities	2 880	301 618
Other	155 232	81 117
Total other non-financial liabilities	**158 112**	**382 735**
	291 461	**495 083**

As at 31 December 2018 the Group recognised a provision on the claims of third parties to its subsidiary OJSC Keremet Bank. Due to change in circumstances of this claim in 2019, management believes that an outlfow of resources is unlikely and derecognised the provision as at 31 December 2019 (Note 29).

27 CHARTER CAPITAL

Paid-in capital

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

Distribution to the state budget and obligatory reserve

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

- if the amount of the National Bank's charter capital and obligatory reserve is less than 10% of the monetary liabilities of the National Bank, then 90% of profit shall be distributed to the state budget of the Kyrgyz Republic. The remaining profit, after distributions to the state budget, shall be transferred to the National Bank's obligatory reserve;
- if the amount of the National Bank's charter capital and obligatory reserve equals or exceeds 10% of the monetary liabilities of the National Bank, then 100% of profit shall be distributed to the state budget of the Kyrgyz Republic.

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

27 CHARTER CAPITAL (CONTINUED)

Distribution to the state budget and obligatory reserve, continued

On 2 April 2019, net profit of the National Bank was approved on the basis of separate financial statements for 2018 in the amount of KGS 2 103 936 thousand of which KGS 1 893 543 thousand were transferred to the budget of the Kyrgyz Republic (in 2018, approved net profit for 2017 and the amount transferred to the budget equaled KGS 2 300 849 thousand and KGS 2 070 764 thousand, respectively). These amounts were excluded from the consolidated cash flow statement due to the fact that these amounts were reflected as an increase in funds of the Government of the Kyrgyz Republic. KGS 210 393 thousand was transferred to the obligatory reserve (2018: KGS 230 085 thousand).

Capital management

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

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

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

28 NET INTEREST INCOME

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income		
Term deposits in foreign banks and international financial institutions	944 230	783 998
Investments at fair value through other comprehensive income	864 902	669 823
Loans to customers	586 984	62 248
Nostro accounts with foreign banks and international financial institutions	547 392	618 851
Loans to banks and international organisations	353 980	447 737
Investments at amortised cost	11 533	15 387
Other	4 430	5 440
	3 313 451	**2 603 484**
Interest expense		
Debt securities issued	(329 673)	(351 184)
Customer accounts	(243 569)	(59 442)
Liabilities to the IMF in respect of SDR allocations	(81 269)	(76 870)
Other assets discount amortisation	(58 398)	(49 319)
Due to banks and other financial institutions	(54 888)	(11 022)
Lease liability	(22 388)	-
Other	(8 346)	(8 482)
	(798 531)	**(556 319)**
	2 514 920	**2 047 165**

During the year 2019 the total interest income calculated using the effective interest rate method for financial assets at FVTOCI is KGS 1 412 294 thousand (in 2018: KGS 1 288 674 thousand) and for financial assets measured at amortised cost is KGS 1 901 157 thousand (in 2018: KGS 1 314 810 thousand). During the year 2019 the total interest expense calculated using the effective interest rate method for financial liabilities at amortised cost is KGS 798 531 thousand (in 2018: KGS 556 319 thousand).

CONTENT

29 IMPAIRMENT ALLOWANCE

	Cash on hand, banks and other financial institutions (Note 7)				Loans to banks and international organisations (Note 8)			Loans to customers (Note 9)				Investments at fair value through other comprehensive income		Investments at amortised cost (Note 11)	
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit-impaired financial assets**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit-impaired financial assets**	**Stage 1**	**Stage 2**	**Stage 1**	**Total**
Impairment allowance as at 1 January 2019	**6 073**	**2 170**	**269 932**	**25**	**548**	**-**	**127 415**	**1 088**	**-**	**-**	**-**	**1 217**	**222**	**3 061**	**411 751**
Changes in the amount															
- Transfer to Stage 1	50	(50)	-	-	-	-	-	-	-	-	-	-	-	-	-
- Transfer to Stage 2	(177)	177	-	-	(1 528)	1 528	-	(5 809)	5 809	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-	(5 475)	5 475	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	-	226	-	-	980	-	-	-	-	-	-	-	-	-	1 206
New financial assets originated or purchased	1 920	-	-	-	-	-	-	46 353	-	-	392 027	3 277	-	-	443 577
Derecognised financial assets	(2 693)	-	(13 729)	-	-	-	(99)	-	-	-	-	(28)	(222)	(1 099)	(17 870)
Other changes	-	(25)	(779)	-	-	-	(277)	-	-	-	-	-	-	-	(1 081)
Impairment allowance as at 31 December 2019	**5 173**	**2 498**	**255 424**	**25**	**-**	**1 528**	**127 039**	**41 632**	**334**	**5 475**	**392 027**	**4 466**	**-**	**1 962**	**837 583**

CONTENT

29 IMPAIRMENT ALLOWANCE (CONTINUED)

	Cash on hand, banks and other financial institutions (Note 7)				Loans to banks and international organisations (Note 8)		Loans to customers (Note 9)		Investments at fair value through other comprehensive income		Investments at amortised cost (Note 11)	
	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Stage 3	Stage 1	Purchased or originated credit-impaired financial assets	Stage 1	Stage 2	Stage 1	Total
Impairment allowance as at 1 January 2018	**6 809**	**2 191**	**266 027**	**-**	**-**	**125 572**	**-**	**-**	**35**	**230**	**3 965**	**404 829**
Changes in the amount		-	-						-	-		
- Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	(2 780)	(59)	(237)	-	548	-	1 088	(49 804)	(2 552)	(8)	-	(53 804)
New financial assets originated or purchased	2 776	38	-	-	-	-	-	-	28	-	-	2 842
Derecognised financial assets	(3 312)	-	-	-	-	-	-	-	(35)	-	(904)	(4 251)
Other changes	2 580	-	4 142	25	-	1 843	-	49 804	3 741	-	-	62 135
Impairment allowance as at 31 December 2018	**6 073**	**2 170**	**269 932**	**25**	**548**	**127 415**	**1 088**	**-**	**1 217**	**222**	**3 061**	**411 751**

29 IMPAIRMENT ALLOWANCE (CONTINUED)

	Other assets (Note 17)			Contingent liabilities (Note 26, 32)	
	Stage 1	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Total
Impairment allowance as at 1 January 2019	**675**	**18 834**	**131 971**	**301 618**	**453 098**
Changes in the amount					
- Transfer to Stage 3	(21 788)	21 788	-	-	-
Net changes, resulting from changes in credit risk parameters	-	-	-	(298 740)	(298 740)
New financial assets originated or purchased	22 080	-	9 183	-	31 263
Write-off of assets through impairment allowance	(76)	-	(423)	-	(499)
Other changes	-	36	2 485	2	2 523
Impairment allowance as at 31 December 2019	**891**	**40 658**	**143 216**	**2 880**	**187 645**

	Other assets (Note 17)			Contingent liabilities (Note 26, 32)	
	Stage 1	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Total
Impairment allowance as at 1 January 2018	**341**	**24 253**	**-**	**-**	**24 594**
Changes in the amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	(14)	-	-	(175)	(189)
New financial assets originated or purchased	348	-	20 710	-	21 058
Derecognised financial assets	-	(478)	-	-	(478)
Write-off of assets through impairment allowance	-	(4 884)	-	-	(4 884)
Other changes	-	(57)	111 261	301 793	412 997
Impairment allowance as at 31 December 2018	**675**	**18 834**	**131 971**	**301 618**	**453 098**

For the year ended 31 December 2018, the provision for other assets and contingent liabilities within the consolidated statement of profit or loss also includes loss resulting from business combination, which is equal to the difference between the loan debt and fair value of the net assets of OJSC Keremet Bank in the amount of KGS 179 395 thousand. Thus, the total amount of expenses on provisioning for other assets and contingent liabilities included in the consolidated statement of profit or loss for the year ended 31 December 2018 was KGS 199 786 thousand.

30 NET REALISED GAIN ON FOREIGN CURRENCIES AND GOLD OPERATIONS

	Year ended 31 December 2019	Year ended 31 December 2018
Realised gain from operations with foreign currencies and gold	1 420 954	1 461 161
Unrealised gain from operations with foreign currencies	8 812	3 294
Income from spot transactions	37 222	135 798
	1 466 988	**1 600 253**

31 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2019	Year ended 31 December 2018
Personnel expenses		
Employee compensation	649 513	503 288
Payments to the Social fund	111 337	86 938
	760 850	**590 226**
Depreciation and amortisation	392 694	235 665
Repairs and maintenance	198 244	154 115
Security	64 311	46 683
Communications and information services	30 530	24 919
Professional services	27 228	14 571
Publication and subscription	23 426	14 796
Rent expenses	14 093	20 528
Business trip expenses	12 373	12 681
Staff training	10 211	8 520
Expenses for social events	9 942	10 939
Office supplies and stationery	6 595	4 144
Other	26 266	23 069
	1 576 763	**1 160 856**

32 CONTINGENT LIABILITIES

(a) Tax legislation

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for six calendar years.

32 CONTINGENT LIABILITIES (CONTINUED)

(a) Tax legislation, continued

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

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

(b) Legal cases

From time to time and in the normal course of business, claims against the Group may be received from third parties. As at 31 December 2018 management believed that as a result of the proceedings the subsidiary of OJSC Keremet Bank would incur significant losses and accordingly recognised an estimated liability in the amount of KGS 300 000 thousand (Note 26). However, this lawsuit was settled in 2019 and the recognition of the corresponding provision was terminated as at 31 December 2019 (Note 29).

(c) Credit commitments, guarantees and other financial contracts

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

As at 31 December 2019 and 2018, the nominal or contract amounts were:

	31 December 2019	**31 December 2018**
Loan and credit line commitments	274 125	90 262
Guarantees	75 684	85 112
Reserve on financial guarantees	(2 880)	(1 618)
Total credit commitments	**346 929**	**173 756**

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

	12 months expected credit losses
Impairment allowance as at 31 December 2018	**1 618**
Net recalculation of the allowance	1 262
Impairment allowance as at 31 December 2019	**2 880**

32 CONTINGENT LIABILITIES (CONTINUED)

(d) Capital commitments

As at 31 December 2019 and 2018, the National Bank and its subsidiaries had no liabilities on capital expenditures.

(e) Insurance

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

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

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

33 INCOME TAX

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

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

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2019 and 2018 relate mostly to different methods/timeframes for income and expense recognition as well as to temporary differences related to difference in book and tax values of certain assets.

	31 December 2019	**31 December 2018**
Current income tax expense related to prior periods	33 155	-
Change in deferred tax assets/liabilities due to occurrence and reversal of temporary differences	26 645	(11 163)
Total income tax expense/(benefit)	**59 800**	**(11 163)**

33 INCOME TAX (CONTINUED)

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

	31 December 2019	31 December 2018
Profit before income tax	2 051 522	2 214 546
Tax at the statutory tax rate (10%)	205 152	221 455
Non-taxable income from operations of the National Bank	(256 527)	(213 579)
Change in unrecognised deferred tax asset of OJSC Keremet Bank	55 093	-
Current income tax expenses of OJSC Keremet Bank related to prior periods	33 155	-
Other permanent differences OJSC Keremet Bank	22 927	(19 039)
Total income tax expenses/(benefits)	**59 800**	**(11 163)**

The Group did not recognise the deferred tax asset related to tax losses of OJSC Keremet Bank carried forward due to the uncertainty and low probability that these losses will be carried forward.

Deferred tax assets/(liabilities) as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Non-current assets held for sale	18 585	32 912
Property and equipment	(15 522)	(29 187)
Loans to customers	(14 634)	8 045
Other assets	-	391
Other financial liabilities	3 534	1 143
Cash on hand, due from banks and other financial institutions	-	5 304
Total net deferred tax (liabilities)/assets	**(8 037)**	**18 608**

Deferred income tax liability / (claim)	**2019**	**2018**
At the beginning of the year	(18 608)	-
Deferred tax expense/(benefit) related to the origination and reversal of temporary differences recognised in the statement of profit or loss	26 645	(18 608)
At end of the year	**8 037**	**(18 608)**

34 RISK MANAGEMENT

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

(a) Risk management policies and procedures

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

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

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

In accordance with Investment Strategy on International Reserve Management of the National Bank ("the Investment Strategy") approved by the Board on 19 December 2018, the main goals of risk management are safety and liquidity of the assets and profitability growth of the Group. Operations are conducted within the limitations imposed by this Investment strategy.

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

(b) Market risk

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

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

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are an estimation of the yields to maturity of these assets and liabilities.

CONTENT

34 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(i) Interest rate risk, continued

	Weighted average effective interest rate, % 31 December 2019	Weighted average effective interest rate, % 31 December 2018
Interest bearing assets		
Gold		
Gold in account with foreign banks	0,01	0,07
Cash on hand, due from banks and other financial institutions		
Nostro accounts		
- USD	1,44	2,45
- EUR	(0,51)	(0,41)
- CAD	0,45	1,47
- GBP	0,04	0,34
- CNH	0,35	0,35
- NOK	1,25	0,63
- SGD	0,05	0,2
- KRW	0,10	0,07
- CHF	(0,06)	(0,51)
- SGD	0,74	1,10
- AUD	-	0,25
Term deposits		
- USD	1,98	2,84
- CAD	1,65	1,91
- GBP	0,83	1,03
- AUD	1,14	2,20
- RUB	5,78	4,75
- CNH	2,54	3,62
- NOK	1,63	0,97
- SGD	1,44	1,44
- KRW	1,46	1,82
Loans to banks and other organisations		
- KGS	4,57	4,83
Loans to customers		
- KGS	10,69	13,94
- USD	8,36	6,85
- RUB	-	14,00
- EUR	14,50	14,50
Investments at fair value through other comprehensive income		
- USD	1,94	2,46
- AUD	0,78	1,81
- CAD	1,72	1,91
- GBP	0,73	0,63
- KRW	1,49	1,72
- KGS	10,84	16,66
Investments at amortised cost		
- KGS	6,35	6,35
- EUR	14,50	14,50
Interest bearing liabilities		
Due to banks and other financial organisations		
- KGS	0,02	-
- USD	0,01	-
Customer accounts		
- KGS	11,08	12,97
- USD	4,93	3,95
- RUB	4,89	5,37
- EUR	5,32	0,79
Debt securities issued		
- KGS	4,06	3,54
Liabilities to the IMF in respect of SDR allocations	0,74	1,10

34 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2019		31 December 2018	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
20 bp parallel rise	-	(30 046)	-	(8 444)
20 bp parallel fall	-	34 364	-	19 166

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

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

34 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk

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

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

The Group's exposure to foreign currency exchange rate risk by currencies as at 31 December 2019 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2019
Non-derivative financial assets												
Gold in deposits	-	8 765 609	-	-	-	-	-	-	-	-	-	8 765 609
Cash on hand, due from banks and other financial institutions	-	-	52 469 600	1 797 764	3 358 558	1 541 032	10 261 521	2 099 052	994 596	9 355 966	5 397 155	87 275 244
Loans to banks and international organisations	7 039 925	-	-	-	-	-	-	-	-	-	-	7 039 925
Loans to customers	3 603 332	-	1 058 687	695	-	-	-	-	-	-	29 000	4 691 714
Investments at fair value through other comprehensive income	993 846	-	25 918 925	-	3 150 377	2 042 029	-	-	1 273 293	-	598 532	33 977 002
Investments at amortised cost	125 052	-	-	-	-	-	-	-	-	-	-	125 052
Other financial assets	337 247	-	2 196	-	-	-	-	-	-	-	1 008	340 451
Total non-derivative financial assets	**12 099 402**	**8 765 609**	**79 449 408**	**1 798 459**	**6 508 935**	**3 583 061**	**10 261 521**	**2 099 052**	**2 267 889**	**9 355 966**	**6 025 695**	**142 214 997**

CONTENT

34 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2019
Non-derivative financial liabilities												
Banknotes and coins in circulation	106 058 051	-	-	-	-	-	-	-	-	-	-	106 058 051
Due to banks and other financial institutions	17 563 097	-	4 312 513	8 581	-	-	-	-	-	-	2 038	21 886 229
Due to the Government of the Kyrgyz Republic	4 965 935	-	10 956 579	971 466	-	-	-	-	-	-	139 174	17 033 154
Customer accounts	2 631 705	-	906 193	37 994	-	-	-	-	-	-	45 152	3 621 044
Debt securities issued	8 048 501	-	-	-	-	-	-	-	-	-	-	8 048 501
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 146 676	-	-	-	-	8 146 676
Lease liabilities	9 561	-	289 774	-	-	-	-	-	-	-	-	299 335
Other financial liabilities	106 494	-	22 268	718	-	-	-	-	-	-	3 869	133 349
Total non-derivative financial liabilities	**139 383 344**	**-**	**16 487 327**	**1 018 759**	**-**	**-**	**8 146 676**	**-**	**-**	**-**	**190 233**	**165 226 339**
Balance sheet position	**(127 283 942)**	**8 765 609**	**62 962 081**	**779 700**	**6 508 935**	**3 583 061**	**2 114 845**	**2 099 052**	**2 267 889**	**9 355 966**	**5 835 462**	**(23 011 342)**
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	226 111	-	(265 016)	-	-	-	-	-	-	-	26 425	(12 480)
Net Balance sheet position	**(127 057 831)**	**8 765 609**	**62 697 065**	**779 700**	**6 508 935**	**3 583 061**	**2 114 845**	**2 099 052**	**2 267 889**	**9 355 966**	**5 861 887**	**(23 023 822)**

34 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

The Group's exposure to foreign currency exchange rate risk by currencies as at 31 December 2018 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2018
Non-derivative financial assets												
Gold in deposits	-	7 423 265	-	-	-	-	-	-	-	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	-	-	48 309 223	3 531 212	4 681 352	2 280 177	9 551 338	2 110 904	726 892	9 423 271	4 034 113	84 648 482
Loans to banks and international organisations	9 136 922	-	-	-	-	-	-	-	-	-	-	9 136 922
Loans to customers	889 526	-	1 471 754	1 120	-	-	-	-	-	-	14 637	2 377 037
Investments at fair value through other comprehensive income	211 378	-	23 576 548	-	3 031 230	3 839 755	-	-	2 115 554	-	1 069 157	33 843 622
Investments at amortised cost	186 424	-	-	-	-	-	-	-	-	-	-	186 424
Other financial assets	315 633	-	831	5	-	-	-	-	-	-	2 728	319 197
Total non-derivative financial assets	**10 739 883**	**7 423 265**	**73 358 356**	**3 532 337**	**7 712 582**	**6 119 932**	**9 551 338**	**2 110 904**	**2 842 446**	**9 423 271**	**5 120 635**	**137 934 949**

34 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2018
Non-derivative financial liabilities												
Banknotes and coins in circulation	93 502 438	-	-	-	-	-	-	-	-	-	-	93 502 438
Due to banks and other financial institutions	14 041 749	-	4 676 115	10 006	-	-	-	-	-	-	1 016	18 728 886
Due to the Government of the Kyrgyz Republic	11 296 232	-	50 521	949 941	-	-	-	-	-	-	171 871	12 468 565
Customer accounts	1 803 577	-	950 391	135 739	-	-	-	-	538	5	60 034	2 950 284
Debt securities issued	7 942 309	-	-	-	-	-	-	-	-	-	-	7 942 309
Loans received	-	-	10 654	-	-	-	161 268	-	-	-	-	171 922
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 222 162	-	-	-	-	8 222 162
Other financial liabilities	85 688	-	21 964	1 211	-	-	-	-	-	-	3 485	112 348
Total non-derivative financial liabilities	**128 671 993**	**-**	**5 709 645**	**1 096 897**	**-**	**-**	**8 383 430**	**-**	**538**	**5**	**236 406**	**144 098 914**
Balance sheet position	**(117 932 110)**	**7 423 265**	**67 648 711**	**2 435 440**	**7 712 582**	**6 119 932**	**1 167 908**	**2 110 904**	**2 841 908**	**9 423 266**	**4 884 229**	**(6 163 965)**
Financial assets at fair value through profit or loss	43 164	-	(41 910)	-	-	-	-	-	-	-	-	1 254
Financial liabilities at fair value through profit or loss	189 520	-	(415 881)	128 071	-	-	-	-	-	-	84 968	(13 322)
Net Balance sheet position	**(117 699 426)**	**7 423 265**	**67 190 920**	**2 563 511**	**7 712 582**	**6 119 932**	**1 167 908**	**2 110 904**	**2 841 908**	**9 423 266**	**4 969 197**	**(6 176 033)**

34 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

Depreciation of KGS, as indicated in the table below, against following currencies as at 31 December 2019 and 2018 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the Group's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the Group for preparation of report on currency risk for the key management of the Group. The analysis implies that all other variables, especially interest rates, are constant.

	31 December 2019		**31 December 2018**	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of USD against KGS	-	6 269 707	-	6 719 092
10% appreciation of CNH against KGS	-	935 597	-	942 327
10% appreciation of CAD against KGS	-	650 894	-	771 258
10% appreciation of AUD against KGS	-	358 306	-	611 993
10% appreciation of GBP against KGS	-	226 789	-	284 191
10% appreciation of NOK against KGS	-	209 905	-	211 090
10% appreciation of EUR against KGS	-	77 970	-	256 351
10% appreciation of other currencies against KGS		586 189	-	496 920

Appreciation of the KGS against the above currencies at 31 December 2019 and 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Limitations of sensitivity analysis

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

34 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

Limitations of sensitivity analysis, continued

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk, that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

(iii) Other price risk

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

As at 31 December 2019 and 2018, the Group was exposed to price risk of gold in accounts with foreign banks.

An increase or decrease in prices in KGS equivalent of gold, as indicated below, at 31 December 2019 and 2018 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on gold pricing movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

	31 December 2019		31 December 2018	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of gold prices in KGS equivalent	-	876 561	-	742 327
10% depreciation of gold prices in KGS equivalent	-	(876 561)	-	(742 327)

(c) Credit risk

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

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

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

Category A

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

Category B

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

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

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

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

Credit risk management and control of loans to customers, and off-balance sheet financial liabilities is provided by the Credit Committee of OJSC Keremet Bank. The report on credit risk management is regularly provided to the Board of Directors and the Management Board of OJSC Keremet Bank.

To reduce the risk of the borrower failing to fulfill obligations, OJSC Keremet Bank accepts collateral in the form of cash, real estate and movable property, as well as guarantees and power of attorney. At the same time, the market value of the collateral accepted as collateral is reduced by applying discount factors established by the internal documents of OJSC Keremet Bank.

In order to exercise proper control over the fulfillment of obligations assumed by the borrower, OJSC Keremet Bank conducts periodic monitoring of loans issued. The frequency and methods of such monitoring correspond to the current lending programs, taking into account the target groups of borrowers.

Off-balance sheet liabilities represent unused credit lines, guarantees or letters of credit. The credit risk of financial instruments recorded in off-balance sheet accounts is determined as the probability of loss due to the inability of the borrower to comply with the terms and conditions of the contract. In relation to credit risk associated with off-balance sheet financial instruments, OJSC Keremet Bank potentially incurs a loss equal to the total amount of unused credit lines. However, the probable amount of loss is lower than the total amount of unused commitments, since in most cases the occurrence of commitments to extend a loan depends on whether the clients meet particular credit standards. OJSC Keremet Bank applies the same credit policy with respect to contingent liabilities as it does with financial instruments reflected in the balance sheet, based on the procedures for approving loans, the use of risk limits, and current monitoring. OJSC Keremet Bank monitors the maturity of loans, since long-term liabilities incur greater credit risk than short-term liabilities.

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

	31 December 2019	31 December 2018
ASSETS		
Gold in deposits	8 765 609	7 423 265
Cash on hand, due from banks and other financial institutions*	85 752 909	83 171 890
Loans to banks and international organisations	7 039 925	9 136 922
Loans to customers	4 691 714	2 377 037
Financial assets at fair value through profit or loss	-	1 254
Investments at fair value through other comprehensive income, except for investments in equity	33 977 002	33 843 622
Investments at amortised cost	125 052	186 424
Other financial assets	340 451	319 197
Total maximum exposure	**140 692 662**	**136 459 611**

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

Internal credit risk ratings

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

Internal credit ratings	Description
1	Low or moderate risk
2	Low or moderate risk
3	Low or moderate risk
4	Watch
5	Watch
6	Watch
7	Substandard
8	Substandard
9	Doubtful
10	Impaired

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

	31 December 2019				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Cash on hand, due from banks and other financial institutions					
Credit rating 1-3: Low or moderate risk	86 026 688	-	-	-	86 026 688
Credit rating 4-6: Watch	-	1 256 227	-	-	1 256 227
Credit rating 7-10: Impaired	-	-	255 424	25	255 449
Total gross carrying amount	**86 026 688**	**1 256 227**	**255 424**	**25**	**87 538 364**
Impairment allowance	(5 173)	(2 498)	(255 424)	(25)	(263 120)
Carrying amount	**86 021 515**	**1 253 729**	**-**	**-**	**87 275 244**

	31 December 2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Loans to banks and international organisations				
Credit rating 1-3: Low or moderate risk	6 858 210	-	-	6 858 210
Credit rating 4-6: Watch	-	183 243	-	183 243
Credit rating 7-10: Impaired	-	-	127 039	127 039
Total gross carrying amount	**6 858 210**	**183 243**	**127 039**	**7 168 492**
Impairment allowance	-	(1 528)	(127 039)	(128 567)
Carrying amount	**6 858 210**	**181 715**	**-**	**7 039 925**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2019				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Loans to customers					
Credit rating 1-3: Low or moderate risk	2 833 720	-	-	-	2 833 720
Credit rating 4-6: Watch	-	4 670	-	-	4 670
Credit rating 7-10: Doubtful	-	-	7 805	2 284 987	2 292 792
Total gross carrying amount	**2 833 720**	**4 670**	**7 805**	**2 284 987**	**5 131 182**
Impairment allowance	(41 632)	(334)	(5 475)	(392 027)	(439 468)
Carrying amount	**2 792 088**	**4 336**	**2 330**	**1 892 960**	**4 691 714**

	31 December 2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Credit rating 1-3: Low or moderate risk	32 983 156	-	-	32 983 156
Credit rating 4-6: Watch	993 846			993 846
Total carrying amount	**33 977 002**	**-**	**-**	**33 977 002**

	31 December 2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Credit rating 1-3: Low or moderate risk	127 014	-	-	127 014
Total gross carrying amount	**127 014**	**-**	**-**	**127 014**
Impairment allowance	(1 962)	-	-	(1 962)
Carrying amount	**125 052**	**-**	**-**	**125 052**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2019				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Other financial assets					
Credit rating 1-3: Low or moderate risk	340 157	-	-	-	340 157
Credit rating 10: Impaired	-	-	41 843	143 216	185 059
Total gross carrying amount	**340 157**	**-**	**41 843**	**143 216**	**525 216**
Impairment allowance	(891)	-	(40 658)	(143 216)	(184 765)
Carrying amount	**339 266**	**-**	**1 185**	**-**	**340 451**

	31 December 2018				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Cash on hand, due from banks and other financial institutions					
Credit rating 1-3: Low or moderate risk	83 729 785	-	-	-	83 729 785
Credit rating 4-6: Watch	-	926 940	-	-	926 940
Credit rating 7-10: Impaired	-	-	269 932	25	269 957
Total gross carrying amount	**83 729 785**	**926 940**	**269 932**	**25**	**84 926 682**
Impairment allowance	(6 073)	(2 170)	(269 932)	(25)	(278 200)
Carrying amount	**83 723 712**	**924 770**	**-**	**-**	**84 648 482**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2018			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Loans to banks and international organisations				
Credit rating 1-3: Low or moderate risk	9 137 470	-	-	9 137 470
Credit rating 10: Impaired	-	-	127 415	127 415
Total gross carrying amount	**9 137 470**	**-**	**127 415**	**9 264 885**
Impairment allowance	(548)	-	(127 415)	(127 963)
Carrying amount	**9 136 922**	**-**	**-**	**9 136 922**

	31 December 2018				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Loans to customers					
Credit rating 1-3: Low or moderate risk	770 281	-	-	-	770 281
Credit rating 7-8: Substandard	-	-	-	511 360	511 360
Credit rating 9: Doubtful	-	-	-	1 096 484	1 096 484
Total gross carrying amount	**770 281**	**-**	**-**	**1 607 844**	**2 378 125**
Impairment allowance	(1 088)	-	-	-	(1 088)
Carrying amount	**769 193**	**-**	**-**	**1 607 844**	**2 377 037**

	31 December 2018			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Credit rating 1-3: Low or moderate risk	33 772 745	70 877	-	33 843 622
Total carrying amount	**33 772 745**	**70 877**	**-**	**33 843 622**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2018			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Credit rating 1-3: Low or moderate risk	189 485	-	-	189 485
Total gross carrying amount	**189 485**	**-**	**-**	**189 485**
Impairment allowance	(3 061)	-	-	(3 061)
Carrying amount	**186 424**	**-**	**-**	**186 424**

	31 December 2018				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Other financial assets					
Credit rating 1-3: Low or moderate risk	319 872	-	-	-	319 872
Credit rating 10: Impaired	-	-	18 834	131 971	150 805
Total gross carrying amount	**319 872**	**-**	**18 834**	**131 971**	**470 677**
Impairment allowance	(675)	-	(18 834)	(131 971)	(151 480)
Carrying amount	**319 197**	**-**	**-**	-	**319 197**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

The tables below analyse information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the impairment allowance during the year 2019 per class of financial assets:

	2019				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Cash on hand, due from banks and other financial institutions					
Gross carrying amount as at 1 January 2019	**83 729 785**	**926 940**	**269 932**	**25**	**84 926 682**
Changes in gross carrying amount					
- Transfer to Stage 1	106 295	(106 295)	-	-	-
- Transfer to Stage 2	(20 963 928)	20 963 928			
New financial assets originated or purchased	115 173 306	-	-	-	115 173 306
Financial assets that have been derecognised	(91 752 610)	(20 604 777)	(13 729)	-	(112 371 116)
Other changes	(266 160)	76 431	(779)		(190 508)
Gross carrying amount as at 31 December 2019	**86 026 688**	**1 256 227**	**255 424**	**25**	**87 538 364**
Impairment allowance as at 31 December 2019	**(5 173)**	**(2 498)**	**(255 424)**	**(25)**	**(263 120)**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2019			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Loans to banks and international organisations				
Gross carrying amount as at 1 January 2019	**9 137 470**	**-**	**127 415**	**9 264 885**
Changes in gross carrying amount				
- Transfer to Stage 2	(183 243)	183 243	-	-
New financial assets originated or purchased	2 336 674	-	-	2 336 674
Financial assets that have been derecognised	(4 432 691)	-	(99)	(4 432 790)
Other changes	-	-	(277)	(277)
Gross carrying amount as at 31 December 2019	**6 858 210**	**183 243**	**127 039**	**7 168 492**
Impairment allowance as at 31 December 2019	**-**	**(1 528)**	**(127 039)**	**(128 567)**

	2019				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	or originated credit-impaired financial assets	Total
Loans to customers					
Gross carrying amount as at 1 January 2019	**770 281**	**-**	**-**	**1 607 844**	**2 378 125**
Changes in gross carrying amount					
- Transfer to Stage 2	(12 475)	12 475	-	-	-
- Transfer to Stage 3	-	(7 805)	7 805	-	-
New financial assets originated or purchased	2 075 914	-	-	677 143	2 753 057
Gross carrying amount as at 31 December 2019	**2 833 720**	**4 670**	**7 805**	**2 284 987**	**5 131 182**
Impairment allowance as at 31 December 2019	**(41 632)**	**(334)**	**(5 475)**	**(392 027)**	**(439 468)**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2019	**33 772 745**	**70 877**	**-**	**33 843 622**
Changes in gross carrying amount				
New financial assets originated or purchased	95 742 110	-	-	95 742 110
Financial assets that have been derecognised	(95 558 451)	(70 877)	-	(95 629 328)
Other changes	20 598	-	-	20 598
Carrying amount as at 31 December 2019	**33 977 002**	**-**	**-**	**33 977 002**

	2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Gross carrying amount as at 1 January 2019	**189 485**	**-**	**-**	**189 485**
Changes in gross carrying amount				
Financial assets that have been derecognised	(62 471)	-	-	(62 471)
Gross carrying amount as at 31 December 2019	**127 014**	**-**	**-**	**127 014**
Impairment allowance as at 31 December 2019	**(1 962)**	**-**	**-**	**(1 962)**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2019				
	Stage 1 12-month expected credit losses	**Stage 2** Lifetime expected credit losses	**Stage 3** Lifetime expected credit losses	**Purchased or originated credit-impaired financial assets**	**Total**
Other financial assets					
Gross carrying amount as at 1 January 2019	**319 872**	**-**	**18 834**	**131 971**	**470 677**
Changes in gross carrying amount					
- Transfer to Stage 3					
New financial assets originated or purchased	(22 973)	-	22 973	-	-
Financial assets that have been derecognised	49 793	-	-	9 183	58 976
Write-off	(76)	-	-	(423)	(499)
Other changes	(6 459)	-	36	2 485	(3 938)
Gross carrying amount as at 31 December 2019	**340 157**	**-**	**41 843**	**143 216**	**525 216**
Impairment allowance as at 31 December 2019	**(891)**	**-**	**(40 658)**	**(143 216)**	**(184 765)**

The tables below analyse information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the impairment allowance during the year 2018 per class of financial assets:

	2018				
	Stage 1 12-month expected credit losses	**Stage 2** Lifetime expected credit losses	**Stage 3** Lifetime expected credit losses	**Purchased or originated credit-impaired financial assets**	**Total**
Cash on hand, due from banks and other financial institutions					
Gross carrying amount as at 1 January 2018	**85 975 712**	**806 977**	**266 027**	**-**	**87 048 716**
Changes in gross carrying amount					
- Transfer to Stage 2	(19 974 082)	19 974 082	-	-	-
New financial assets originated or purchased	638 387 388	-	-	-	638 387 388
Financial assets that have been derecognised	(619 958 444)	(19 585 092)	-	-	(639 543 536)
Other changes	(700 789)	(269 027)	3 905	25	(965 886)
Gross carrying amount as at 31 December 2018	**83 729 785**	**926 940**	**269 932**	**25**	**84 926 682**
Impairment allowance as at 31 December 2018	**(6 073)**	**(2 170)**	**(269 932)**	**(25)**	**(278 200)**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Loans to banks and international organisations					
Gross carrying amount as at 1 January 2018	**6 795 889**	**185 612**	**125 572**	**538 396**	**7 645 469**
Changes in gross carrying amount					
New financial assets originated or purchased	3 326 244	-	-	454 383	3 780 627
Financial assets that have been derecognised	(984 663)	-	-	(75)	(984 738)
Write-off	-	-	-	(179 395)	(179 395)
Other changes	-	(185 612)	1 843	(813 309)	(997 078)
Gross carrying amount as at 31 December 2018	**9 137 470**	**-**	**127 415**	**-**	**9 264 885**
Impairment allowance as at 31 December 2018	**(548)**	**-**	**(127 415)**	**-**	**(127 963)**

	2018				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Loans to customers					
Gross carrying amount as at 1 January 2018	**-**	**-**	**-**	**-**	**-**
Changes in gross carrying amount					
New financial assets originated or purchased	770 281	-	-	1 607 844	2 378 125
Gross carrying amount as at 31 December 2018	**770 281**	**-**	**-**	**1 607 844**	**2 378 125**
Impairment allowance as at 31 December 2018	**(1 088)**	**-**	**-**	**-**	**(1 088)**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2018	**42 939 313**	**70 571**	**-**	**43 009 884**
Changes in gross carrying amount				
New financial assets originated or purchased	174 854 319	-	-	174 854 319
Financial assets that have been derecognised	(183 671 251)	(600)	-	(183 671 851)
Other changes	(349 636)	906	-	(348 730)
Carrying amount as at 31 December 2018	**33 772 745**	**70 877**	**-**	**33 843 622**

	2018			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at amortised cost				
Gross carrying amount as at 1 January 2018	**251 313**	**-**	**-**	**251 313**
Changes in gross carrying amount				
Financial assets that have been derecognised	(61 828)	-	-	(61 828)
Gross carrying amount as at 31 December 2018	**189 485**	**-**	**-**	**189 485**
Impairment allowance as at 31 December 2018	**(3 061)**	**-**	**-**	**(3 061)**

34 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Other financial assets					
Gross carrying amount as at 1 January 2018	**278 187**	**-**	**24 253**	**-**	**302 440**
Changes in gross carrying amount					
New financial assets originated or purchased	21 579	-	-	20 710	42 289
Financial assets that have been derecognised	-	-	(478)	-	(478)
Write-off	-	-	(4 884)	-	(4 884)
Other changes	20 106	-	(57)	111 261	131 310
Gross carrying amount as at 31 December 2018	**319 872**	**-**	**18 834**	**131 971**	**470 677**
Impairment allowance as at 31 December 2018	**(675)**	**-**	**(18 834)**	**(131 971)**	**(151 480)**

(d) Geographical concentrations

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

The following table shows the geographical concentration of assets and liabilities at 31 December 2019:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2019 Total
Financial assets					
Gold in deposits	-	8 765 609	-	-	8 765 609
Cash on hand, due from banks and other financial institutions	1 837 606	50 800 982	17 536 679	17 099 977	87 275 244
Loans to banks and international organisations	7 039 925	-	-	-	7 039 925
Loans to customers	4 691 714	-	-	-	4 691 714
Investments at fair value through other comprehensive income	993 846	11 616 712	-	21 366 444	33 977 002
Investments at amortised cost	125 052	-	-	-	125 052
Other financial assets	337 666	1 218	1 567	-	340 451
Total financial assets	**15 025 809**	**71 184 521**	**17 538 246**	**38 466 421**	**142 214 997**

34 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations, continued

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2019 Total
Financial liabilities					
Banknotes and coins in circulation	106 058 051	-	-	-	106 058 051
Financial liabilities at fair value through profit or loss	12 441	-	39	-	12 480
Due to banks and other financial institutions	21 655 325	1 045	156 696	73 163	21 886 229
Due to the Government of the Kyrgyz Republic	17 033 154	-	-	-	17 033 154
Customer accounts	3 182 991	155 775	282 278	-	3 621 044
Debt securities issued	8 048 501	-	-	-	8 048 501
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 146 676	8 146 676
Lease liabilities	299 335	-	-	-	299 335
Other financial liabilities	105 532	5 432	22 385	-	133 349
Total financial liabilities	**156 395 330**	**162 252**	**461 398**	**8 219 839**	**165 238 819**
Net balance sheet position	**(141 369 521)**	**71 022 269**	**17 076 848**	**30 246 582**	**(23 023 822)**

The following table shows the geographical concentration of assets and liabilities at 31 December 2018:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2018 Total
Financial assets					
Gold in deposits	-	7 423 265	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	1 476 592	49 256 606	19 071 441	14 843 843	84 648 482
Loans to banks and international organisations	9 136 922	-	-	-	9 136 922
Loans to customers	2 360 803	-	16 234	-	2 377 037
Financial assets at fair value through profit or loss	1 125	-	129	-	1 254
Investments at fair value through other comprehensive income	211 378	11 014 881	70 877	22 546 486	33 843 622
Investments at amortised cost	186 424	-	-	-	186 424
Other financial assets	313 766	-	5 431	-	319 197
Total financial assets	**13 687 010**	**67 694 752**	**19 164 112**	**37 390 329**	**137 936 203**

34 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations, continued

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2018 Total
Financial liabilities					
Banknotes and coins in circulation	93 502 438	-	-	-	93 502 438
Financial liabilities at fair value through profit or loss	13 322	-	-	-	13 322
Due to banks and other financial institutions	18 300 209	-	294 612	134 065	18 728 886
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	12 468 565
Customer accounts	2 431 092	164 246	354 946	-	2 950 284
Debt securities issued	7 942 309	-	-	-	7 942 309
Loans received	10 654	-	-	161 268	171 922
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 222 162	8 222 162
Other financial liabilities	92 669	3 240	16 439	-	112 348
Total financial liabilities	**134 761 258**	**167 486**	**665 997**	**8 517 495**	**144 112 236**
Net balance sheet position	**(121 074 248)**	**67 527 266**	**18 498 115**	**28 872 834**	**(6 176 033)**

34 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

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

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

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

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

The liquidity management policy requires:

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

CONTENT

34 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2019 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	Carrying amount 31 December 2019
Financial liabilities at fair value through profit or loss	3 624	2 869	5 987	-	-	12 480	12 480
Due to banks and other financial institutions	21 872 650	104	157	313	16 436	21 889 660	21 886 229
Due to the Government of the Kyrgyz Republic	17 033 154	-	-	-	-	17 033 154	17 033 154
Customer accounts	959 936	94 534	188 866	1 093 319	2 082 645	4 419 300	3 621 044
Debt securities issued	7 761 200	300 000	-	-	-	8 061 200	8 048 501
Liabilities to the IMF in respect of SDR allocations	8 136 099	10 577	-	-	-	8 146 676	8 146 676
Lease liabilities	5 061	10 122	20 244	25 305	301 256	361 988	299 335
Other financial liabilities	73 181	7 415	78	36 063	16 612	133 349	133 349
	55 844 905	**425 621**	**215 332**	**1 155 000**	**2 416 949**	**60 057 807**	**59 180 768**

In the above table, the amounts of financial liabilities that do not correspond to the amounts recognised at the carrying amount of the liabilities include the remaining total interest payments not recognised in these financial statements using the effective interest method.

CONTENT

34 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	Carrying amount 31 December 2018
Financial liabilities at fair value through profit or loss	2 539	5 188	5 595	-	-	13 322	13 322
Due to banks and other financial institutions	18 728 886	-	-	-	-	18 728 886	18 728 886
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	-	12 468 565	12 468 565
Customer accounts	1 176 475	177 994	359 235	63 240	1 462 419	3 239 363	2 950 284
Debt securities issued	3 044 037	3 833 800	1 120 250	-	-	7 998 087	7 942 309
Loans received	10 654	-	161 268	174	-	172 096	171 922
Liabilities to the IMF in respect of SDR allocations	8 207 439	14 723	-	-	-	8 222 162	8 222 162
Other financial liabilities	61865	3 679	152	30 327	16 325	112 348	112 348
	43 700 460	**4 035 384**	**1 646 500**	**93 741**	**1 478 744**	**50 954 829**	**50 609 798**

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

34 RISK MANAGEMENT (CONTINUED)

(e) 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 2019:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2019
FINANCIAL ASSETS							
Gold in deposits	7 605 185	1 160 424	-	-	-	-	8 765 609
Cash on hand, due from banks and other financial institutions	56 042 453	12 016 456	19 216 335	-	-	-	87 275 244
Loans to banks and international organisations	235 542	2 958 985	3 845 398	-	-	-	7 039 925
Loans to customers	258 369	57 087	106 064	2 392 480	1 877 714	-	4 691 714
Investments at fair value through other comprehensive income	3 853 304	7 084 590	22 158 305	744 602	136 201	-	33 977 002
Investments at amortised cost	-	-	61 471	63 581	-	-	125 052
Other financial assets	23 539	6 075	26 081	142 291	142 465	-	340 451
	68 018 392	**23 283 617**	**45 413 654**	**3 342 954**	**2 156 380**	-	**142 214 997**

CONTENT

34 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2019
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	106 058 051	106 058 051
Financial liabilities at fair value through profit or loss	3 624	2 869	5 987	-	-	-	12 480
Due to banks and other financial institutions	21 872 300	-	-	13 929	-	-	21 886 229
Due to the Government of the Kyrgyz Republic	17 033 154	-	-	-	-	-	17 033 154
Customer accounts	939 061	53 130	1 099 585	1 529 268	-	-	3 621 044
Debt securities issued	7 751 469	297 032	-	-	-	-	8 048 501
Liabilities to the IMF in respect of SDR allocations	8 136 099	10 577	-	-	-	-	8 146 676
Lease liabilities	4 017	8 034	36 151	251 133	-	-	299 335
Other financial liabilities	73 181	7 415	36 141	16 612	-	-	133 349
	55 812 905	**379 057**	**1 177 864**	**1 810 942**	**-**	**106 058 051**	**165 238 819**
Net position	**12 205 487**	**22 904 560**	**44 235 790**	**1 532 012**	**2 156 380**	**(106 058 051)**	**(23 023 822)**

34 RISK MANAGEMENT (CONTINUED)

(e) 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 2018:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2018
FINANCIAL ASSETS							
Gold in deposits	4 020 298	3 402 967	-	-	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	50 244 140	15 275 681	19 128 661	-	-	-	84 648 482
Loans to banks and international organisations	305 915	2 772 427	6 057 628	452	500	-	9 136 922
Loans to customers	381 878	53 917	270 556	1 539 660	131 026	-	2 377 037
Financial assets at fair value through profit or loss	1 254	-	-	-	-	-	1 254
Investments at fair value through other comprehensive income	19 012 310	10 508 467	4 122 207	111 258	89 380	-	33 843 622
Investments at amortised cost	-	-	60 008	126 416	-	-	186 424
Other financial assets	48 255	3 985	18 168	97 457	151 332	-	319 197
	74 014 050	**32 017 444**	**29 657 228**	**1 875 243**	**372 238**	**-**	**137 936 203**

CONTENT

34 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2018
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	93 502 438	93 502 438
Financial liabilities at fair value through profit or loss	2 539	5 188	5 595	-	-	-	13 322
Due to banks and other financial institutions	18 728 886	-	-	-	-	-	18 728 886
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	-	-	12 468 565
Customer accounts	1 250 657	168 262	359 490	1 171 875	-	-	2 950 284
Debt securities issued	3 038 940	3 804 945	1 098 424	-	-	-	7 942 309
Loans received	10 654	-	161 268	-	-	-	171 922
Liabilities to the IMF in respect of SDR allocations	8 207 439	14 723	-	-	-	-	8 222 162
Other financial liabilities	61 865	3 679	30 479	16 325	-	-	112 348
	43 769 545	**3 996 797**	**1 655 256**	**1 188 200**	**-**	**93 502 438**	**144 112 236**
Net position	**30 244 505**	**28 020 647**	**28 001 972**	**687 043**	**372 238**	**(93 502 438)**	**(6 176 033)**

35 AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992 the Kyrgyz Republic joined the International Monetary Fund (“the IMF”). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2019 and 2018 the quota of the Kyrgyz Republic amounted to SDR 177 600 thousand.

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

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

	31 December 2019	31 December 2018
IMF membership quota	**17 116 917**	**17 253 271**
Securities for benefit of the IMF	(17 060 136)	(17 201 127)
Current accounts of the IMF	(43 187)	(41 638)
	(17 103 323)	**(17 242 765)**

IMF loans issued to the Ministry of Finance of the Kyrgyz Republic

During 2019, the Ministry of Finance of the Kyrgyz Republic did not receive a loan for supporting the state budget. Debt on previously received loans is not recognised in the consolidated statement of financial position of the National Bank as a liability to the IMF as there is an agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank under which the Ministry of Finance of the Kyrgyz Republic is liable for rendering obligations under this loan agreement. As at 31 December 2019 the outstanding balance of this loan amounted to KGS 9 744 135 thousand (as at 31 December 2018: KGS 11 457 600 thousand).

36 RELATED PARTY TRANSACTIONS

(a) Control relationships

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

In accordance with the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, the National Bank is the central bank of the Kyrgyz Republic and is owned by the Kyrgyz Republic. The Group independently manages its activities within the limits of authority determined by the Law.

(b) Transactions with the members of the Management Board

The remuneration to the members of the National Bank’s Management Board for the years ended 31 December 2019 and 2018 comprised KGS 21 724 thousand and KGS 21 472 thousand, respectively. The remuneration consists of salary and other payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2019 and 2018 comprised KGS 24 605 and KGS 27 295 thousand, respectively. The loans are in KGS and repayable by 2032. Interest income from loans to the Management Board for the years ended 31 December 2019 and 2018 comprised KGS 263 thousand and KGS 388 thousand respectively.

The total remuneration of the members of the Management Board and the Board of Directors of OJSC Keremet Bank for the year ended 31 December 2019 is KGS 12 774 thousand (for the period from 2 October 2018 to 31 December 2018 was KGS 5 200 thousand). The remuneration includes salary and all payments. The balance on deposits of members of the Management Board and Board of Directors of OJSC Keremet Bank as at 31 December 2019 and 2018 amounted to KGS 2 308 thousand and KGS 467 thousand, respectively.

Accounting of transactions with related parties is conducted at market prices.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with other related parties

Below is a table with balances on transactions with related parties as of 31 December 2019:

	Unconsolidated subsidiaries	Associates	31 December 2019 Total
Consolidated statement of financial position			
Investments in associates	62 000	823 297	885 297

The corresponding profit and loss on transactions with other related parties for the year ended 31 December 2019 was:

	Unconsolidated subsidiaries	Associates	Year ended 31 December 2019 Total
Consolidated statement of profit or loss			
Share of profits of associates	-	140 100	140 100
Fee and commission income	-	240	240
Other income	838	8 655	9 493
Other expenses	(825)	(297)	(1 122)

Below is a table with balances on operations with related as at 31 December 2018:

	Unconsolidated subsidiaries	Associates	31 December 2018 Total
Consolidated statement of financial position			
Investments in associates	62 000	123 136	185 136

The corresponding income from transactions with other related parties for the year ended 31 December 2018 was:

	Unconsolidated subsidiaries	Associates	Year ended 31 December 2018 Total
Consolidated statement of profit or loss			
Fee and commission income	-	700	700
Other income	1 048	7 759	8 807
Other expenses	(689)	-	(689)

37 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019:

	Measured at amortised cost	At fair value through other comprehensive income	Financial instruments, measured fair value through profit or loss	31 December 2019 Total carrying amount	31 December 2019 Fair value
Gold deposits	8 765 609	-	-	8 765 609	8 765 609
Cash on hand, due from banks and other financial institutions	37 042 485	50 232 759	-	87 275 244	87 275 244
Loans to banks and international organisations	7 039 925	-	-	7 039 925	7 039 925
Loans to customers	4 691 714	-	-	4 691 714	4 376 475
Investments at fair value through other comprehensive income	-	33 977 002	-	33 977 002	33 977 002
Investments at amortised cost	125 052	-	-	125 052	125 052
Other financial assets	340 451	-	-	340 451	340 451
	58 005 236	**84 209 761**	**-**	**142 214 997**	**141 899 758**
Banknotes and coins in circulation	106 058 051	-	-	106 058 051	106 058 051
Financial liabilities at fair value through profit or loss	-	-	12 480	12 480	12 480
Due to banks and other financial institutions	21 886 229	-	-	21 886 229	21 886 229
Due to the Government of the Kyrgyz Republic	17 033 154	-	-	17 033 154	17 033 154
Customer accounts	3 621 044	-	-	3 621 044	3 671 303
Debt securities issued	8 048 501	-	-	8 048 501	8 048 501
Liabilities to the IMF in respect of SDR allocations	8 146 676	-	-	8 146 676	8 146 676
Lease liabilities	299 335	-	-	299 335	299 335
Other financial liabilities	133 349	-	-	133 349	133 349
	165 226 339	**-**	**12 480**	**165 238 819**	**165 289 078**

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

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

	Measured at amortised cost	At fair value through other comprehensive income	Financial instruments, measured fair value through profit or loss	31 December 2018 Total carrying amount	31 December 2018 Fair value
Gold deposits	7 423 265	-	-	7 423 265	7 423 265
Cash on hand, due from banks and other financial institutions	41 154 966	43 493 516	-	84 648 482	84 648 482
Loans to banks and international organisations	9 136 922	-	-	9 136 922	9 136 922
Loans to customers	2 377 037	-	-	2 377 037	2 452 715
Financial assets at fair value through profit or loss	-	-	1 254	1 254	1 254
Investments at fair value through other comprehensive income	-	33 843 622	-	33 843 622	33 843 622
Investments at amortised cost	186 424	-	-	186 424	186 424
Other financial assets	319 197	-	-	319 197	319 197
	60 597 811	**77 337 138**	**1 254**	**137 936 203**	**138 011 881**
Banknotes and coins in circulation	93 502 438	-	-	93 502 438	93 502 438
Financial liabilities at fair value through profit or loss	-	-	13 322	13 322	13 322
Due to banks and other financial institutions	18 728 886	-	-	18 728 886	18 728 886
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	12 468 565	12 468 565
Customer accounts	2 950 284	-	-	2 950 284	2 981 437
Debt securities issued	7 942 309	-	-	7 942 309	7 942 309
Loans received	171 922	-	-	171 922	171 922
Liabilities to the IMF in respect of SDR allocations	8 222 162	-	-	8 222 162	8 222 162
Other financial liabilities	112 348	-	-	112 348	112 348
	144 098 914	**-**	**13 322**	**144 112 236**	**144 143 389**

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

(b) Fair value hierarchy

The Group measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2019 Total
Financial liabilities at fair value through profit or loss	-	12 480	-	12 480
Cash on hand, due from banks and other financial institutions	-	50 232 759	-	50 232 759
Investments at fair value through other comprehensive income	32 983 156	993 846	-	33 977 002

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2018 Total
Financial assets at fair value through profit or loss	-	1 254	-	1 254
Cash on hand, due from banks and other financial institutions	-	43 493 516	-	43 493 516
Investments at fair value through other comprehensive income	33 632 244	211 378	-	33 843 622
Financial liabilities at fair value through profit or loss	-	13 322	-	13 322

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

(b) Fair value hierarchy, continued

The table below analyses financial instruments not measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2019 Total
Gold deposits	8 765 609	-	-	8 765 609
Cash on hand, due from banks and other financial institutions	-	37 042 485	-	37 042 485
Loans to banks and international organisations	-	7 039 925	-	7 039 925
Loans to customers	-	-	4 691 714	4 691 714
Investments at amortised cost	-	125 052	-	125 052
Other financial assets	-	340 451	-	340 451
Banknotes and coins in circulation	-	106 058 051	-	106 058 051
Due to banks and other financial institutions	-	21 886 229	-	21 886 229
Due to the Government of the Kyrgyz Republic	-	17 033 154	-	17 033 154
Customer accounts	-	-	3 621 044	3 621 044
Debt securities issued	-	8 048 501	-	8 048 501
Liabilities to the IMF in respect of SDR allocations	-	8 146 676	-	8 146 676
Lease liabilities	-	299 335	-	299 335
Other financial liabilities	-	133 349	-	133 349

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

(b) Fair value hierarchy, continued

The table below analyses financial instruments not measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2018 Total
Gold deposits	7 423 265	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	-	41 154 966	-	41 154 966
Loans to banks and international organisations	-	9 136 922	-	9 136 922
Loans to customers	-	-	2 377 037	2 377 037
Investments at amortised cost	-	186 424	-	186 424
Other financial assets	-	319 197	-	319 197
Banknotes and coins in circulation	-	93 502 438	-	93 502 438
Due to banks and other financial institutions	-	18 728 886	-	18 728 886
Due to the Government of the Kyrgyz Republic	-	12 468 565	-	12 468 565
Customer accounts	-	-	2 950 284	2 950 284
Debt securities issued	-	7 942 309	-	7 942 309
Loans received	-	171 922	-	171 922
Liabilities to the IMF in respect of SDR allocations	-	8 222 162	-	8 222 162
Other financial liabilities	-	112 348	-	112 348

38 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2019 and 2018, the Group did not have financial assets and financial liabilities in the statement of financial position, which were presented in net amount or would have been offset due to presence of the master netting arrangements or similar agreements.

39 SUBSEQUENT EVENTS

The general meeting of shareholders of Keremet Bank OJSC held on 26 February 2020 made a decision to increase the bank’s authorised share capital by KGS 1 500 000 thousand through issuing additional shares and private offering of additional shares. As of the date of issuance of these consolidated financial statements, the National Bank contributed cash in the amount of KGS 1 500 000 thousand.

On 26 March 2020 the IMF approved the allocation to the Kyrgyz Republic of USD 120 900 thousand of financial support to fight COVID-19. Debt on these loans will not lead to recognition of liability to the IMF in the National Bank’s consolidated statement of financial position.

CHAPTER 8. SEPARATE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the separate financial statements of the National Bank of the Kyrgyz Republic ("the National Bank"), which comprise the separate statement of financial position as at 31 December 2019, separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the National Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with financial reporting principles disclosed in Note 2 of the separate financial statements.

Basis for Opinion

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

Emphasis of matter

We draw attention to Note 2 to the separate financial statements, which describes that the National Bank also prepares consolidated financial statements of the National Bank and its subsidiaries in accordance with financial reporting principles disclosed in Note 2 of the separate financial statements. The separate financial statements should be read in conjunction with the consolidated financial statements, which were authorised for issue by the National Bank's management on 9 April 2020. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of the National Bank for the year of 2019, but does not include the separate financial statements and our auditor's report thereon.

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the separate financial statements, management is responsible for assessing the National Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless going concern assumption is not applicable.

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

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

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

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

Kanyshai Sadyrbekova

Managing Director
LLC Deloitte & Touche

Qualified Auditor of the Kyrgyz Republic
Qualification certificate №0151, Series A
dated 1 June 2012

Nurlan Bekenov

Engagement Partner

9 April 2020
Bishkek, the Kyrgyz Republic

Separate statement of financial position as at 31 december 2019

(in thousands of Soms)

	Notes	31 December 2019	31 December 2018
ASSETS			
Gold	6	48 833 361	32 151 881
Cash on hand, due from banks and other financial institutions	7	86 890 955	84 603 175
Loans to banks and international organisations	8	7 532 693	9 879 434
Investments at fair value through other comprehensive income	9	32 983 156	33 632 244
Investments at amortised cost	10	125 052	186 424
Investments in subsidiaries and associates	11	4 669 754	763 079
Property and equipment	12	1 797 308	1 707 324
Intangible assets		185 701	130 970
Non-monetary gold and gold reserves	13	6 727 241	320 943
Other assets	14	1 010 867	1 040 674
Total assets		**190 756 088**	**164 416 148**
LIABILITIES			
Banknotes and coins in circulation	15	106 244 754	93 566 134
Due to banks and other financial institutions	16	21 879 997	18 701 777
Due to the Government of the Kyrgyz Republic	17	17 033 154	12 468 565
Debt securities issued	18	8 048 501	7 992 272
Loans received	19	-	171 922
Liabilities to the IMF in respect of SDR allocations	20	8 146 676	8 222 162
Other liabilities		196 243	79 800
Total liabilities		**161 549 325**	**141 202 632**
EQUITY			
Charter capital	21	2 000 000	2 000 000
Obligatory reserve		7 476 561	7 266 168
Revaluation reserve for foreign currency and gold		17 151 905	11 838 087
Revaluation reserve for investments at fair value through other comprehensive income		13 024	5 325
Retained earnings		2 565 273	2 103 936
Total equity		**29 206 763**	**23 213 516**
Total liabilities and equity		**190 756 088**	**164 416 148**

Abdygulov T.S.
Chairman of the National Bank

9 April 2020

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

Separate statement of profit or loss for the year ended 31 december 2019

(in thousands of Soms)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Interest income	22	2 671 874	2 545 768
Interest expense	22	(553 811)	(496 840)
Net interest income	22	**2 118 063**	**2 048 928**
Commission income		72 862	66 845
Commission expense		(8 137)	(9 575)
Net commission income		**64 725**	**57 270**
Recovery/(provision) for impairment of assets	23	109 802	(324 215)
Net realised gain on foreign currencies and gold operations	24	1 449 841	1 594 233
Share of profits of associates		140 100	-
Other income		152 460	134 717
Net non-interest income		**1 852 203**	**1 404 735**
Operating income		**4 034 991**	**3 510 933**
Expenses on production of banknotes and coins, issued into circulation		(359 241)	(232 173)
Administrative expenses	25	(1 040 799)	(1 021 552)
Other expenses		(69 678)	(121 418)
Operating expenses		**(1 469 718)**	**(1 375 143)**
Profit for the year		**2 565 273**	**2 135 790**

Abdygulov T.S.
Chairman of the National Bank

9 April 2020

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

Separate statement of comprehensive income for the year ended 31 december 2019

(in thousands of Soms)

	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year	**2 565 273**	**2 135 790**
Items that may be reclassified subsequently to statement of profit or loss		
Revaluation reserve for foreign currency and gold:		
- net gain/(loss) on revaluation of assets and liabilities in foreign currency and gold	6 734 772	(985 120)
- net gain on foreign currency and gold transferred to profit or loss	(1 420 954)	(1 461 161)
Net fair value gain on investments at fair value through other comprehensive income	7 699	11 750
Other comprehensive income/(loss) for the year	**5 321 517**	**(2 434 531)**
Total comprehensive income/(loss) for the year	**7 886 790**	**(298 741)**

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9 April 2020

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Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

Separate statement of cash flows for the year ended 31 december 2019

(in thousands of Soms)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		2 609 580	2 582 073
Interest paid		(531 365)	(415 695)
Fee and commission received		72 862	66 845
Fee and commission paid		(8 137)	(9 575)
Realised gain on foreign exchange operations		28 887	95 555
Other income		113 046	94 065
Payroll expenses		(523 113)	(552 440)
Expenses on production of banknotes and coins, issued into circulation		(238 284)	(165 022)
Administrative expenses, excluding payroll expenses		(332 932)	(337 820)
Cash flows from operating activities before changes in operating assets and liabilities		**1 190 544**	**1 357 986**
(Increase)/decrease in operating assets			
Gold		(9 872 254)	(11 843 852)
Due from banks and other financial institutions		4 418 449	(7 672 637)
Loans to banks and international organisations		2 451 790	(2 814 825)
Investments at fair value through other comprehensive income		704 558	8 956 291
Non-monetary gold and gold reserves		(6 406 298)	125 716
Other assets		(132 049)	(55 379)
Increase/(decrease) in operating liabilities			
Banknotes and coins in circulation		12 678 620	2 461 868
Due to banks and other financial institutions		3 197 819	(1 969 045)
Due to the Government of the Kyrgyz Republic		2 718 311	1 116 630
Debt securities issued		87 556	2 754 330
Other liabilities		93 323	956
Net cash inflow/(outflow) from operating activities		**11 130 369**	**(7 581 961)**

Separate statement of cash flows (continued) for the year ended 31 december 2019

(in thousands of Soms)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of shares in subsidiary		(3 216 575)	(500 000)
Acquisition of shares in associate		(550 000)	-
Purchase of property, equipment and intangible assets		(380 945)	(161 408)
Proceeds on disposal of property, equipment		-	1 000
Proceeds on redemption of investments at amortised cost		64 352	64 353
Interest received on investments at amortised cost		9 652	12 870
Dividends received		8 555	8 807
Net cash used in investing activities		**(4 064 961)**	**(574 378)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans received	19	(160 155)	(742 956)
Net cash used in financing activities		**(160 155)**	**(742 956)**
Net increase/(decrease) in cash and cash equivalents		**6 905 253**	**(8 899 295)**
Effect of changes in exchange rates on cash and cash equivalents		(171 099)	(619 429)
Cash and cash equivalents as at the beginning of the year		44 963 221	54 481 945
Cash and cash equivalents as at the end of the year	**7**	**51 697 375**	**44 963 221**

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Chairman of the National Bank

9 April 2020

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

Separate statement of changes in equity for the year ended 31 december 2019

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments at fair value through other comprehensive income	Retained earnings	Total
Balance as at 1 January 2018	2 000 000	7 036 083	14 284 368	(6 425)	2 300 849	25 614 875
Impact of adopting IFRS 9	-	-	-	-	(31 854)	(31 854)
As restated	**2 000 000**	**7 036 083**	**14 284 368**	**(6 425)**	**2 268 995**	**25 583 021**
Profit for the year	-	-	-	-	2 135 790	2 135 790
Other comprehensive financial result						
Net gain on investments at fair value through other comprehensive income	-	-	-	11 750	-	11 750
Loss on revaluation of assets and liabilities in foreign currencies and gold	-	-	(985 120)	-	-	(985 120)
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 461 161)	-	-	(1 461 161)
Total other comprehensive financial result	-	-	(2 446 281)	11 750	-	(2 434 531)
Total comprehensive financial result for the year	**-**	**-**	**(2 446 281)**	**11 750**	**2 135 790**	**(298 741)**
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget (Note 21)	-	-	-	-	(2 070 764)	(2 070 764)
Transfer to obligatory reserve (Note 21)	-	230 085	-	-	(230 085)	-
Total amounts of transactions recorded directly to equity	**-**	**230 085**	**-**	**-**	**(2 300 849)**	**(2 070 764)**
Balance as at 31 December 2018	**2 000 000**	**7 266 168**	**11 838 087**	**5 325**	**2 103 936**	**23 213 516**

Separate statement of changes in equity (continued) for the year ended 31 december 2019

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments at fair value through other comprehensive income	Retained earnings	Total
Balance as at 1 January 2019	2 000 000	7 266 168	11 838 087	5 325	2 103 936	23 213 516
Profit for the year	-	-	-	-	2 565 273	2 565 273
Other comprehensive financial result						
Net gain on investments at fair value through other comprehensive income	-	-	-	7 699	-	7 699
Gain on revaluation of assets and liabilities in foreign currencies and gold	-	-	6 734 772	-	-	6 734 772
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 420 954)	-	-	(1 420 954)
Total other comprehensive financial result	-	-	5 313 818	7 699	-	5 321 517
Total comprehensive financial result for the year	**-**	**-**	**5 313 818**	**7 699**	**2 565 273**	**7 886 790**
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget (Note 21)	-	-	-	-	(1 893 543)	(1 893 543)
Transfer to obligatory reserve (Note 21)	-	210 393	-	-	(210 393)	-
Total amount of transactions recorded directly to equity	**-**	**210 393**	**-**	**-**	**(2 103 936)**	**(1 893 543)**
Balance as at 31 December 2019	**2 000 000**	**7 476 561**	**17 151 905**	**13 024**	**2 565 273**	**29 206 763**

Abdygulov T.S.
Chairman of the National Bank

9 April 2020

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

9 April 2020

Bishkek,
Kyrgyz Republic

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of Soms)

1 GENERAL INFORMATION

(a) Organisation and operations

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

The principal objective of the National Bank is to achieve and maintain price stability in the Kyrgyz Republic. To attain this goal, the National Bank performs the following functions: formulate and execute monetary policy for the country; foster well-functioning and effective payment system and interbank transfers; issue and supply banknotes and coins for circulation in economy; maintain and manage international reserves; control and regulate the activities of commercial banks, and license banks and certain financial institutions pursuant to the legislation. It also acts as a fiscal agent of the Government of the Kyrgyz Republic.

The address of the National Bank's registered office is 168 Chuy Avenue, Bishkek, Kyrgyz Republic, 720001.

As at 31 December 2019 and 2018, the National Bank has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2019 and 2018, the total number of the National Bank's employees is 679 and 657, respectively.

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

	Percentage of voting shares (%)		
Title	31 December 2019	31 December 2018	Type of activity
OJSC Keremet Bank (2018: OJSC Russian Investment Bank)	95,07	71,66	Banking services
CJSC Kyrgyz Cash Collection	100	100	Transportation of valuables

On 2 October 2018, the National Bank obtained shares of OJSC Russian Investment Bank as a result of Compensation Agreement with its shareholders and became the owner of 71,66% of shares of OJSC Russian Investment Bank.

On 27 September 2019, OJSC Russian Investment Bank has underwent re-registration in the Ministry of Justice of the Kyrgyz Republic, changing the name of OJSC Russian Investment Bank to OJSC Keremet Bank.

1 GENERAL INFORMATION (CONTINUED)

(a) Organisation and operations (continued)

On 18 January 2019 and 24 May 2019, the National Bank increased its share in the authorised capital of OJSC Keremet Bank within the framework of recovery of OJSC Keremet Bank. As a result of the fifth issue of ordinary registered shares of subsidiary bank in the amount of KGS 716 575 thousand (including cash paid in 2018 for the amount of KGS 500 000 thousand) and the sixth issue in the amount of KGS 3 000 000 thousand, the share of the National Bank equaled to 85,21% and 95,07%, respectively.

On 17 June 2019, the Decree of the Government of the Kyrgyz Republic No. 222-p was signed to increase the authorised capital of the OJSC Guarantee Fund in order with the aim of ensuring its further effective operation by issuing additional ordinary shares in the amount of KGS 550 000 thousand and offering the National Bank to purchase the additional issue of shares. On 12 July 2019, the National Bank made the decision on participation in the capital of OJSC Guarantee Fund. Pursuant to this decision, the National Bank purchased shares of the additional 4th issue of OJSC Guarantee Fund for an amount of KGS 550 000 thousand. Following the acquisition of these shares, the National Bank's share in the charter capital of OJSC Guarantee Fund was 48,59%.

As at 31 December 2019 and 2018, the National Bank also has an investment in associated organisation CJSC Interbank Processing Center (46,71% and 46,71%, respectively).

These separate financial statements were approved by the Management Board of the National Bank on 9 April 2020.

(b) Business environment

The Kyrgyz Republic is undergoing significant political, economic and social changes. As an emergency market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result, operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. Kyrgyz Republic's high degree of integration with the economies of the countries in the region determines the exposure of the Kyrgyz Republic's economy to the influence of unstable situation in international capital markets, a sharp drop in energy prices in March 2020 and a slowdown in economic growth in the main trading partner countries.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant negative impact on global economy and global financial markets. The significance of the effect of COVID-19 on the National Bank’s business largely depends on the duration and the incidence of the pandemic effects on the world economy and the economy of the Kyrgyz Republic.

1 GENERAL INFORMATION (CONTINUED)

(b) Business environment, continued

These separate financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the National Bank's separate financial statements in the period when or if they become known and estimable.

2 MAIN FINANCIAL REPORTING PRINCIPLES

(a) Statement of compliance with IFRS with certain exceptions

In accordance with the Law of the Kyrgyz Republic "On National Bank of the Kyrgyz Republic, Banks and Banking Activity" the National Bank determines policies and methods of accounting for itself based on International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with the principal modifications as described below.

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

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

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

The National Bank also prepares consolidated financial statements of the National Bank and its subsidiaries. These separate financial statements should be read in conjunction with the consolidated financial statements, which were approved for issue by the Management Board of the National Bank on 9 April 2020.

These separate financial statements have been prepared on the assumption that the National Bank will continue its operations in the foreseeable future.

(b) Basis of measurement

These separate financial statements have been prepared in accordance with the cost principle, with the exception of gold and certain financial instruments measured at fair value.

(c) Functional and presentation currency

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

In these separate financial statements for the year ended 31 December 2019, the same accounting policies, presentation and calculation methods were used as in the preparation of the National Bank's financial statements for the year ended 31 December 2018, except for the accounting policies and the impact of the application of the following new and revised standards and interpretations:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to other IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle
IFRIC 23	Uncertainty over Income Tax Treatments

New and amended IFRS Standards that are effective for the current year

IFRS 16 Leases. IFRS 16 introduces new or amended requirements for lease accounting. The standard introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and revised IFRS which became effective for the current year, continued

The date of initial application of IFRS 16 for the National Bank is 1 January 2019. Application of IFRS 16 did not have a significant impact on the separate financial statements of the National Bank.

Amendments to IFRS 9 Prepayment Features with Negative Compensation. The National Bank has adopted amendments to IFRS 9 for the first time this year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Application of amendments to IFRS 9 did not have a significant impact on the separate financial statements of the National Bank.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures. The National Bank has adopted amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. Besides, in applying IFRS 9, the National Bank does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Application of amendments to IAS 28 did not have a significant impact on the separate financial statements of the National Bank.

Annual Improvements to IFRS Standards 2015-2017 Cycle. Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, and IAS 23 Borrowing Costs. For the first time in the current year, the National Bank has adopted the amendments included in *Annual Improvements to IFRS Standards 2015-2017*. The *Annual Improvements* include amendments to four Standards:

IAS 12 Income Taxes. The amendments clarify that the entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and revised IFRS which became effective for the current year, continued

IFRS 3 Business Combinations. The amendments clarify that when the entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements. The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

The application of the *Annual Improvements to IFRS Standards 2015-2017*, did not have a significant impact on the separate financial statements of the National Bank.

IFRIC 23 Uncertainty over Income Tax Treatments. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The adoption of the amendments to IFRIC 23 did not have a significant impact on the separate financial statements of the National Bank.

(a) Accounting of gold

(i) Gold

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

Gold is measured at market price in the separate financial statements. Market price is determined by reference to the London Bullion Market Association Gold Price PM at the day preceding the reporting date. Gain on revaluation of gold is recognised in other comprehensive income in equity. Loss arising from revaluation is presented in the separate statement of profit or loss in the amount exceeding any accumulated gains previously recognised within comprehensive income in equity. Realised gain and loss on gold is subsequently recognised in the separate statement of profit or loss.

(ii) Non-monetary gold and gold reserves

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

Gold reserves are bullions that are in compliance with standards of the London Bullion Market Association.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the National Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates prevailing on the dates of the transactions. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Gains on foreign currency differences arising on retranslation are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in the statement of profit or loss in the amount exceeding previously accumulated gains in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Realised gains and losses on foreign currencies are recorded in the separate statement of profit or loss.

Exchange rates

The exchange rates used by the National Bank in the preparation of the separate financial statements as at 31 December 2019 and 2018 are as follows:

	31 December 2019	**31 December 2018**
- Som/US Dollar	69,6439	69,8500
- Som/Euro	77,9803	80,0446
- Som/Special drawing rights	96,0159	96,8578
- Som/Canadian Dollar	53,1977	51,3226
- Som/Australian Dollar	48,4952	49,2512
- Som/Great British Pound Sterling	91,0661	88,3742
- Som/Chinese Renminbi	9,9591	10,1489
- Som/Norwegian Krone	7,8510	7,9915
- Som/troy ounce of gold	105 493,0975	89 338,1500

(c) Cash and cash equivalents

For the purposes of determining cash flows, cash and cash equivalents include cash on hand in foreign currencies and unrestricted balances (nostro accounts) held with other banks.

Cash on hand in national currency is recorded as a decrease in the amount of banknotes and coins in circulation.

(d) Financial assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets, continued

(i) Classification and measurement of financial assets

All recognised financial assets included in the scope of application IFRS 9, after initial recognition, should be measured at amortised cost or at fair value in accordance with the business model of the National Bank for management of financial assets and characteristics of the contractual cash flows.

In particular:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost.
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI).
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

At initial recognition of financial asset, the National Bank shall be entitled to make an irrevocable selection/classification in each individual case. In particular:

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

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

Financial assets measured at amortised cost include the following assets:

- Gold in deposits with foreign banks (Note 6);
- Term deposits in foreign banks, term deposits in international financial institutions and cash on hand in foreign currencies (Note 7);
- Loans to banks and international organisations (Note 8);
- Securities of the Government of the Kyrgyz Republic, including Treasury bills of the Ministry of Finance of the Kyrgyz Republic (Note 10); and
- Accounts receivable (Note 14).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets, continued

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss. All other debt instruments (e.g., debt instruments managed on a fair value basis, or held for sale) and equity investments, after initial recognition, are measured at fair value through profit or loss.

The fair value of financial assets of FVTPL is determined in accordance with IFRS 13 "Fair value measurement" ("IFRS 13").

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

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

CONTENT

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets, continued

(ii) Measurement of expected credit losses for financial assets

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

- Gold in deposits with foreign banks (Note 6);
- Due from banks and other financial institutions (Note 7);
- Loans to banks and international organisations (Note 8);
- Investments at fair value through other comprehensive income (Note 9);
- Investments at amortised cost (Note 10);
- Accounts receivable (Note 14).

No impairment loss is recognised on equity instruments.

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

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

An impairment allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

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

Following formula is used to calculate ECL:

ECL = EAD * LGD * PD, where

ECL – expected credit loss;

EAD – exposure at default;

LGD – loss given default;

PD – probability of default.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets, continued

(ii) Measurement of expected credit losses for financial assets, continued

When evaluating a significant increase in the credit risk of a financial instrument since its initial recognition, the National Bank compares the risk of default on an instrument at the reporting date based on the remaining maturity with the default risk projected at the specified reporting date for the remaining maturity at initial recognition financial instrument. When conducting such an assessment, the National Bank takes into account sound and verifiable quantitative and qualitative information, including historical data and forecast information, which can be obtained without undue costs or effort based on the experience and expert assessments of the National Bank, including forecast data.

Credit impaired financial assets. A financial asset is considered credit impaired if one or more events occur that adversely affect the estimated future cash flows of such a financial asset. In relation to credit impaired financial assets, the term "Stage 3 assets" is used.

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

Estimation of expected credit losses for gold in deposits with foreign banks, cash on hand, due from banks and investments at fair value through other comprehensive income

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets, continued

(ii) Measurement of expected credit losses for financial assets, continued

Indicators of credit impairment of gold in deposits with foreign banks and cash on hand, due from banks and other financial institutions are:

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

Calculation of expected credit losses on gold deposits with foreign banks, cash on hand, banks and other financial institutions and investments measured at fair value through other comprehensive income.

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

EAD for term deposits in foreign banks, term deposits in international financial institutions and investments in government (sovereign), municipal and agency debt obligations, as well as debt obligations of international financial institutions is equal to the discounted value of contractual cash flows on assets (principal and interest), converted to soms at the official exchange rate of the National Bank as at the reporting date.

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

LGD =100% - RR, where

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets, continued

(ii) Measurement of expected credit losses for financial assets, continued

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

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

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

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

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

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

As PD of securities of the Government of the Kyrgyz Republic, weighted cumulative default rates are used, corresponding to the sovereign rating of the Kyrgyz Republic, the type of the government security of the Kyrgyz Republic and the period to its expiration.

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets, continued

(ii) Measurement of expected credit losses for financial assets, continued

Calculation of expected credit losses on loans to banks and international organisations

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

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

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

EAD – exposure at default;

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

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

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

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

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

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

(iv) Modification and derecognition of financial assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets, continued

(iv) Modification and derecognition of financial assets, continued

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of non-financial assets

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

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

(f) Investments in subsidiaries and associated companies

Investments in subsidiaries are carried at cost less impairment losses.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property and equipment

(i) Owned assets

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

(ii) Depreciation

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

Buildings	75 years;
Constructions	20 years;
Furniture and equipment	5 to 7 years;
Computer equipment	5 to 7 years;
Motor vehicles	5 to 7 years.

(h) Intangible assets

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

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

Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

(i) Financial liabilities

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial liabilities, continued

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

(j) Banknotes and coins in circulation

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

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

(k) Charter capital and reserves

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Taxation

In accordance with legislation of the Kyrgyz Republic, the National Bank is exempt from income tax. All other compulsory payments to the budget, which are assessed on the National Bank's activities, are accrued and paid in accordance with the Tax Code of the Kyrgyz Republic. Taxes that the National Bank pays as a tax agent and which are not recoverable are included as a component of administrative expenses in the statement of profit or loss.

Subsidiaries and associated organisations are payers for all types of taxes.

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

(m) Income and expense recognition in the financial statements

Other fees and other income and expenses are recognised in profit or loss on the date the service is provided.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Income and expense recognition in the financial statements, continued

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

Interest income on loan-impaired financial assets is calculated by applying the effective interest rate to the amortised cost of such assets (i.e., their gross carrying amount less estimated provision for expected credit losses). The effective interest rate for created or acquired loan-impaired financial assets (POCI) reflects the expected credit losses when determining the expected future cash flows from a financial asset.

(n) Fiduciary assets

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

(o) Offsetting

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

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

4 ADOPTION OF NEW AND REVISED IFRSS

When preparing the separate financial statements the National Bank adopted all new and revised IFRSs applicable to its operations and effective for annual periods beginning from 1 January 2019.

As of the date of approval of this separate financial report, the National Bank has not applied the following new and revised IFR Standards that have been issued but are not yet effective:

- IFRS 17	Insurance Contracts
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3	Definition of a business
- Amendments to IAS 1 and IAS 8	Definition of material
- Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

The management does not expect that the application of the Standards specified above will have a significant impact on the separate financial statements of the National Bank in subsequent periods.

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES

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

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

Significant assumptions

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

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

Significant increase of credit risk. As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL (for Stage 1 assets) or lifetime ECL (for Stage 2 or Stage 3 assets). An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the National Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

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

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

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

Sources of uncertainty in the estimates

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

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

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

Fair value measurement. In estimating the fair value of a financial asset or a liability, the National Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available (Note 30), the National Bank uses valuation models to determine the fair value of its financial instruments.

6 GOLD

	31 December 2019	31 December 2018
Gold		
Gold in deposits with foreign banks and bullions	48 833 361	32 151 881
	48 833 361	**32 151 881**

Gold is placed in deposits with foreign banks and in gold bullions that meet the standards of London Bullion Market Association.

Concentration of gold on deposits in foreign banks

As at 31 December 2019 and 2018, the National Bank placed gold in deposits with foreign banks with a credit rating of AA- and A +.

CONTENT

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

	31 December 2019	31 December 2018
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	28 395 023	23 790 991
- rated from A- to AA +	7 188 325	6 597 621
- rated from B to BBB	950 758	793 277
Total nostro accounts with foreign banks	**36 534 106**	**31 181 889**
Impairment allowance	(5 656)	(5 510)
	36 528 450	**31 176 379**
Term deposits with foreign banks		
- rated from AA- to AA+	16 739 443	21 583 658
- rated from A- to A+	15 066 039	15 537 795
- not rated	255 424	269 932
Total term deposits with foreign banks	**32 060 906**	**37 391 385**
Impairment allowance	(257 336)	(272 624)
	31 803 570	**37 118 761**
Account with the International Monetary Fund (IMF)	10 261 522	9 551 340
Accounts with the Bank for International Settlements (BIS)		
- Nostro accounts with BIS	3 442 789	2 765 800
- Term deposit with BIS	3 395 668	2 526 706
Total accounts in the BIS and the IMF	**17 099 979**	**14 843 846**
Impairment allowance	(2)	(3)
	17 099 977	**14 843 843**
Cash on hand in foreign currencies	1 458 958	1 464 192
Total cash on hand, due from banks and other financial institutions	**86 890 955**	**84 603 175**

As at 31 December 2019 and 2018, the National Bank created an allowance for an impaired term deposit with the foreign bank with no credit rating of KGS 255 424 thousand and KGS 269 932 thousand, respectively.

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

Concentration of due from banks and other financial institutions

As at 31 December 2019, the National Bank has balances with eight banks and other financial institutions rated from AAA to A- (2018: ten banks and other financial institutions with a rated from AAA to A-), whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2019 is KGS 72 277 926 thousand (2018: KGS 74 674 626 thousand).

Movement in the allowance for impairment losses is disclosed in Note 23.

Cash and cash equivalents

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

	31 December 2019	31 December 2018
Nostro accounts with international banks	36 534 106	31 181 889
Account with the IMF	10 261 522	9 551 340
Nostro accounts with the BIS	3 442 789	2 765 800
Cash on hand in foreign currencies	1 458 958	1 464 192
Cash and cash equivalents in the statement of cash flows	**51 697 375**	**44 963 221**

None of cash and cash equivalents are past due.

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS

	31 December 2019	31 December 2018
Loans issued to resident commercial banks	5 158 374	7 921 549
Loans issued to international organisations	2 550 682	2 250 704
	7 709 056	**10 172 253**
Impairment allowance	(176 363)	(292 819)
Loans issued net of impairment allowance	**7 532 693**	**9 879 434**

Movement in the allowance for impairment losses is disclosed in Note 23.

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS (CONTINUED)

Analysis of collateral

The following table provides information on collateral securing loans issued to resident commercial banks and international organisations by types of collateral as at 31 December 2019 and 2018, excluding the effect of overcollateralisation.

	31 December 2019	% of loan portfolio	31 December 2018	% of loan portfolio
Deposits in foreign currencies	2 740 578	36	3 116 180	32
Loans to customers	2 584 305	34	4 369 958	44
State securities	2 097 016	28	1 901 102	19
Real estate	110 794	2	492 194	5
	7 532 693	**100**	**9 879 434**	**100**

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

Concentration of loans extended

As at 31 December 2019 and 2018 the National Bank does not have loans issued to commercial banks whose balances exceed 10% of its own equity.

9 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
Debt instruments		
Government securities		
Government of Canada Treasury bills	3 150 377	3 031 230
Government of Great Britain Treasury bills	1 273 293	2 115 554
Government of the Republic of Korea Treasury bills	598 533	1 069 157
Government of the United States of America Treasury bills	351 226	348 651
Government of Australia Treasury bills	-	2 705 769
Government of the Russian Federation Treasury bills	-	70 877
Total government securities	**5 373 429**	**9 341 238**
Debt securities of international financial institutions	21 366 444	22 546 486
Debt instruments of agencies with credit ratings from AA to AAA	6 243 283	1 744 520
Total debt instruments	**32 983 156**	**33 632 244**

As at 31 December 2019 and 2018 investments measured at fair through other comprehensive income are not past due.

10 INVESTMENTS AT AMORTISED COST

	31 December 2019	31 December 2018
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	127 014	189 485
Impairment allowance	(1 962)	(3 061)
	125 052	**186 424**

Movement in the allowance for impairment losses is disclosed in Note 23

11 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

	Carrying amount
31 December 2017	**185 079**
Acquisition	578 000
31 December 2018	**763 079**
Acquisition of shares of subsidiary	3 216 575
Acquisition of shares of associate	550 000
Share of profits of associates	140 100
31 December 2019	**4 669 754**

Investments in subsidiaries and associates	Type of activity	Share of ownership,%	31 December 2019	Share of ownership,%	31 December 2018
OJSC Keremet Bank (2018: OJSC Russian Investment Bank)	Commercial Bank	95,07	3 794 575	71,66	578 000
CJSC Kyrgyz Cash Collection	Transportation of valuables	100,00	62 000	100,00	62 000
OJSC Guarantee Fund	Warranty Services	48,59	564 999	-	-
CJSC Interbank Process Center	Processing services	46,71	248 180	46,71	123 079
			4 669 754		**763 079**

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

On 18 January 2019, the National Bank paid for the additionally placed shares of OJSC Keremet Bank (OJSC Russian Investment Bank) in the quantity of 2 165 745 shares in the amount of KGS 216 575 thousand, thus, taking into account the cash paid in 2018 for the amount KGS 500 000 thousand participation in the additionally issued capital comprised of KGS 716 575 thousand, increasing the share of ownership of the National Bank to 85,21%.

On 24 May 2019, as part of the activities aimed at recovery of the subsidiary bank, the National Bank increased its share in authorised capital of the latter. As a result of the sixth issue of ordinary registered shares of OJSC Keremet Bank (OJSC Russian Investment Bank) for amount of KGS 3 000 000 thousand, the share of the National Bank amounted to 95,07%.

On 12 July 2019, the National Bank decided to participate in the capital of the Guarantee Fund OJSC. In accordance with this decision, the National Bank purchased shares of the additional 4th issue of the Guarantee Fund OJSC in the amount of KGS 550 000 thousand. As a result of the acquisition of these shares, the National Bank's share in the authorised capital of the Guarantee Fund OJSC amounted to 48,59%.

12 PROPERTY AND EQUIPMENT

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Total
Cost						
Balance at 1 January 2019	**713 987**	**335 180**	**899 628**	**75 045**	**356 090**	**2 379 930**
Additions	10 389	22 705	6 538	8 638	310 026	358 296
Disposals	(5 353)	(28 783)	(19 620)	(13 773)	-	(67 529)
Movements	12 121	284 010	3 797	-	(299 928)	-
Transfers	-	-	(124 313)	-	(3 615)	(127 928)
Balance at 31 December 2019	**731 144**	**613 112**	**766 030**	**69 910**	**362 573**	**2 542 769**
Depreciation						
Balance at 1 January 2019	**(122 258)**	**(163 906)**	**(348 502)**	**(37 940)**	**-**	**(672 606)**
Depreciation for the year	(11 385)	(44 775)	(115 652)	(9 569)	-	(181 381)
Disposals	800	28 298	19 620	13 773	-	62 491
Transfer	-	-	46 035	-	-	46 035
Balance at 31 December 2019	**(132 843)**	**(180 383)**	**(398 499)**	**(33 736)**	**-**	**(745 461)**
Carrying amount						
At 31 December 2019	**598 301**	**432 729**	**367 531**	**36 174**	**362 573**	**1 797 308**

During 2019, property and equipment with cost of KGS 127 928 thousand and accumulated depreciation in the amount KGS 46 035 thousand were transferred to intangible assets.

During 2019 and 2018, there were no capitalised borrowing costs associated with the acquisition or construction of property and equipment.

12 PROPERTY AND EQUIPMENT (CONTINUED)

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Total
Cost						
Balance at 1 January 2018	**632 585**	**312 215**	**868 576**	**75 045**	**349 398**	**2 237 819**
Additions	69 653	16 783	32 385	-	30 152	148 973
Disposals	(487)	(4 677)	(1 333)	-	(9)	(6 506)
Movements	12 236	10 859	-	-	(23 095)	-
Transfers	-	-	-	-	(356)	(356)
Balance at 31 December 2018	**713 987**	**335 180**	**899 628**	**75 045**	**356 090**	**2 379 930**
Depreciation						
Balance at 1 January 2018	**(110 768)**	**(126 896)**	**(231 171)**	**(27 625)**	**-**	**(496 460)**
Depreciation for the year	(11 691)	(41 564)	(118 661)	(10 315)	-	(182 231)
Disposals	201	4 554	1 330	-	-	6 085
Balance at 31 December 2018	**(122 258)**	**(163 906)**	**(348 502)**	**(37 940)**	**-**	**(672 606)**
Carrying amount						
At 31 December 2018	**591 729**	**171 274**	**551 126**	**37 105**	**356 090**	**1 707 324**

During 2018, property and equipment in the amount of KGS 356 thousand were transferred to intangible assets.

13 NON-MONETARY GOLD AND GOLD RESERVES

	31 December 2019	31 December 2018
Non-monetary gold	3 554 792	320 943
Gold reserves	3 172 449	-
	6 727 241	**320 943**

During 2019, the National Bank conducted operations to purchase gold that is not part of international reserves with the aim of forming reserves of the National Bank in the framework of the development prospects of the domestic precious metals market. Non-monetary gold and gold reserves do not participate in the National Bank's active investment operations and are not part of the National Bank's investment assets in gold.

14 OTHER ASSETS

	31 December 2019	31 December 2018
Accounts receivable	368 429	318 600
Impairment allowance	(41 277)	(19 161)
Total other financial assets	**327 152**	**299 439**
Inventories	480 986	613 446
Prepayments	97 998	20 131
Numismatic values	97 296	100 605
Other	7 435	7 053
Total other non-financial assets	**683 715**	**741 235**
	1 010 867	**1 040 674**

Movements in impairment allowance on other assets are disclosed in Note 23.

15 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2019 and 2018, banknotes and coins in circulation comprise:

	31 December 2019	31 December 2018
Banknotes and coins in circulation	108 174 429	95 499 154
Less banknotes and coins on hand and in cash desk	(1 929 675)	(1 933 020)
	106 244 754	**93 566 134**

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

16 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Current accounts of commercial banks	18 823 540	15 860 434
Current accounts of other financial institutions	3 056 457	2 841 343
	21 879 997	**18 701 777**

As at 31 December 2019, two commercial banks have balances with the National Bank that exceed 10 percent of equity (in 2018: three commercial banks and one financial institution). The total amount of these balances as at 31 December 2019 is KGS 6 391 035 thousand (as at 31 December 2018: KGS 10 561 757 thousand).

17 DUE TO THE GOVERNMENT OF THE KYRGYZ REPUBLIC

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

	31 December 2019	31 December 2018
In national currency	12 067 219	11 296 232
In foreign currency	4 965 935	1 172 333
	17 033 154	**12 468 565**

18 DEBT SECURITIES ISSUED

As at 31 December 2019 and 2018 debt securities issued include securities with the following maturities and carrying amounts:

	31 December 2019	31 December 2018
Notes of the National Bank with a term of 14 days	3 896 726	311 738
Notes of the National Bank with a term of 28 days	3 599 202	765 098
Notes of the National Bank with a term of 91 days	552 573	5 359 690
Notes of the National Bank with a term of 182 days	-	1 555 746
	8 048 501	**7 992 272**

The notes of the National Bank are placed through Automated Trading System of the National Bank, members of which are commercial banks in the Kyrgyz Republic.

19 LOANS RECEIVED

During 2019, the National Bank has not received new loans. As at 31 December 2019 and 2018, terms and conditions of loans received are as follows:

Issuer	CCY	Interest rate	Issue date	Maturity date	31 December 2019	31 December 2018
IMF, ESF (Exogenous Shocks Facility)	SDR	0%	24 December 2008	7 June 2019	-	161 268
Accrued interest	USD				-	10 654
						171 922

Borrowings under the External Shocks Facility (ESF) are expressed in the SDR and are provided to support the actions of the authorities of the Kyrgyz Republic aimed at overcoming certain external shocks. The loan has a zero interest rate. On 3 October 2016 the IMF Executive Board extended the interest exemption until the end of 2018. This condition was declared for all recipients of ESF across the world. On 7 June 2019, the loan was fully repaid.

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

			Non-cash changes		
	1 January 2019	Cash flow from financing activities (i)	Foreign currency exchange rate adjustment	Other changes (ii)	31 December 2019
Loans received	171 922	(160 155)	(1 113)	(10 654)	-
	171 922	**(160 155)**	**(1 113)**	**(10 654)**	**-**

			Non-cash changes		
	1 January 2018	Cash flow from financing activities (i)	Foreign currency exchange rate adjustment	Other changes(ii)	31 December 2018
Loans received	925 499	(742 956)	(10 775)	154	171 922
	925 499	**(742 956)**	**(10 775)**	**154**	**171 922**

(i) The cash flows from loans received amount to the net amount of the proceeds from borrowings and the repayment of borrowings in the statement of cash flows.

(ii) Other changes include accruals and interest payments.

20 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS

	31 December 2019	31 December 2018
Liabilities to the IMF in respect of SDR allocations	8 146 676	8 222 162

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by the provision of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 28). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes Kyrgyz Republic, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84 737 thousand. In 2019 and 2018, this right has not yet been utilised. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

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

			Non-cash changes		
	1 January 2019	Cash flow from financing activities (i)	Foreign currency exchange rate adjustment	Other changes (ii)	31 December 2019
Liabilities to the IMF in respect of SDR allocations	8 222 162	-	(71 340)	(4 146)	8 146 676
	8 222 162	**-**	**(71 340)**	**(4 146)**	**8 146 676**

			Non-cash changes		
	1 January 2018	Cash flow from financing activities (i)	Foreign currency exchange rate adjustment	Other changes(ii)	31 December 2018
Liabilities to the IMF in respect of SDR allocations	8 311 236	-	(93 872)	4 798	8 222 162
	8 311 236	-	**(93 872)**	**4 798**	**8 222 162**

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

(ii) Other changes include accruals and interest payments.

CONTENT

21 CHARTER CAPITAL

Paid-in capital

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

Distribution to the state budget and obligatory reserve

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

- the amount of the National Bank's charter capital and obligatory reserve is less than 10% of the monetary liabilities of the National Bank, then 90% of profit shall be distributed to the state budget of the Kyrgyz Republic. The remaining profit, after distributions to the state budget, shall be transferred to the National Bank's obligatory reserve;
- if the amount of the National Bank's charter capital and obligatory reserve equals or exceeds 10% of the monetary liabilities of the National Bank, then 100% of profit shall be distributed to the state budget of the Kyrgyz Republic.

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

Distribution to the state budget and obligatory reserve, continued

On 2 April 2019 the net profit approved for 2018 in the amount of KGS 2 103 936 thousand, out of which KGS 1 893 543 thousand was distributed to the state budget of the Kyrgyz Republic (in 2018: the net profit approved for 2017 in the amount of KGS 2 300 849 thousand, out of which KGS 2 070 764 thousand was distributed to the state budget of the Kyrgyz Republic). The net profit approved for 2018 for the purposes of distribution to the state budget includes expenses on creation of allowance for expected credit losses in accordance with IFRS 9, estimated as at the date of first time application of IFRS 9 in amount of KGS 31 854 thousand.

The amounts of distribution to the state budget and obligatory reserve are excluded from the cash flow statement due to the fact that these amounts were recorded as an increase in funds due to the Government of the Kyrgyz Republic. In 2019 KGS 210 393 thousand (2018: KGS 230 085 thousand) was transferred to the obligatory reserve.

Capital management

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

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

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

CONTENT

22 NET INTEREST INCOME

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income		
Term deposits in foreign banks and international financial institutions	937 548	783 810
Investments at fair value through other comprehensive income	781 621	663 249
Nostro accounts with foreign banks and international financial institutions	547 392	618 851
Loans to banks and international organisations	389 350	459 023
Investments at amortised cost	11 533	15 395
Other	4 430	5 440
	2 671 874	**2 545 768**
Interest expense		
Debt securities issued	(347 293)	(351 558)
Liabilities to the IMF in respect of SDR allocations	(81 269)	(76 870)
Other assets discount amortisation	(58 398)	(49 319)
Due to banks and other financial institutions	(58 393)	(10 611)
Other	(8 458)	(8 482)
	(553 811)	**(496 840)**
	2 118 063	**2 048 928**

During the year 2019 the total interest income calculated using the effective interest rate method for financial assets at FVTOCI is KGS 1 329 013 thousand (in 2018: KGS 1 282 100 thousand) and for financial assets at amortised cost is KGS 1 342 861 thousand (in 2018: KGS 1 263 668 thousand). During the year 2019 the total interest expense calculated using the effective interest rate method for financial liabilities at amortised cost is KGS 553 811 thousand (in 2018: KGS 496 840 thousand).

23 ALLOWANCES FOR IMPAIRMENT

	Cash on hand, due from banks and other financial institutions (Notes 7)			Loans to banks and other financial organisations (Note 8)				Investments at fair value through other comprehensive income		Investments at amortised cost (Note 10)	Other assets (Note 14)		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Stage 2	Stage 1	Stage 1	Stage 3	Total
Impairment allowance as at 1 January 2019	**6 073**	**2 132**	**269 932**	**548**	**-**	**127 415**	**164 856**	**28**	**222**	**3 061**	**327**	**18 834**	**593 428**
Changes in the impairment allowance													
- Transfer to Stage 1	50	(50)	-	-	-	-	-	-	-	-	-	-	-
- Transfer to Stage 2	(177)	177	-	(1 528)	1 528	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-	(21 788)	21 788	-
Net changes, resulting from changes in credit risk parameters	-	138	-	980	-	-	-	-	-	-	-	-	1 118
New financial assets originated or purchased	1 920	-	-	-	-	-	-	10	-	-	22 080	-	24 010
Derecognised financial assets	(2 693)	-	(13 729)	-	-	(99)	(117 060)	(28)	(222)	(1 099)	-	-	(134 930)
Changes in exchange rates and other changes и прочие изменения	-	-	(779)	-	-	(277)	-	-	-	-	-	36	(1 020)
Impairment allowance as at 31 December 2019	**5 173**	**2 397**	**255 424**	**-**	**1 528**	**127 039**	**47 796**	**10**	**-**	**1 962**	**619**	**40 658**	**482 606**

CONTENT

CONTENT

23 ALLOWANCES FOR IMPAIRMENT (CONTINUED)

	Cash on hand, due from banks and other financial institutions (Notes 7)			Loans to banks and other financial organisations (Note 8)			Investments at fair value through other comprehensive income		Investments at amortised cost (Note 10)	Other assets (Note 14)		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 3	Purchased or originated credit-impaired financial assets	Stage 1	Stage 2	Stage 1	Stage 1	Stage 3	Total
Impairment allowance as at 1 January 2018	**6 809**	**2 191**	**266 027**	**-**	**125 572**	**18 283**	**35**	**230**	**3 965**	**341**	**24 253**	**447 706**
Changes in the impairment allowance												
Net changes, resulting from changes in credit risk parameters	(200)	(59)	-	548	-	92 423	-	(8)	-	(14)	(478)	92 212
Write-off	-	-	-	-	-	(179 395)					(4 884)	(184 279)
New financial assets originated or purchased	2 776	-	-	-	-	233 545	28	-	-	-	-	236 349
Derecognised financial assets	(3 312)	-	-	-	(95)	-	(35)	-	(904)	-	-	(4 346)
Changes in exchange rates and other changes и прочие изменения	-	-	3 905	-	1 938	-	-	-	-	-	(57)	5 786
Impairment allowance as at 31 December 2018	**6 073**	**2 132**	**269 932**	**548**	**127 415**	**164 856**	**28**	**222**	**3 061**	**327**	**18 834**	**593 428**

24 NET REALISED GAIN ON FOREIGN CURRENCIES AND GOLD OPERATIONS

	Year ended 31 December 2019	Year ended 31 December 2018
Realised gain from operations with foreign currencies and gold	1 420 954	1 461 161
Income from spot transactions	28 887	133 072
	1 449 841	**1 594 233**

25 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2019	Year ended 31 December 2018
Personnel expenses		
Employee compensation	459 718	444 753
Payments to the Social fund	79 363	77 432
	539 081	**522 185**
Depreciation and amortisation	230 660	220 020
Repairs and maintenance	140 400	138 213
Security	38 104	39 096
Communications and information services	24 677	23 471
Professional services	12 159	11 239
Business trip expenses	10 077	12 483
Expenses for social events	9 928	10 939
Staff training	9 378	8 433
Publication and subscription	8 040	12 431
Office supplies and stationery	4 011	3 559
Other	14 284	19 483
	1 040 799	**1 021 552**

26 RISK MANAGEMENT

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

(a) Risk management policies and procedures

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

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

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

In accordance with Investment Strategy on International Reserve Management of the National Bank ("the Investment Strategy") approved by the Board on 19 December 2018, the main goals of risk management are safety and liquidity of the assets and profitability growth of the National Bank. Operations are conducted within the limitations imposed by this Investment strategy.

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

(b) Market risk

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

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

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

26 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The National Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are an estimation of the yields to maturity of these assets and liabilities.

	Weighted average effective interest rate, % 31 December 2019	**Weighted average effective interest rate, % 31 December 2018**
Interest bearing assets		
Gold	0,01	0,07
Gold in accounts with foreign banks		
Due from banks and other financial institutions		
Nostro accounts		
- USD	1,46	2,45
- EUR	(0,51)	(0,41)
- CAD	0,45	1,47
- GBP	0,04	0,34
- CNH	0,35	0,35
- NOK	1,25	0,63
- CAD	0,05	0,2
- KRW	0,10	0,07
- CHF	(1,19)	(0,51)
- SDR	0,74	1,10
- AUD	-	0,25
Term deposits		
- USD	1,98	2,84
- CAD	1,65	1,91
- GBP	0,83	1,03
- AUD	1,14	2,20
- RUB	5,78	4,75
- CNH	2,54	3,62
- NOK	1,63	0,97
- SGD	1,44	1,44
- KRW	1,46	1,82
Loans to banks and international organisations		
- KGS	4,60	4,84

26 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates, continued

	Weighted average effective interest rate, % 31 December 2019	Weighted average effective interest rate, % 31 December 2018
Investments at fair value through other comprehensive income		
- USD	1,94	2,46
- AUD	0,78	1,81
- CAD	1,72	1,91
- GBP	0,73	0,63
- KRW	1,49	1,72
Investments at amortised cost		
- KGS	6,35	6,35
Interest bearing liabilities		
Debt securities issued		
- KGS	4,06	4,38
Liabilities to the IMF in respect of SDR allocations	0,74	1,10

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets measured at fair value through other comprehensive income due to changes in the interest rates based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2019		31 December 2018	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
20 bp parallel rise	-	(30 046)	-	(8 444)
20 bp parallel fall	-	34 364	-	11 059

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

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

26 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk

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

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

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2019 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2019
Financial assets												
Gold in deposits	-	8 765 609	-	-	-	-	-	-	-	-	-	8 765 609
Cash on hand, due from banks and other financial institutions	-	-	52 148 573	1 770 868	3 358 558	1 541 032	10 261 521	2 099 052	994 489	9 355 966	5 360 896	86 890 955
Loans to banks and international organisations	7 532 693	-	-	-	-	-	-	-	-	-	-	7 532 693
Investments at fair value through other comprehensive income	-	-	25 918 925	-	3 150 377	2 042 029	-	-	1 273 293	-	598 532	32 983 156
Investments at amortised cost	125 052	-	-	-	-	-	-	-	-	-	-	125 052
Other financial assets	327 152	-	-	-	-	-	-	-	-	-	-	327 152
Total financial assets	**7 984 897**	**8 765 609**	**78 067 498**	**1 770 868**	**6 508 935**	**3 583 061**	**10 261 521**	**2 099 052**	**2 267 782**	**9 355 966**	**5 959 428**	**136 624 617**

CONTENT

26 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2019
Financial liabilities												
Banknotes and coins in circulation	106 244 754	-	-	-	-	-	-	-	-	-	-	106 244 754
Due to banks and other financial institutions	17 684 186	-	4 187 623	8 188	-	-	-	-	-	-	-	21 879 997
Due to the Government of the Kyrgyz Republic	4 965 935	-	10 956 579	971 466	-	-	-	-	-	-	139 174	17 033 154
Debt securities issued	8 048 501	-	-	-	-	-	-	-	-	-	-	8 048 501
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 146 676	-	-	-	-	8 146 676
Other financial liabilities	72 026	-	16 106	540	-	-	-	-	-	-	-	88 672
Total financial liabilities	**137 015 402**	**-**	**15 160 308**	**980 194**	**-**	**-**	**8 146 676**	**-**	**-**	**-**	**139 174**	**161 441 754**
Net balance sheet position	**(129 030 505)**	**8 765 609**	**62 907 190**	**790 674**	**6 508 935**	**3 583 061**	**2 114 845**	**2 099 052**	**2 267 782**	**9 355 966**	**5 820 254**	**(24 817 137)**

26 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2018 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2018
Financial assets												
Gold in deposits	-	7 423 265	-	-	-	-	-	-	-	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	-	-	48 278 808	3 528 427	4 681 352	2 280 177	9 551 338	2 110 904	726 892	9 423 271	4 022 006	84 603 175
Loans to banks and international organisations	9 879 434	-	-	-	-	-	-	-	-	-	-	9 879 434
Investments at fair value through other comprehensive income	-	-	23 576 547	-	3 031 231	3 839 755	-	-	2 115 554	-	1 069 157	33 632 244
Investments at amortised cost	186 424	-	-	-	-	-	-	-	-	-	-	186 424
Other financial assets	299 439	-	-	-	-	-	-	-	-	-	-	299 439
Total financial assets	**10 365 297**	**7 423 265**	**71 855 355**	**3 528 427**	**7 712 583**	**6 119 932**	**9 551 338**	**2 110 904**	**2 842 446**	**9 423 271**	**5 091 163**	**136 023 981**

CONTENT

26 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2018
Financial liabilities												
Banknotes and coins in circulation	93 566 134	-	-	-	-	-	-	-	-	-	-	93 566 134
Due to banks and other financial institutions	14 024 829	-	4 666 942	10 006	-	-	-	-	-	-	-	18 701 777
Due to the Government of the Kyrgyz Republic	11 296 232	-	50 521	949 941	-	-	-	-	-	-	171 871	12 468 565
Debt securities issued	7 992 272	-	-	-	-	-	-	-	-	-	-	7 992 272
Loans received	-	-	10 654	-	-	-	161 268	-	-	-	-	171 922
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 222 162	-	-	-	-	8 222 162
Other financial liabilities	52 607	-	16 072	1 100	-	-	-	-	-	-	-	69 779
Total financial liabilities	**126 932 074**	**-**	**4 744 189**	**961 047**	**-**	**-**	**8 383 430**	**-**	**-**	**-**	**171 871**	**141 192 611**
Net balance sheet position	**(116 566 777)**	**7 423 265**	**67 111 166**	**2 567 380**	**7 712 583**	**6 119 932**	**1 167 908**	**2 110 904**	**2 842 446**	**9 423 271**	**4 919 292**	**(5 168 630)**

26 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

Depreciation of KGS, as indicated in the table below, against following currencies as at 31 December 2019 and 2018 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	31 December 2019		31 December 2018	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
10% appreciation of USD against KGS	-	6 290 719	-	6 711 117
10% appreciation of CNH against KGS	-	935 597	-	942 327
10% appreciation of CAD against KGS	-	650 894	-	771 258
10% appreciation of AUD against KGS	-	358 306	-	611 993
10% appreciation of GBP against KGS	-	226 778	-	284 245
10% appreciation of NOK against KGS	-	209 905	-	211 090
10% appreciation of EUR against KGS	-	79 067	-	256 738
10% appreciation of other currencies to KGS	-	582 025	-	491 929

Appreciation of the KGS against the above currencies at 31 December 2019 and 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Limitations of sensitivity analysis

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

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk, that only represent the National Bank's view of possible market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

26 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(iii) Other price risk

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

As at 31 December 2019 and 2018 the National Bank was exposed to price risk of gold in deposits with foreign banks.

An increase or decrease in prices in KGS equivalent of gold, as indicated below, at 31 December 2019 and 2018 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on gold price movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

	31 December 2019		31 December 2018	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of gold prices in KGS equivalent	-	876 561	-	742 327
10% depreciation of gold prices in KGS equivalent	-	(876 561)	-	(742 327)

(c) Credit risk

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

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

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

Category A

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

Category B

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

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

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

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

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

	31 December 2019	31 December 2018
FINANCIAL ASSETS		
Gold in deposits	8 765 609	7 423 265
Cash on hand, due from banks and other financial institutions*	85 431 997	83 138 983
Loans to banks and international organisations	7 532 693	9 879 434
Investments at fair value through other comprehensive income	32 983 156	33 632 244
Investments at amortised cost	125 052	186 424
Other financial assets	327 152	299 439
Total maximum exposure	**135 165 659**	**134 559 789**

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

Internal credit risk ratings

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

Internal credit ratings	Description
1	Low or moderate risk
2	Low or moderate risk
3	Low or moderate risk
4	Watch
5	Watch
6	Watch
7	Substandard
8	Substandard
9	Doubtful
10	Impaired

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

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Cash on hand, due from banks and other financial institutions				
Credit rating 1-3: Low or moderate risk	85 947 768	-	-	85 947 768
Credit rating 4-6: Watch	-	950 757	-	950 757
Credit rating 10: Impaired	-	-	255 424	255 424
Total gross carrying amount	**85 947 768**	**950 757**	**255 424**	**87 153 949**
Impairment allowance	(5 173)	(2 397)	(255 424)	(262 994)
Carrying amount	**85 942 595**	**948 360**	**-**	**86 890 955**

	31 December 2019				
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Loans to banks and international organisations					
Credit rating 1-3: Low or moderate risk	6 858 210	-	-	-	6 858 210
Credit rating 4-6: Watch	-	183 243	-	-	183 243
Credit rating 7-8: Substandard	-	-	-	540 564	540 564
Credit rating 10: Impaired	-	-	127 039	-	127 039
Total gross carrying amount	**6 858 210**	**183 243**	**127 039**	**540 564**	**7 709 056**
Impairment allowance	-	(1 528)	(127 039)	(47 796)	(176 363)
Carrying amount	**6 858 210**	**181 715**	**-**	**492 768**	**7 532 693**

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Credit rating 1-3: Low or moderate risk	32 983 156	-	-	32 983 156
Total carrying amount	**32 983 156**	**-**	**-**	**32 983 156**

	31 December 2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Credit rating 1-3: Low or moderate risk	127 014	-	-	127 014
Total gross carrying amount	**127 014**	**-**	**-**	**127 014**
Impairment allowance	(1 962)	-	-	(1 962)
Carrying amount	**125 052**	**-**	**-**	**125 052**

	31 December 2019			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Other financial assets				
Credit rating 1-3: Low or moderate risk	326 586	-	-	326 586
Credit rating 10: Impaired	-	-	41 843	41 843
Total gross carrying amount	**326 586**	**-**	**41 843**	**368 429**
Impairment allowance	(619)	-	(40 658)	(41 277)
Carrying amount	**325 967**	**-**	**1 185**	**327 152**

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2018			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Cash on hand, due from banks and other financial institutions				
Credit rating 1-3: Low or moderate risk	83 715 220	-	-	83 715 220
Credit rating 4-6: Watch	-	896 160	-	896 160
Credit rating 10: Impaired	-	-	269 932	269 932
Total gross carrying amount	**83 715 220**	**896 160**	**269 932**	**84 881 312**
Impairment allowance	(6 073)	(2 132)	(269 932)	(278 137)
Carrying amount	**83 709 147**	**894 028**	**-**	**84 603 175**

	31 December 2018				
	Stage 1	Stage 2	Stage 3		
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Loans to banks and international organisations					
Credit rating 1-3: Low or moderate risk	9 137 470	-	-	-	9 137 470
Credit rating 4-6: Watch	-	94 059	-	-	94 059
Credit rating 7-8: Substandard	-	-	-	813 309	813 309
Credit rating 10: Impaired	-	-	127 415	-	127 415
Total gross carrying amount	**9 137 470**	**94 059**	**127 415**	**813 309**	**10 172 253**
Impairment allowance	(548)	-	(127 415)	(164 856)	(292 819)
Carrying amount	**9 136 922**	**94 059**	**-**	**648 453**	**9 879 434**

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2018			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Credit rating 1-3: Low or moderate risk	33 561 367	-	-	33 561 367
Credit rating 4-6: Watch	-	70 877	-	70 877
Total carrying amount	**33 561 367**	**70 877**	**-**	**33 632 244**

	31 December 2018			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Credit rating 1-3: Low or moderate risk	189 485	-	-	189 485
Total gross carrying amount	**189 485**	**-**	**-**	**189 485**
Impairment allowance	(3 061)	-	-	(3 061)
Carrying amount	**186 424**	**-**	**-**	**186 424**

	31 December 2018			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Other financial assets				
Credit rating 1-3: Low or moderate risk	299 766	-	-	299 766
Credit rating 10: Impaired	-	-	18 834	18 834
Total gross carrying amount	**299 766**	**-**	**18 834**	**318 600**
Impairment allowance	(327)	-	(18 834)	(19 161)
Carrying amount	**299 439**	**-**	**-**	**299 439**

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

The tables below analyse information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the impairment allowance during the year 2019 per class of financial assets:

	2019			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Cash on hand, due from banks and other financial institutions				
Gross carrying amount as at 1 January 2019	**83 715 220**	**896 160**	**269 932**	**84 881 312**
Changes in gross carrying amount				
- Transfer to Stage 1	106 295	(106 295)	-	-
- Transfer to Stage 2	(20 686 725)	20 686 725	-	
New financial assets originated or purchased	114 882 725	-	-	114 882 725
Financial assets that have been derecognised	(91 752 610)	(20 602 264)	(13 730)	(112 368 604)
Foreign exchange and other changes	(317 137)	76 431	(778)	(241 484)
Gross carrying amount as at 31 December 2019	**85 947 768**	**950 757**	**255 424**	**87 153 949**
Impairment allowance as at 31 December 2019	**(5 173)**	**(2 397)**	**(255 424)**	**(262 994)**

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2019				
	Stage 1	Stage 2	Stage 3		
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Loans to banks and international organisations					
Gross carrying amount as at 1 January 2019	**9 137 470**	**94 059**	**127 415**	**813 309**	**10 172 253**
Changes in gross carrying amount					
- Transfer to Stage 2	(183 243)	183 243	-	-	-
New financial assets originated or purchased	2 336 674		-	2 243	2 338 917
Financial assets that have been derecognised	(4 432 691)	(94 059)	(99)	(274 988)	(4 801 837)
Write-off	-	-	-	-	-
Foreign exchange and other changes	-	-	(277)	-	(277)
Gross carrying amount as at 31 December 2019	**6 858 210**	**183 243**	**127 039**	**540 564**	**7 709 056**
Impairment allowance as at 31 December 2019	**-**	**(1 528)**	**(127 039)**	**(47 796)**	**(176 363)**

	2019			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2019	**33 561 367**	**70 877**	**-**	**33 632 244**
Changes in gross carrying amount				
New financial assets originated or purchased	94 950 350	-	-	94 950 350
Financial assets that have been derecognised	(95 555 640)	(70 877)	-	(95 626 517)
Write-off	-	-	-	-
Foreign exchange and other changes	27 079	-	-	27 079
Carrying amount as at 31 December 2019	**32 983 156**	**-**	**-**	**32 983 156**

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2019			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month expected credit losses	**Lifetime expected credit losses**	**Lifetime expected credit losses**	**Total**
Investments at amortised cost				
Gross carrying amount as at 1 January 2019	**189 485**	**-**	**-**	**189 485**
Changes in gross carrying amount				
Financial assets that have been derecognised	(62 471)	-	-	(62 471)
Gross carrying amount as at 31 December 2019	**127 014**			**127 014**
Impairment allowance as at 31 December 2019	**(1 962)**	**-**	**-**	**(1 962)**

	2019			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month expected credit losses	**Lifetime expected credit losses**	**Lifetime expected credit losses**	**Total**
Other financial assets				
Gross carrying amount as at 1 January 2019	**299 766**	**-**	**18 834**	**318 600**
Changes in gross carrying amount				
- Transfer to Stage 3	(21 160)	-	21 160	-
New financial assets originated or purchased	47 980	-	1 813	49 793
Foreign exchange and other changes	-	-	36	36
Gross carrying amount as at 31 December 2019	**326 586**	**-**	**41 843**	**368 429**
Impairment allowance as at 31 December 2019	**(619)**	**-**	**(40 658)**	**(41 277)**

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

The tables below provide an analysis of significant changes in the gross carrying value of financial assets during the period, which resulted in a change in the amount of the provision for losses in 2018 by class of asset:

	2018			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month expected credit losses	**Lifetime expected credit losses**	**Lifetime expected credit losses**	**Total**
Cash on hand, due from banks and other financial institutions				
Gross carrying amount as at 1 January 2018	**85 975 712**	**806 977**	**266 027**	**87 048 716**
Changes in gross carrying amount				
- Transfer to Stage 2	(18 144 263)	18 144 263	-	-
New financial assets originated or purchased	171 350 001	-	-	171 350 001
Financial assets that have been derecognised	(154 581 675)	(17 931 466)	-	(172 513 141)
Foreign exchange and other changes	(884 555)	(123 614)	3 905	(1 004 264)
Gross carrying amount as at 31 December 2018	**83 715 220**	**896 160**	**269 932**	**84 881 312**
Impairment allowance as at 31 December 2018	**(6 073)**	**(2 132)**	**(269 932)**	**(278 137)**

CONTENT

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1	Stage 2	Stage 3		
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Total
Loans to banks and international organisations					
Gross carrying amount as at 1 January 2018	**6 795 889**	**185 612**	**125 572**	**538 396**	**7 645 469**
Changes in gross carrying amount					
New financial assets originated or purchased	3 326 244	-	-	454 383	3 780 627
Financial assets that have been derecognised	(984 663)	(91 553)	(95)	(75)	(1 076 386)
Write-off	-	-	-	(179 395)	(179 395)
Foreign exchange and other changes	-	-	1 938	-	1 938
Gross carrying amount as at 31 December 2018	**9 137 470**	**94 059**	**127 415**	**813 309**	**10 172 253**
Impairment allowance as at 31 December 2018	**(548)**	**-**	**(127 415)**	**(164 856)**	**(292 819)**

	2018			
	Stage 1	Stage 2	Stage 3	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Total
Investments at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2018	**42 939 313**	**70 571**	**-**	**43 009 884**
Changes in gross carrying amount				
New financial assets originated or purchased	174 642 941	-	-	174 642 941
Financial assets that have been derecognised	(183 671 251)	(600)	-	(183 671 851)
Write-off	-	-	-	-
Foreign exchange and other changes	(349 636)	906	-	(348 730)
Carrying amount as at 31 December 2018	**33 561 367**	**70 877**	**-**	**33 632 244**

26 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Investments at amortised cost				
Gross carrying amount as at 1 January 2018	**251 313**	**-**	**-**	**251 313**
		-	**-**	
Changes in gross carrying amount				
Financial assets that have been derecognised	(61 828)	-	-	(61 828)
Gross carrying amount as at 31 December 2018	**189 485**	**-**	**-**	**189 485**
Impairment allowance as at 31 December 2018	**(3 061)**	**-**	**-**	**(3 061)**

	2018			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Other financial assets				
Gross carrying amount as at 1 January 2018	**278 187**	**-**	**24 253**	**302 440**
		-	**-**	
Changes in gross carrying amount				
- Changes due to modifications that did not result in derecognition	-	-	(478)	(478)
New financial assets originated or purchased	21 579	-	-	21 579
Write-off	-	-	(4 884)	(4 884)
Foreign exchange and other changes	-	-	(57)	(57)
Gross carrying amount as at 31 December 2018	**299 766**	**-**	**18 834**	**318 600**
Impairment allowance as at 31 December 2018	**(327)**	**-**	**(18 834)**	**(19 161)**

26 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations

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

The following table shows the geographical concentration of assets and liabilities at 31 December 2019:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2019 Total
Financials assets					
Gold in deposits	-	8 765 609	-	-	8 765 609
Cash on hand, due from banks and other financial institutions	1 458 958	50 800 982	17 531 038	17 099 977	86 890 955
Loans to banks and international organisations	7 532 693	-	-	-	7 532 693
Investments at fair value through other comprehensive income (2017: Investments available for sale)	-	11 616 712	-	21 366 444	32 983 156
Investments at amortised cost	125 052	-	-	-	125 052
Other financial assets	327 152	-	-	-	327 152
Total financial assets	**9 443 855**	**71 183 303**	**17 531 038**	**38 466 421**	**136 624 617**
Financial liabilities					
Banknotes and coins in circulation	106 244 754	-	-	-	106 244 754
Due to banks and other financial institutions	21 656 894	-	149 940	73 163	21 879 997
Due to the Government of the Kyrgyz Republic	17 033 154	-	-	-	17 033 154
Debt securities issued	8 048 501	-	-	-	8 048 501
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 146 676	8 146 676
Other financial liabilities	68 178	2 099	18 395	-	88 672
Total financial liabilities	**153 051 481**	**2 099**	**168 335**	**8 219 839**	**161 441 754**
Net balance sheet position	**(143 607 626)**	**71 181 204**	**17 362 703**	**30 246 582**	**(24 817 137)**

26 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations, continued

The following table shows the geographical concentration of assets and liabilities at 31 December 2018:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2018 Total
Financials assets					
Gold in deposits	-	7 423 265	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	1 464 192	49 256 606	19 038 534	14 843 843	84 603 175
Loans to banks and international organisations	9 879 434	-	-	-	9 879 434
Investments at fair value through other comprehensive income (2017: Investments available for sale)	-	11 014 882	70 877	22 546 485	33 632 244
Investments at amortised cost	186 424	-	-	-	186 424
Other financial assets	299 439	-	-	-	299 439
Total financial assets	**11 829 489**	**67 694 753**	**19 109 411**	**37 390 328**	**136 023 981**
Financial liabilities					
Banknotes and coins in circulation	93 566 134	-	-	-	93 566 134
Due to banks and other financial institutions	18 276 284	-	291 428	134 065	18 701 777
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	12 468 565
Debt securities issued	7 992 272	-	-	-	7 992 272
Loans received	10 654	-	-	161 268	171 922
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 222 162	8 222 162
Other financial liabilities	50 100	3 240	16 439	-	69 779
Total financial liabilities	**132 364 009**	**3 240**	**307 867**	**8 517 495**	**141 192 611**
Net balance sheet position	**(120 534 520)**	**67 691 513**	**18 801 544**	**28 872 833**	**(5 168 630)**

26 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. It is not a common practice for financial institutions to completely match maturity of assets and liabilities due to the diversity of operations and associated uncertainty.

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

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

Since the National Bank is the emission bank (the National Bank carries out the issue of national currency), the default risk on fulfillment its obligations in national currency is minimal, and liquidity risk is more applicable for obligations of the National Bank denominated in foreign currency.

The liquidity management policy requires:

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

26 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2019 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	Carrying amount 31 December 2019
Due to banks and other financial institutions	21 879 997	-	-	-	-	21 879 997	21 879 997
Due to the Government of the Kyrgyz Republic	17 033 154	-	-	-	-	17 033 154	17 033 154
Debt securities issued	7 761 200	300 000	-	-	-	8 061 200	8 048 501
Liabilities to the IMF in respect of SDR allocations	8 136 099	10 577	-	-	-	8 146 676	8 146 676
Other financial liabilities	28 504	7 415	78	36 063	16 612	88 672	88 672
	54 838 954	**317 992**	**78**	**36 063**	**16 612**	**55 209 699**	**55 197 000**

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	Carrying amount 31 December 2018
Due to banks and other financial institutions	18 701 777	-	-	-	-	18 701 777	18 701 777
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	-	12 468 565	12 468 565
Debt securities issued	3 094 000	3 833 800	1 120 250	-	-	8 048 050	7 992 272
Loans received	10 654	-	161 268	174	-	172 096	171 922
Liabilities to the IMF in respect of SDR allocations	8 207 439	14 723	-	-	-	8 222 162	8 222 162
Other financial liabilities	19 296	3 679	152	30 327	16 325	69 779	69 779
	42 501 731	**3 852 202**	**1 281 670**	**30 501**	**16 325**	**47 682 429**	**47 626 477**

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

26 RISK MANAGEMENT (CONTINUED)

(e) 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 2019:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2019
FINANCIAL ASSETS							
Gold in deposits	7 605 185	1 160 424	-	-	-	-	8 765 609
Cash on hand, due from banks and other financial institutions	55 658 164	12 016 456	19 216 335	-	-	-	86 890 955
Loans to banks and international organisations	237 785	3 449 510	3 845 398	-	-	-	7 532 693
Investments at fair value through other comprehensive income	3 853 304	6 974 487	22 155 365	-	-	-	32 983 156
Investments at amortised cost	-	-	61 471	63 581	-	-	125 052
Other financial assets	10 240	6 075	26 081	142 291	142 465	-	327 152
	67 364 678	**23 606 952**	**45 304 650**	**205 872**	**142 465**	-	**136 624 617**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	106 244 754	106 244 754
Due to banks and other financial institutions	21 879 997	-	-	-	-	-	21 879 997
Due to the Government of the Kyrgyz Republic	17 033 154	-	-	-	-	-	17 033 154
Debt securities issued	7 751 469	297 032	-	-	-	-	8 048 501
Liabilities to the IMF in respect of SDR allocations	8 136 099	10 577	-	-	-	-	8 146 676
Other financial liabilities	28 504	7 415	36 141	16 612	-	-	88 672
	54 829 223	**315 024**	**36 141**	**16 612**	**-**	106 244 754	**161 441 754**
Net position	**12 535 455**	**23 291 928**	**45 268 509**	**189 260**	**142 465**	**(106 244 754)**	**(24 817 137)**

CONTENT

26 RISK MANAGEMENT (CONTINUED)

(e) 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 2018:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2018
FINANCIAL ASSETS							
Gold in deposits	4 020 298	3 402 967	-	-	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	50 198 833	15 275 681	19 128 661	-	-	-	84 603 175
Loans to banks and international organisations	309 620	3 201 184	6 367 678	452	500	-	9 879 434
Investments at fair value through other comprehensive income	19 012 310	10 501 057	4 118 877	-	-	-	33 632 244
Investments at amortised cost	-	-	60 008	126 416	-	-	186 424
Other financial assets	28 497	3 985	18 168	97 457	151 332	-	299 439
	73 569 558	**32 384 874**	**29 693 392**	**224 325**	**151 832**	**-**	**136 023 981**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	93 566 134	93 566 134
Due to banks and other financial institutions	18 701 777	-	-	-	-	-	18 701 777
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	-	-	12 468 565
Debt securities issued	3 088 903	3 804 945	1 098 424	-	-	-	7 992 272
Loans received	10 654	-	161 268	-	-	-	171 922
Liabilities to the IMF in respect of SDR allocations	8 207 439	14 723	-	-	-	-	8 222 162
Other financial liabilities	19 296	3 679	30 479	16 325	-	-	69 779
	42 496 634	**3 823 347**	**1 290 171**	**16 325**	**-**	93 566 134	**141 192 611**
Net position	**31 072 924**	**28 561 527**	**28 403 221**	**208 000**	**151 832**	**(93 566 134)**	**(5 168 630)**

27 COMMITMENTS

(a) Insurance

The insurance industry in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The National Bank does not have full coverage for its premises and equipment, 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 National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for six calendar years.

Taking into consideration that the National Bank has exemption from income tax and several other taxes, tax liabilities origination is not obvious and their influence on the financial statements of the National Bank is not significant.

28 AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992 the Kyrgyz Republic joined the International Monetary Fund ("the IMF"). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2019 and 2018, the quota of the Kyrgyz Republic amounted to SDR 177 600 thousand.

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

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

	31 December 2019	31 December 2018
IMF membership quota	**17 116 917**	**17 253 271**
Securities for benefit of the IMF	(17 060 136)	(17 201 127)
Current accounts of the IMF	(43 187)	(41 638)
	(17 103 323)	**(17 242 765)**

IMF loans issued to the Ministry of Finance of the Kyrgyz Republic

During 2019, the Ministry of Finance of the Kyrgyz Republic did not receive a loan to financially support the state budget. Debt on previously received loans is not taken into account in the separate statement of financial position of the National Bank as an obligation to the IMF, since an agreement was signed between the Ministry of Finance of the Kyrgyz Republic and the National Bank, according to which the Ministry of Finance of the Kyrgyz Republic assumed obligations for these loans. As at 31 December 2019, the outstanding balance of these loans amounted to KGS 9 744 135 thousand (2018: KGS 11 457 600 thousand).

29 RELATED PARTY TRANSACTIONS

(a) Control relationships

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

In accordance with the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" the National Bank is the central bank of the Kyrgyz Republic and is owned by the Kyrgyz Republic. The National Bank independently manages its activities within the limits of authority determined by the Law.

(b) Transactions with the members of the Management Board

The total remuneration to the members of the National Bank's Management Board for the years ended 31 December 2019 and 2018 comprised KGS 21 724 thousand and KGS 21 472 thousand, respectively. The remuneration consists of salary and all payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2019 and 2018 comprised KGS 24 605 and KGS 27 295 thousand, respectively. The loans are in KGS and repayable by 2032. Interest income from loans to the Management Board for the years ended 31 December 2019 and 2018 comprised KGS 263 thousand and KGS 388 thousand, respectively.

Accounting of transactions with related parties is conducted at market prices.

(c) Transactions with other related parties

Below is a table with balances on transactions with related parties as of 31 December 2019:

	Subsidiaries	Associates	31 December 2019 Total
Separate statement of financial position			
Loans to banks and international organisations	540 564	-	540 564
Impairment allowance on loans	(47 796)	-	(47 796)
Investments in subsidiaries and associates	3 856 575	813 179	4 669 754
Due to banks and other financial institutions	258 427	-	258 427

Below is a table with balances on operations with related parties as at 31 December 2018:

	Subsidiaries	Associates	31 December 2018 Total
Separate statement of financial position			
Loans to banks and international organisations	907 368	-	907 368
Impairment allowance on loans	(164 856)	-	(164 856)
Investments in subsidiaries and associates	640 000	123 079	763 079
Due to banks and other financial institutions	21 472	-	21 472
Debt securities issued	49 963	-	49 963

29 RELATED PARTY TRANSACTIONS (CONTINUED)

The corresponding income from transactions with other related parties for the year ended 31 December 2019 was:

	Subsidiaries	Associates	31 December 2019 Total
Separate statement of profit and loss			
Share of profits of associates	-	140 100	140 100
Interest income	35 370	-	35 370
Fee and commission income	2 575	240	2 815
Other income	847	8 655	9 502
Interest expenses	(21 557)	-	(21 557)
Other expenses	(825)	(297)	(1 122)

The corresponding income from transactions with other related parties for the year ended 31 December 2018 was:

	Subsidiaries	Associates	31 December 2018 Total
Separate statement of profit and loss			
Interest income	11 282	-	11 282
Fee and commission income	384	700	1 084
Other income	1 048	7 759	8 807
Interest expenses	(689)	-	(689)
Other expenses	(412)	-	(412)

30 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019:

	At amortised cost	At fair value through other comprehensive income	31 December 2019 Total carrying amount	31 December 2019 Fair value
Gold in deposits	8 765 609	-	8 765 609	8 765 609
Cash on hand, due from banks and other financial institutions	36 658 196	50 232 759	86 890 955	86 890 955
Loans to banks and international organisations	7 532 693	-	7 532 693	7 532 693
Investments at fair value through other comprehensive income	-	32 983 156	32 983 156	32 983 156
Investments at amortised cost	125 052	-	125 052	125 052
Other financial assets	327 152	-	327 152	327 152
	53 408 702	**83 215 915**	**136 624 617**	**136 624 617**
Banknotes and coins in circulation	106 244 754	-	106 244 754	106 244 754
Due to banks and other financial institutions	21 879 997	-	21 879 997	21 879 997
Due to the Government of the Kyrgyz Republic	17 033 154	-	17 033 154	17 033 154
Debt securities issued	8 048 501	-	8 048 501	8 048 501
Liabilities to the IMF in respect of SDR allocations	8 146 676	-	8 146 676	8 146 676
Other financial liabilities	88 672	-	88 672	88 672
	161 441 754	**-**	**161 441 754**	**161 441 754**

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

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

	At amortised cost	At fair value through other comprehensive income	31 December 2018 Total carrying amount	31 December 2018 Fair value
Gold in deposits	7 423 265	-	7 423 265	7 423 265
Cash on hand, due from banks and other financial institutions	41 109 659	43 493 516	84 603 175	84 603 175
Loans to banks and international organisations	9 879 434	-	9 879 434	9 879 434
Investments at fair value through other comprehensive income	-	33 632 244	33 632 244	33 632 244
Investments at amortised cost	186 424	-	186 424	186 424
Other financial assets	299 439	-	299 439	299 439
	58 898 221	**77 125 760**	**136 023 981**	**136 023 981**
Banknotes and coins in circulation	93 566 134	-	93 566 134	93 566 134
Due to banks and other financial institutions	18 701 777	-	18 701 777	18 701 777
Due to the Government of the Kyrgyz Republic	12 468 565	-	12 468 565	12 468 565
Debt securities issued	7 992 272	-	7 992 272	7 992 272
Loans received	171 922	-	171 922	171 922
Liabilities to the IMF in respect of SDR allocations	8 222 162	-	8 222 162	8 222 162
Other financial liabilities	69 779	-	69 779	69 779
	141 192 611	**-**	**141 192 611**	**141 192 611**

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

(b) Fair value hierarchy

The National Bank measures fair values for financial instruments recorded on the separate statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2019 Total
Cash on hand, due from banks and other financial institutions	-	50 232 759	-	50 232 759
Investments at fair value through other comprehensive income	32 983 156	-	-	32 983 156

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

(b) Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2018 Total
Cash on hand, due from banks and other financial institutions	-	43 493 516	-	43 493 516
Investments at fair value through other comprehensive income	33 632 244	-	-	33 632 244

The table below analyses financial instruments not measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2019 Total
Gold in deposits	8 765 609	-	-	8 765 609
Cash on hand, due from banks and other financial institutions	-	36 658 196	-	36 658 196
Loans to banks and international organisations	-	7 532 693	-	7 532 693
Investments at amortised cost	-	125 052	-	125 052
Other financial assets	-	327 152	-	327 152
Banknotes and coins in circulation	-	106 244 754	-	106 244 754
Due to banks and other financial institutions	-	21 879 997	-	21 879 997
Due to the Government of the Kyrgyz Republic	-	17 033 154	-	17 033 154
Debt securities issued	-	8 048 501	-	8 048 501
Liabilities to the IMF in respect of SDR allocations	-	8 146 676	-	8 146 676
Other financial liabilities	-	88 672	-	88 672

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

(b) Fair value hierarchy, continued

The table below analyses financial instruments not measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2018 Total
Gold in deposits	7 423 265	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	-	41 109 659		41 109 659
Loans to banks and international organisations	-	9 879 434	-	9 879 434
Investments at amortised cost	-	186 424	-	186 424
Other financial assets	-	299 439	-	299 439
Banknotes and coins in circulation	-	93 566 134	-	93 566 134
Due to banks and other financial institutions	-	18 701 777	-	18 701 777
Due to the Government of the Kyrgyz Republic	-	12 468 565	-	12 468 565
Debt securities issued	-	7 992 272	-	7 992 272
Loans received	-	171 922	-	171 922
Liabilities to the IMF in respect of SDR allocations	-	8 222 162	-	8 222 162
Other financial liabilities	-	69 779	-	69 779

31 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2019 and 2018 the National Bank did not have financial assets and financial liabilities in the statement of financial position, which were presented in net amount or would have been offset due to presence of the master netting arrangements or similar agreements.

32 SUBSEQUENT EVENTS

The general meeting of shareholders of Keremet Bank OJSC held on 26 February 2020 made a decision to increase the bank's authorised share capital by KGS 1 500 000 thousand through issuing additional shares and private offering of additional shares. As of the date of issuance of these separate financial statements, the National Bank contributed cash in the amount of KGS 1 500 000 thousand.

On 26 March 2020 the IMF approved the allocation to the Kyrgyz Republic of USD 120 900 thousand of financial support to fight COVID-19. Debt on these loans will not lead to recognition of liability to the IMF in the National Bank's separate statement of financial position.