



RUSSIAN-KYRGYZ
DEVELOPMENT FUND

ANNUAL

REPORT

2017



Through joint development to prosperous Kyrgyzstan!

Bishkek, Kyrgyzstan



04

About the Russian-Kyrgyz Development Fund

06

Message of the Chairman of the Management Board

07

The Management of the Fund

10

Investment and project activity of the Fund

20

Socio-economic effect of the Fund's activity

26

International activity

30

Activity in the financial markets and treasury transactions

34

Risk management

38

2018 activity plans

44

Audited financial statements



ABOUT THE RUSSIAN-KYRGYZ DEVELOPMENT FUND



ABOUT THE RUSSIAN-KYRGYZ DEVELOPMENT FUND



The Fund is an efficient tool for expanding investment cooperation, modernization and development of the economy of the Kyrgyz Republic.

The Russian-Kyrgyz Development Fund was established based on the Agreement "On Economic Cooperation Development in the Context of Eurasian Economic Integration" between the Government of the Kyrgyz Republic and the Government of the Russian Federation dated May 29, 2014, the Agreement "On the Russian-Kyrgyz Development Fund" between the Government of the Kyrgyz Republic and the Government of the Russian Federation dated November 24, 2014.

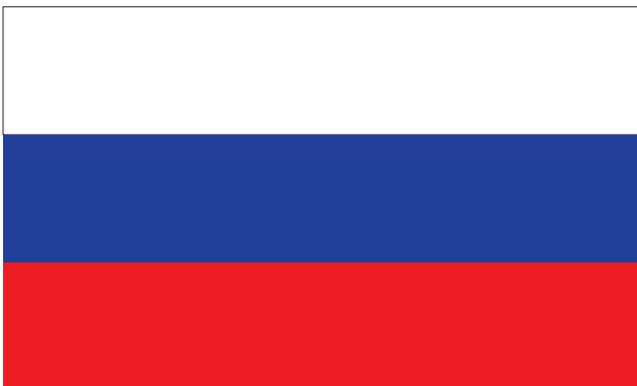
The Fund was established to promote economic cooperation between the Kyrgyz Republic and the Russian Federation, modernization and development of the economy of the Kyrgyz Republic, effective utilization of opportunities arising from participation of the Parties in the Eurasian

economic integration. The Fund is an international organization, being a subject of the international law.

The Fund is an efficient tool for expanding investment cooperation, modernization and development of the economy of the Kyrgyz Republic. Creation of a special financial institution for adaptation to the EAEU membership conditions was a timely step. The Fund has become a reliable long-term partner providing favourable conditions for the development of real production for many entrepreneurs of the Kyrgyz Republic.

The Fund's main objectives are contribution to the real sector of the economy, replacement of physically and morally obsolete fixed assets and introducing technical innovations in both industry and agriculture. As an international financial institution, the Fund uses all opportunities to additionally attract preferential financial resources to the economy of the Kyrgyz Republic.

The whole set of activities implemented by the Fund as part of its main activity largely complies with the objectives of the documents on sustainable development of the Kyrgyz Republic adopted at the state level.





The Board of the Fund



The Management Board of the Fund





The first textile factory since the independence of Kyrgyzstan



LLC «Textile Trans»

Increasing competitiveness of the domestic garment production in foreign trade by reducing the cost of knitted fabrics.

The first small hydropower plant since the independence of Kyrgyzstan



LLC «Tegirmentin hydroelectric power plants»

Hydroelectric power plant is intended to supply generated electricity to the nationwide grid of Kyrgyzstan.



INVESTMENT AND PROJECT ACTIVITY OF THE FUND



In order to achieve the established objectives of the Fund, new products and instruments for financing business entities were introduced in 2017. In particular, the Fund started joint co-financing of projects with the international financial institutions and commercial banks of the Kyrgyz Republic. In addition, new loan products were developed in 2017 aimed to ensure availability of financing for a wide range of entrepreneurs.

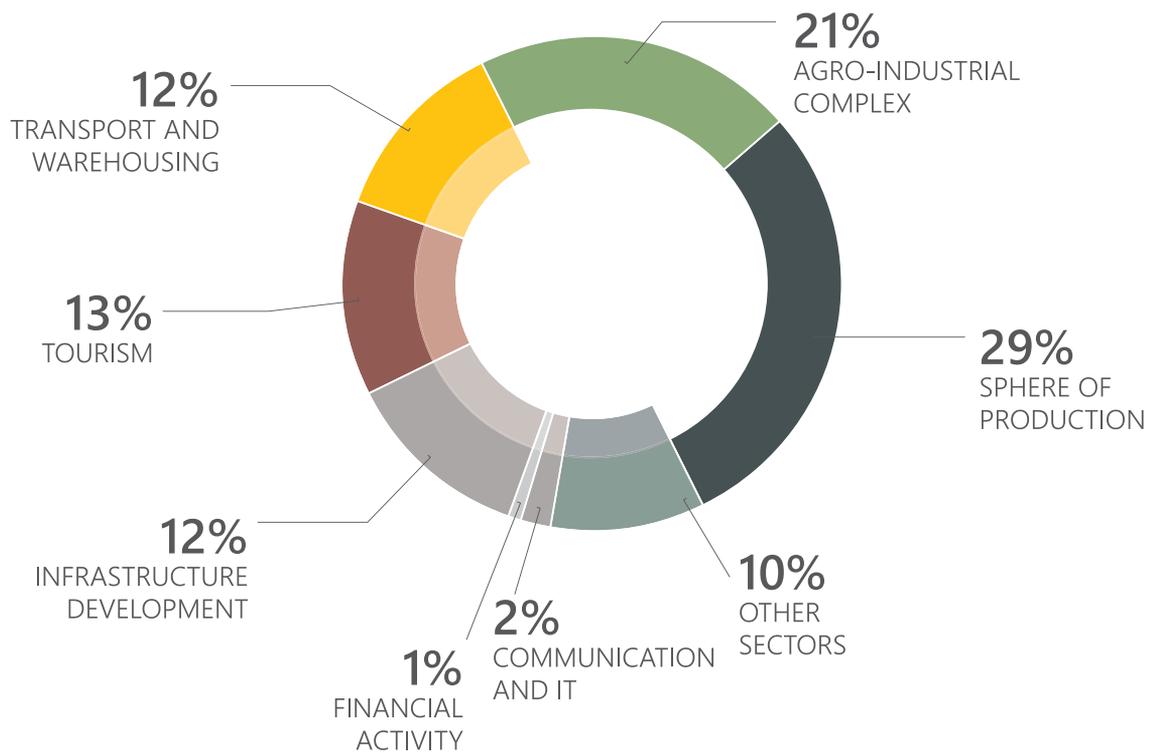
As part of expanding the geography of the funded projects, the Fund held meetings with entrepreneurs in the Batken, Jalal-Abad, Issyk-Kul, Naryn, Osh, Talas and Chui regions during 2017. The Fund's management and staff responsible for project

financing, heads of local state administrations (republican and regional levels) and partner banks of the Fund took part in the field events. The Fund presented its products to the entrepreneurs and explained how to obtain financing from the Fund.

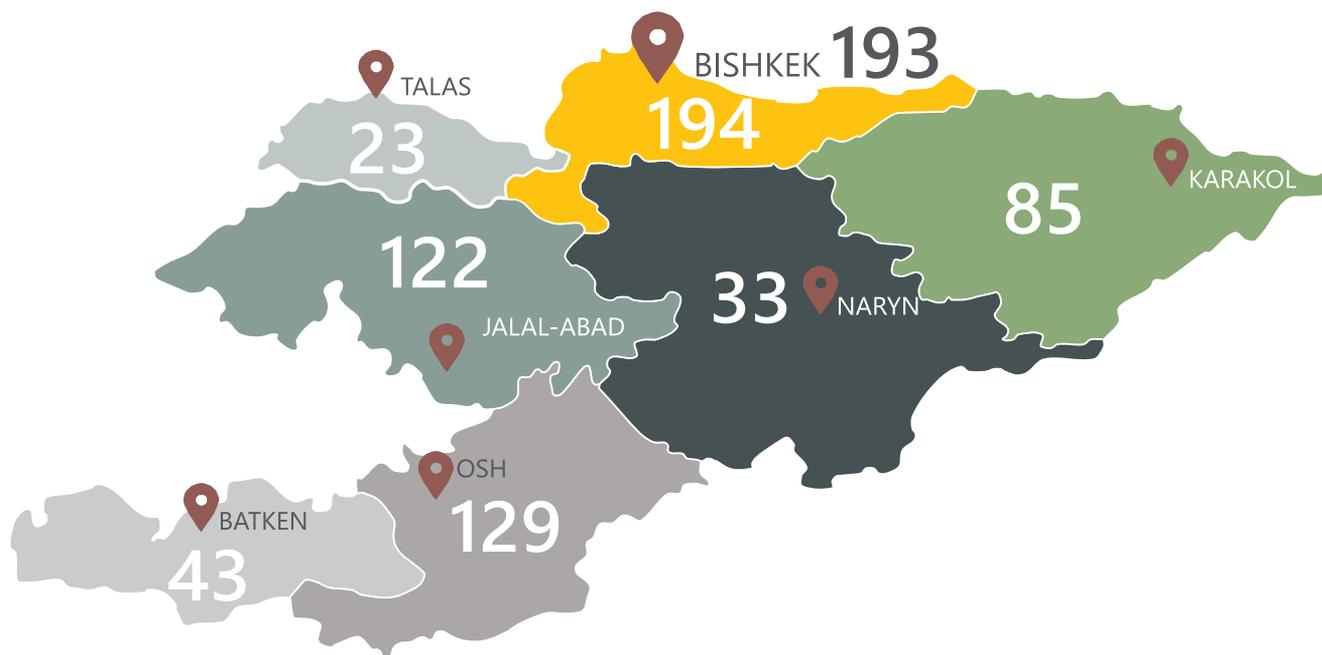
The Fund implemented investment and lending activity in two directions:

- provision of large investment loans as part of direct financing;
- provision of targeted loans to financial and lending institutions of the Kyrgyz Republic for further financing of small and medium-sized businesses in US dollars and in national currency.

RKDF projects by sectors



RKDF projects by regions



Direct financing

In order to provide working capital to enterprises that have earlier received the investment, the Fund developed and introduced a new product. During 2017, as part of direct financing of projects, the Fund attracted funds from commercial banks of the Kyrgyz Republic to replenish working capital for a number of the Fund's projects. At the same time, the Fund acted as a guarantor of loans repayment before commercial banks. As part of developing priority sectors of the country's economy, as well as for effective utilization of the Fund's authorized capital, it was decided to establish differentiated financing interest rates, depending on sector of the business projects. Based on this, the Fund's lending products were split into "basic" and "key" categories. The interest rate for project lending in sectors that are key sectors for the Fund was set at 4%. In sectors that are less priority for the Fund, interest rates on loans for purchasing equipment were set at 4% as well, except for construction works, the interest rates for which are 5-7%.

Given the importance of the agro-industrial complex development and, in particular, strengthening of cluster forms of the intra-sector infrastructure development, the product "Intensive Horticulture" was developed. This is due to the need for effective use of the limited agricultural lands. This product allows farmers to get utmost benefit from the available lands through higher yields compared to other unprofitable agricultural crops.

The project on processing agricultural products – construction of the fruit and vegetables canning plant was successfully implemented. The plant provided jobs for more than 5,000 able-bodied population. In addition, this plant production is largely export-oriented, which will significantly influence on the development of certain sectors and the plant's location area. Thanks to project implementation the farmers from neighbouring regions focus on the needs of this plant when sowing.

In addition, the project for modernization and revival of two sugar plants (Kaindy Kant and Koshoi) was implemented. The above plants processed over 700,000 tons of sugar beet and produced more than 90,000 tons of sugar in 2017. Depending on seasonality, the “Koshoi” plant provided more than 50,000 jobs, including for farmers. In addition, the project aims to replace imported products and almost fully provides the Republic with its own sugar, which is an important component of the food security of the Kyrgyz Republic. Implementation of this project also ensured guaranteed demand for sugar beets cultivated by farmers.

The Fund implemented a project on cotton fabric production in the garment sector. In case of operation at full capacity, this enterprise may meet up to 12 percent of the sewing industry's demand for these products. The plant employs up to 500 people during the season.

Successful implementation of the project on construction and launch of a large logistics centre for processing and storing vegetables in the Chui region should also be noted. This centre allows storing and processing of more than 4,200 tons of vegetables for farmers in the Chui region. Project implementation significantly contributes to the food security of the Republic and will allow farmers to gain maximum benefit from the harvested crop through sales in the winter-spring season.

As for juices and beverages production, structuring of the project for the construction of a new modern juice plant. In case of operation at its designed capacity, it will ensure a significant increase in its own production and import substitution. Funds of an international company amounting to 34% of the project total cost were raised as part of the project preparation.

In 2017, the Fund adopted normative documents that allow for grants to entrepreneurs and business entities for preparing project documentation, training and other types of technical assistance;

funds for these purposes are already reserved.

Analyzing the work implemented jointly with partners and stakeholders to support entrepreneurship, it can be stated that the Fund's active measures for modernization of the economy of the Kyrgyz Republic and its integration into EAEU now leads to positive results.

Financing small and medium businesses

Loans for small and medium-sized businesses were provided through the commercial partner banks at preferential interest rates: 10% per annum in national currency and 5% per annum in US dollars for the term of up to 5 years. It should be noted that the lending rates under the Fund's programs were low compared to general interest rates in the financial market of the Kyrgyz Republic.

The following are partner banks of the Fund under the “Lending to small and medium-sized business through commercial banks” Program: OJSC Aiyl Bank, OJSC RSK Bank, CJSC BTA Bank, OJSC CB Kyrgyzstan, CJSC Kyrgyz Investment and Credit Bank, OJSC Halyk Bank Kyrgyzstan, CJSC Bank of Asia, OJSC Capital Bank, CJSC Kompanion Bank, CJSC Demir Kyrgyz International Bank, OJSC Optima Bank, OJSC Bakay Bank and OJSC Kyrgyzkommertsbank.

One of the loan products of the Fund designed to support small and medium-sized businesses is “Financing of intensive orchards”. This product aims to develop intensive horticulture in the Kyrgyz Republic, including introduction of new intensive horticultural technologies and increasing export potential of the sector. As part of this product loans are provided to horticultural and fruit growing farms for up to 7 years with grace period for principal loan repayment of up to 24 months.

In 2017, financing under the program “Lending to small and medium-sized businesses through commercial banks” increased due to the following factors:

- availability of loans in two currencies (US dollars, national currency) allowing SMEs to receive financing depending on the source of the entity's income;
- increase in the number of partner banks. At present, the regional network of the Fund's partner banks includes 348 units (branches, savings banks) throughout the Kyrgyz Republic.

Implementation of the program “Lending to small and medium-sized businesses through commercial banks» contributed to expansion of the range of banking products for entrepreneurs of the country. The interest rates under the Fund's lending programs significantly influenced the decrease in interest rates in the financial market.

In 2017, lending for the economy of the Kyrgyz Republic by the banking system showed positive dynamics against the background of overall decrease in interest rates on loans.

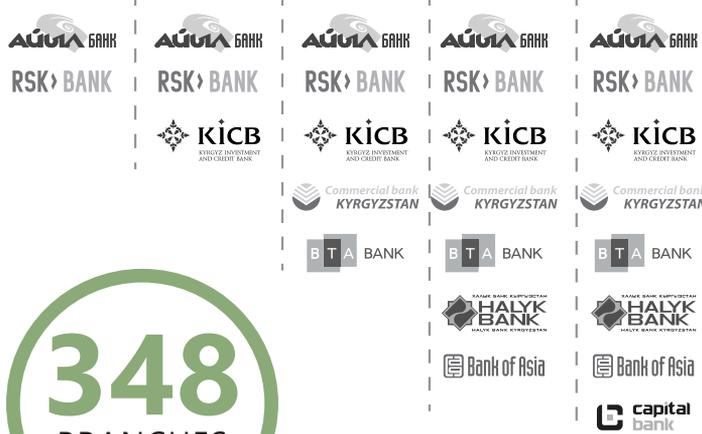
Weighted average interest rate of the commercial banks:

- for loans in national currency for the term of more than 1 year amounted to 17.3% in 2017 (in 2015 - 22.5%);
- for loans in foreign bank currency for the term of more than 1 year - 10.9% in 2017 (in 2015 - 15.3%).

There is a tendency of decrease in the overall interest rates on loans by 5% on average.

Long-term financing to small and medium-sized businesses by the Fund at preferential interest rates positively affected economic development of the Kyrgyz Republic.

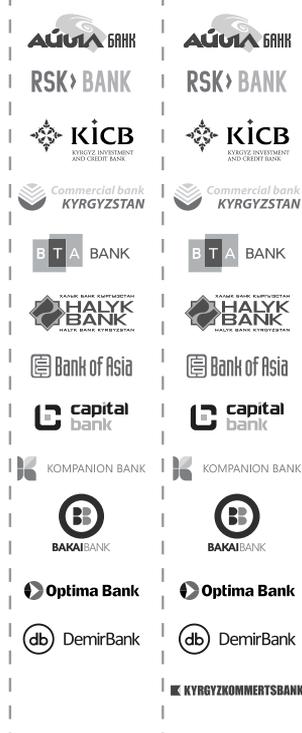
February 2016



October 2016



November 2017



Preferential financing through partner banks is available in all regions of Kyrgyzstan

As of 31 December 2017, the loan portfolio of the banking system of the Kyrgyz Republic totalled 108,325 million KGS (\$1,574 million), having increased by 15.9% over the year. The total amount of the new loans issued by commercial banks reached 105,980 million KGS (\$1,540 million), a 10.5% increase compared to 2016. This growth was due to 18%-increase in loans issued in the national currency (by 69,989 million KGS or \$1,017 million). At the same time, the amount of loans issued in 2017 in foreign currency amounted to 35,991 million KGS (\$523 million), having decreased by 2.8%. The amount of the Fund's approved loans through partner banks as of the end of 2017 totalled \$116 million.

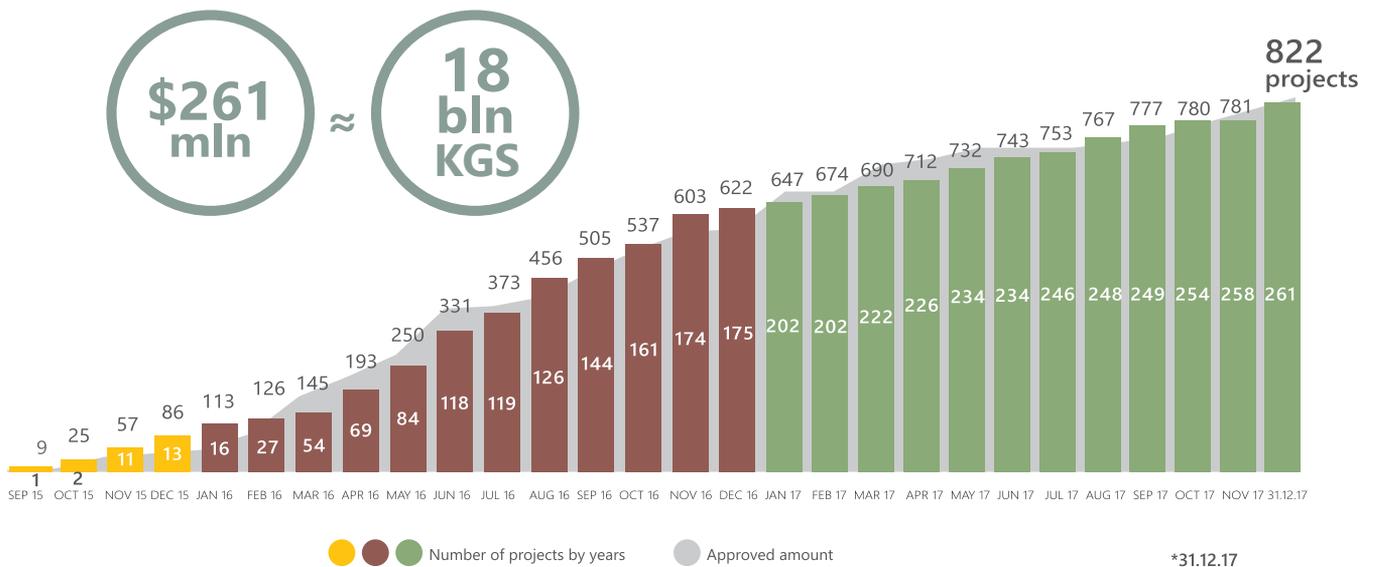
In order to develop small and medium business sector, the Fund has developed and implemented a product for financing businesses through microfinance organizations of the Kyrgyz Republic. This product provides an opportunity for small businesses and group borrowers to obtain up to

500 thousand KGS loans for the development and establishment of their own business.

In 2017, as part of the Program "Financing of leasing operations through microfinance organizations of the Kyrgyz Republic", the agreement was signed with the Microcredit Agency - the Financial Fund "BT Innovations" to finance leasing operations for the purchase of agricultural machinery, processing, industrial and food equipment. In 2017, 13 projects on purchase of mobile milking devices and crawler excavators on leasing terms worth more than 28.2 million KGS were financed under this program.

The Fund's targeted financing contributed to creating conditions for long-term economic growth of the economy of the Kyrgyz Republic, creating new jobs, reducing unemployment, promoting competition, as well as expanding and modernizing production facilities.

RKDF loan portfolio growth dynamics



Sectoral structure of projects approved by the Russian-Kyrgyz Development Fund
(as of 31.12.2017)

Nº	Sector	Approved amount, thousand \$	The number of projects
1	Agro-industrial complex, production and processing of agricultural products	56 072	309
2	Production area	76 565	289
3	Transport and warehousing	30 510	72
4	Communication and Information Technology	4 766	4
5	Financial activities	1 453	1
6	Development of infrastructure	31 794	61
7	Tourism	32 901	59
8	Other sectors	27 415	27
	Total, thousand US dollars	261 476	822

Source: Russian-Kyrgyz Development Fund

Lending areas of the Russian-Kyrgyz Development Fund
(as of 31.12.2017)

Nº	Lending areas	Approved amount, thousand \$	The number of projects
1	Direct financing	145 458	33
2	Financing of SMEs through commercial banks and microfinance organizations of the Kyrgyz Republic	116 018	789
	Total, thousand US dollars	261 476	822

Source: Russian-Kyrgyz Development Fund

The Russian-Kyrgyz Development Fund acquired foreign currency denominated ST-Bonds of the Ministry of Finance of the KR for \$50 million, 2.4 billion KGS of which were allocated for the implementation of the Program "Affordable Housing 2015-2020" of the Government of the KR.



Warehouse for fresh and frozen fruit built according to international HACCP standards

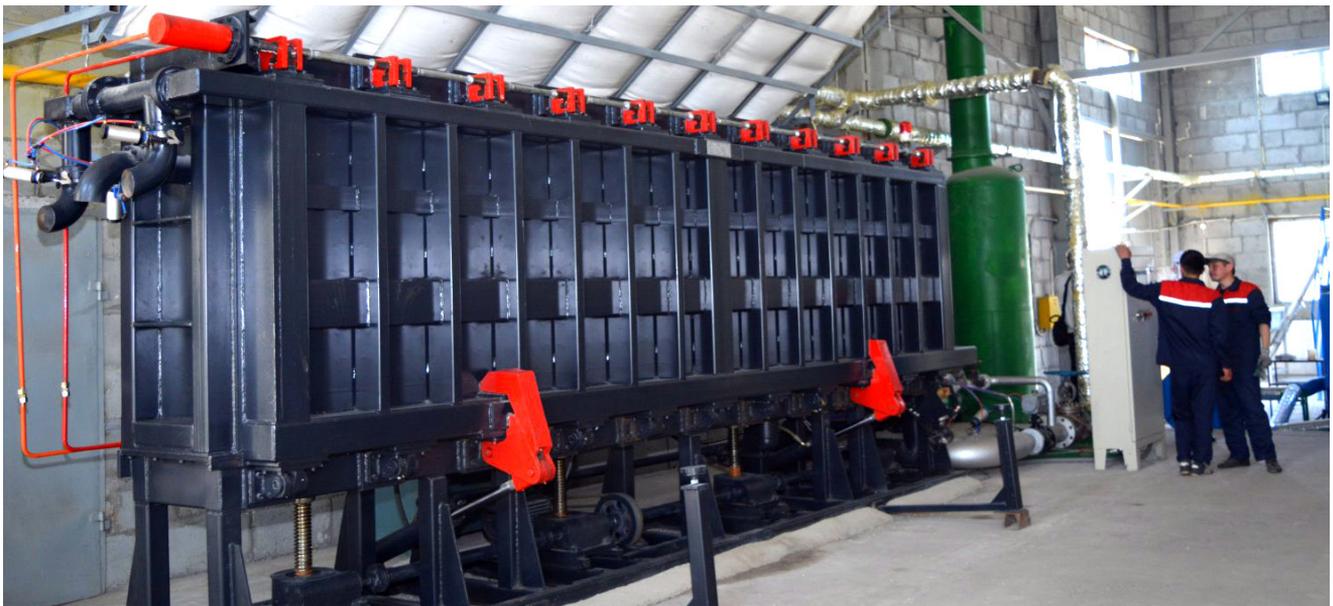


LLC Oberon

Fruit warehouse with a regulated gas environment with the capacity of 2,400 tons. Warehouse has a line for frozen fruit and vegetables production.



Foam plastic production

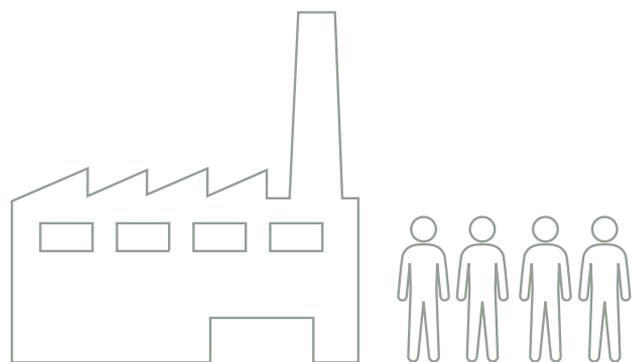


LLC «Moi Dom»

Production capacity is 2,000 cm³ of foam plastic for an 8-hour shift. The products are supplied to the domestic market and exported to Uzbekistan.



SOCIO-ECONOMIC EFFECT OF THE FUND'S ACTIVITY



SOCIO-ECONOMIC EFFECT OF THE FUND'S ACTIVITY *

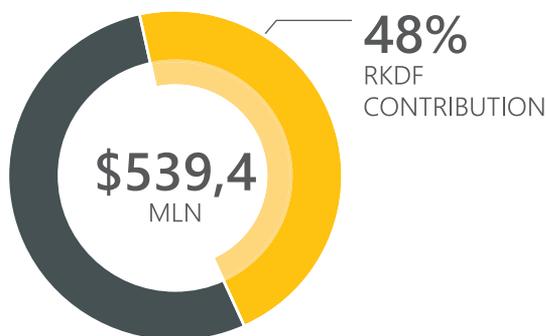


** The information is based on the data provided by the recipients of the Fund's loans under the Direct Financing and SME lending programs. Data on some borrowers include forward-looking information.*

The total cost of projects financed by the Fund in 2017 was \$539 million *

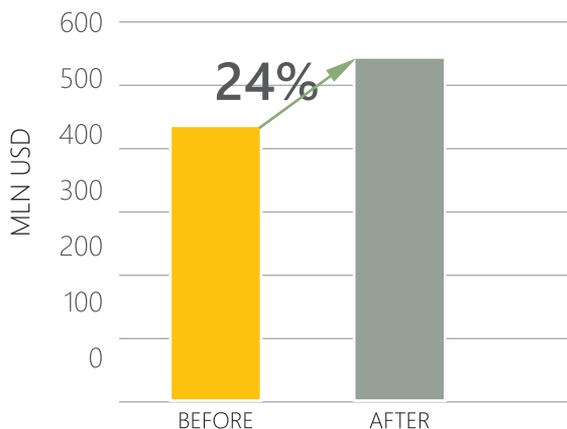
At the same time, the projects approved by the Fund resulted in revenue and taxes paid by the economic entities of the Kyrgyz Republic – Fund's recipients amounted to \$535 million and \$44.9 million, respectively.

Total cost of projects

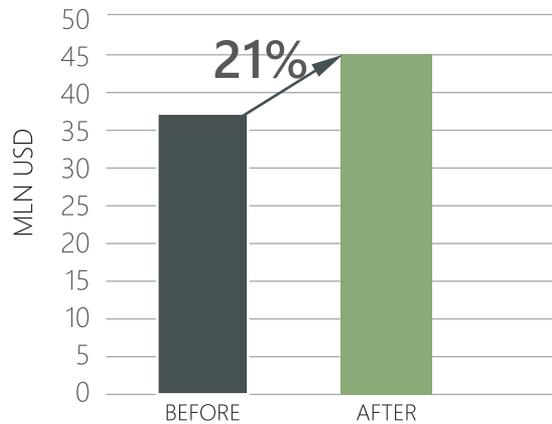


Compared to the same period prior to the projects implementation, revenue of the Fund's recipients increased by \$102 million (24%), while paid taxes increased by \$7.8 million (21%)

Increase in revenue of the entities after project implementation



Increase in paid taxes after project implementation



For the recipients of the Fund's financing, each dollar of the utilized loan resulted on average in 56 cents increase in their revenues and 4.2 cents increase in taxes paid by them.

1 dollar of the utilized loan → **56 cents increase in revenue**



According to calculations, exports by the entities that have received financing from the Fund reached \$192 million. At the same time, exports to the Russian Federation totalled \$48.4 million, to the EAEU countries - \$48.4 million and to the third countries - \$95.6 million.

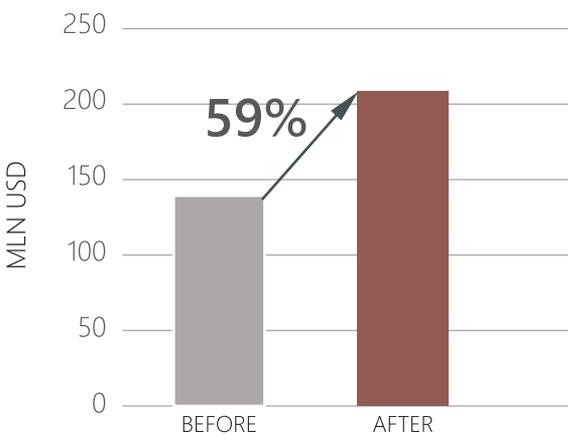
Geography and export turnover



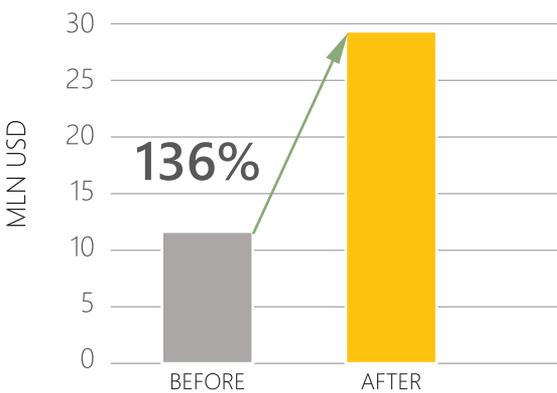
* Total cost of the implemented projects includes financing by the RKDF, borrower's cost share and funding from other financial institutions.

According to calculations, the total amount of purchased raw and other materials by the Fund's recipients increased by 59% compared to the same period preceding projects launch. At the same time, the estimated growth in purchases of raw and other materials from the Russian Federation increased by 136%, from the Kyrgyz Republic – by 97%, from the EAEU countries by 36%, from the third countries - by 2%.

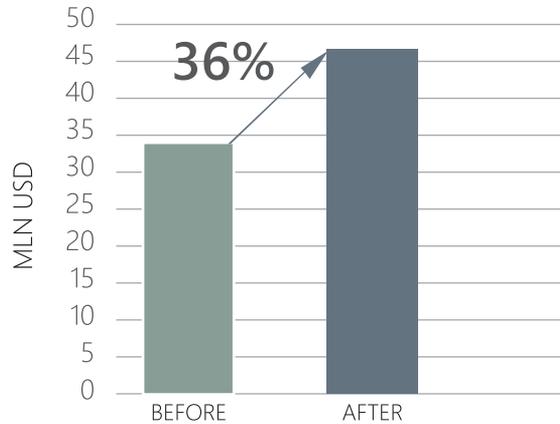
Total growth in purchase of raw and other materials



Growth in purchases of raw and other materials from the Russian Federation

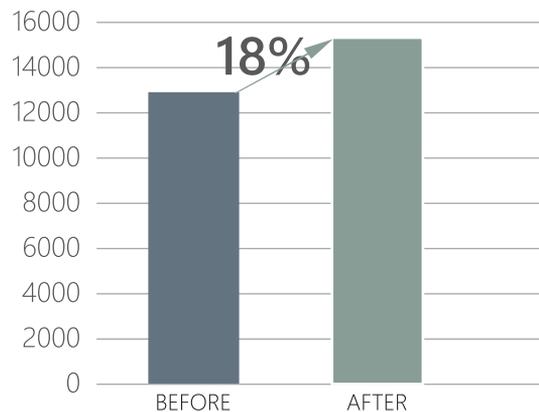


Growth in purchase of raw and other materials from other EAEU countries



According to calculations, as a result of the projects financed by the Fund, more than 15,000 people directly got jobs. At the same time, indirect effect is estimated as 60,000 jobs. Compared to the same period preceding launch of the projects financed by the Fund, growth in the number of created jobs was 18%.

Growth in the number of created jobs



Thus, projects implementation through the Fund's financing contributed to the development of economic cooperation between the Kyrgyz Republic and the Russian Federation, modernization and development of the economy of the Kyrgyz Republic, and enhancing integration links of the Kyrgyz Republic as part of EAEU.



Manufacturing of building materials



OJSC «Osh Ak-Tash»

Manufacturing of ceramic building bricks, building gypsum,
production of crushed sand and crushed stone, stone
processing



Production of canned fruit and vegetables, trade mark "Sonun"



LLC «Prod Impex»

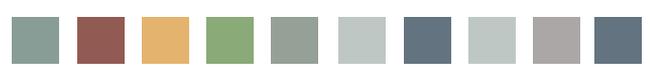
Canning plant was built based on international HACCP standards; 80% of products are exported to the EAEU.



INTERNATIONAL ACTIVITY



INTERNATIONAL ACTIVITY



In 2017, the Fund took the first steps to attract funds from international financial institutions for financing the projects in the Kyrgyz Republic.

In particular, agreements were signed with the financial institutions, such as the Turkish Eximbank and the Hungarian Export-Import Bank.

In addition, the Fund implemented preparatory work to raise funds from the State Specialized Russian Export-Import Bank (JSC ROSEXIMBANK) and the Eurasian Development Bank (EDB) and is now at the final stage of signing loan agreements with these financial institutions.

At the same time, EDB received preliminary approval for provision of \$50 million loan to the Fund for up to two years. It is expected that funds of the Eurasian Development Bank will be used to finance

current assets of enterprises under the Fund's projects.

Under the agreement, Roseximbank loans will be provided for up to 10 years and utilized to finance projects with the Russian component, including technology, goods and equipment produced in the Russian Federation. The concluded agreements will further intensify interaction between Russian and Kyrgyz companies.

In 2017, implementation of a previously concluded agreement between the Fund and the Czech Export Bank started, which through commercial banks of the Kyrgyz Republic financed the supply of Czech equipment under the Fund's guarantees.

As part of the energy sector development, the Fund initiated small hydropower development project in 2017. Under this project, the Fund held consultations to attract Asian Development Bank (ADB) specialists on a grant basis. Successful implementation of the project will lead to the development of a preliminary technical feasibility study (pre-feasibility study) and work to improve public-private partnership legislation of the Kyrgyz Republic.

RKDF's partners for international cooperation





Production of white sugar using beets and raw sugar

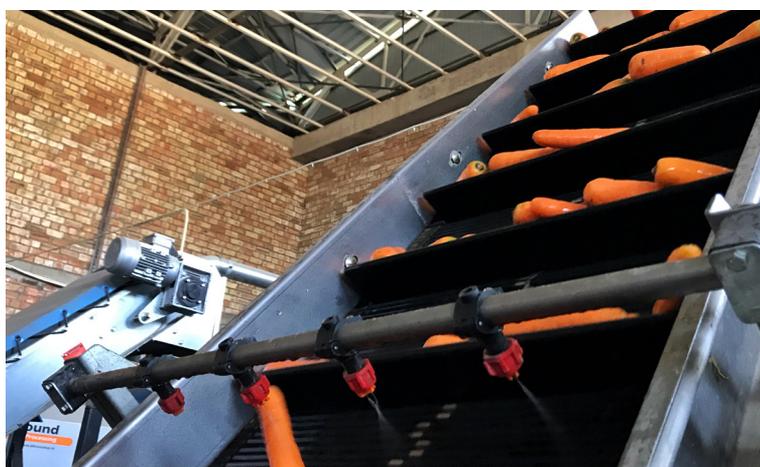


OJSC «Koshoi»

The plant daily processes up to 3 tons of sugar beet and produces more than 25,000 tons of sugar per season.

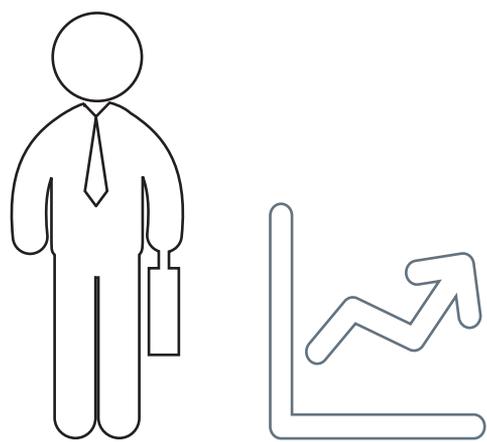


Vegetable warehouse for 4,200 tons with the vegetables washing, sorting and packing line



LLC «Kyrgyzcenterproduct»

100% export-oriented to the market of the Russian Federation.



ACTIVITY IN THE FINANCIAL MARKETS AND TREASURY TRANSACTIONS



Temporarily free funds (not utilized for financing economic entities) were managed for their effective use and preservation. At the same time, the Fund's priority was liquidity and reliability rather than profitability. Management of the temporarily free funds ensured the Fund's income of \$8.87 million that allowed the Fund to finance projects at preferential interest rates.

The Fund's Board took strategic decisions to define key parameters of the treasury portfolio. The competence of the Fund's Management Board included making decisions on selection of financial instruments, determining the amounts and terms of placement of temporarily available funds within the limits adopted by the Fund's Board.

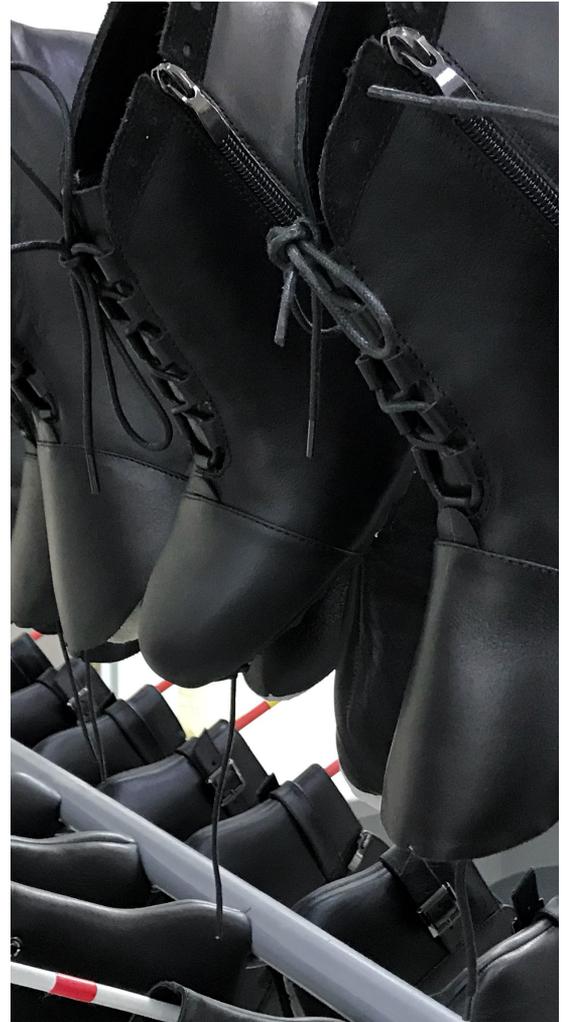
When managing temporarily free funds, the Fund took account of the situation in the international financial markets, monitored trends in the economy of the Russian Federation, the United States and other countries that could significantly affect Treasury portfolio of the Fund.

Within the limits set by the regulatory documents of the Fund, temporarily available funds were placed exclusively in debt securities of the state and corporate issuers with the credit rating either «BB-» and above according to classification of the rating agencies «Standard and Poor's» or «Fitch Ratings» or «Ba3» according to classification of the rating agency «Moody's Investors Service». In addition, funds were continuously placed in the state foreign exchange bonds of the Kyrgyz Republic.

Operations in the financial markets, including using Treasury portfolio instruments were conducted with the financial institutions of the Russian Federation and the Kyrgyz Republic. In addition, the Fund continued cooperation with the National Bank of the Kyrgyz Republic on raising funds in the national currency of the Kyrgyz Republic.



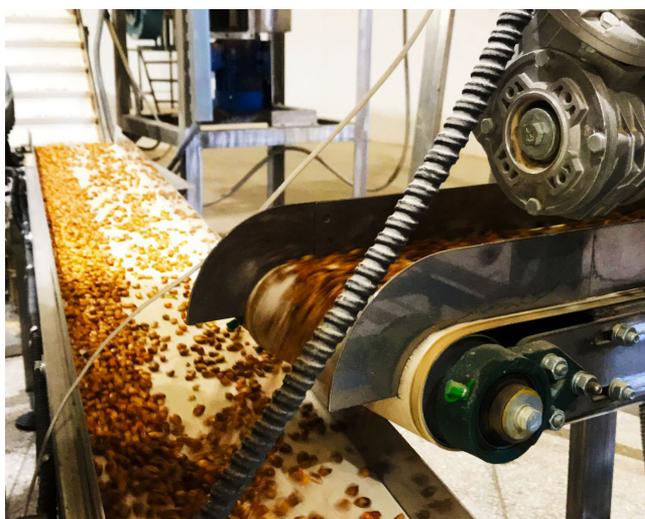
The first domestic shoe factory using robots and digital technologies



LLC «Imperial Group Company»

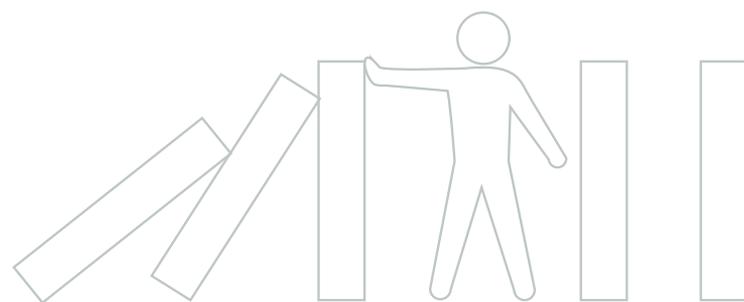
Materials and components are supplied from Russia, Italy and Turkey and meet all standards; they guarantee quality and environmental safety.

Production of refreshment and national drinks



CJSC «Shoro»

One of the largest producers of national drinks, as well as carbonated and non-carbonated natural spring and mineral waters in the market of the Kyrgyz Republic.



RISK MANAGEMENT



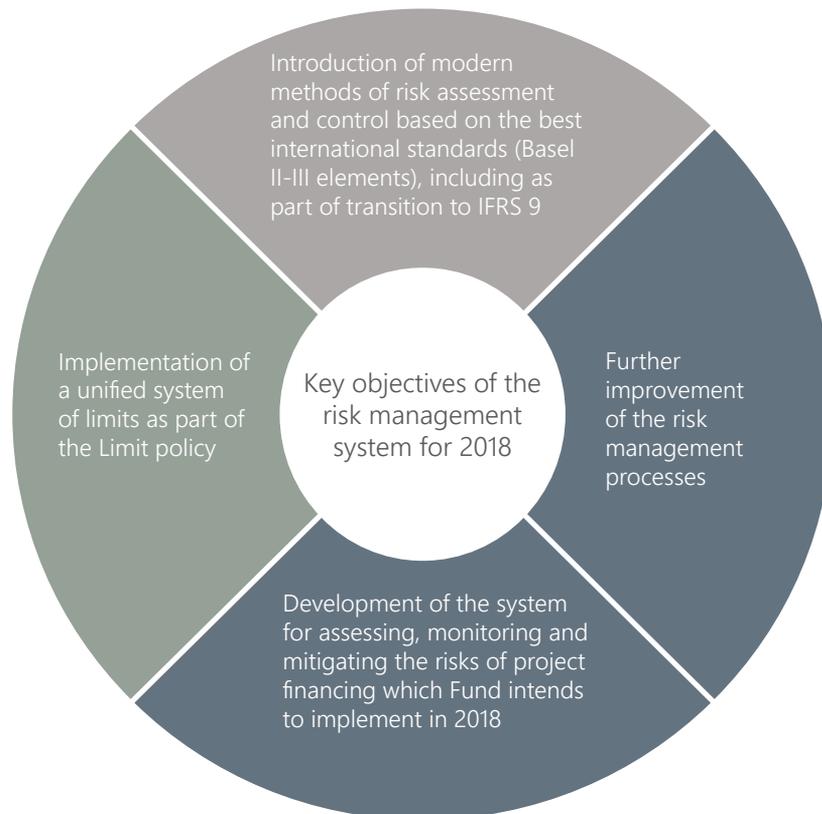
In 2017, the Fund approved the Risk Management Strategy that sets the risk appetite, including its norms (limits).

The Fund's Board approved the risk appetite norms that for the Fund are similar to the economic norms applied to commercial banks. The relevant norms were developed taking into account best practices, including agreements and recommendations of the Basel Committee on Banking Supervision, and are a guarantee of protection of the rights of the Fund's lenders, as well as sustainability and balance of its activities.

In order to reduce the risks of bad assets on the Fund's balance sheet, the borrowers and their projects were closely monitored in 2017. These activities included desk and field inspections by specially created working groups.

In order to reduce credit risks of the Fund, in 2017 it was decided to establish a Monitoring and Loan Administration Unit.

In 2017, the Fund took preparatory measures for transition to IFRS 9 intended to further develop the credit risk assessment system. It should be noted that independent expertise, as well as the risk management proposals of the Fund under the projects considered by the Fund's management bodies, contributed to the overall credit risk reduction.





Production of meat, sausage and semi-finished products, trade mark «Toyboss»



LLC «Adal Azyk»

The company produces «Halal» sausage products; finished products are supplied throughout the Kyrgyz Republic.

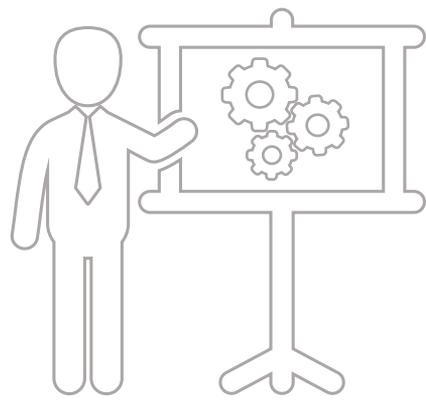


Production of paints and varnishes



LLC «Peivand»

Paint and varnish products are supplied to the domestic market and exported to the CIS and EAEU countries.



2018 ACTIVITY PLANS



In 2018, as part of the Fund's direct lending and small and medium-sized businesses financing programs, it is planned to approve financing for up to \$102 million.

At the same time, it is planned to jointly implement pilot project involving Russian companies.

As part of support to the financial sector development and increasing financing of the economy of the Kyrgyz Republic, it is planned to consider entering to the capital of systemically important financial institutions of the Kyrgyz Republic in 2018. The Fund is also ready to consider participation of businesses of the Kyrgyz Republic in the capital.

In the coming year, as part of expansion of its activities range, the Fund intends to establish cooperation with new partners – microfinance organizations, leasing companies and investment funds of the Kyrgyz Republic.

In the coming year, as part of improving quality of the projects under consideration and more efficient use of company and investor resources, it is planned to launch a Project Preparation and Support Fund. Using finances of this Fund, the recipients will be provided technical assistance with business plans preparation and feasibility studies, as well as

support in attracting independent experts and audit companies. In addition, it is planned to further raise awareness of the business community about the Fund's products through field meetings, conferences in the regions of the Kyrgyz Republic involving local business community.

In 2018, the Fund will continue cooperation with international development institutions and specialized export organizations through attraction of loans, primarily with Roseximbank and the Eurasian Development Bank. Active cooperation is planned to attract grants from international organizations (UNDP, UNIDO) so that to provide technical and advisory assistance under the projects implemented by the Fund.

An important aspect of the Fund's international activities, including for investment promotion in the business sector of the Kyrgyz Republic, business forums involving foreign investors will be organized and conducted in 2018. Such activities shall become a platform for direct meetings of the business community of the Kyrgyz Republic with foreign investors. One of the main events of 2018 will be the Kyrgyz-Russian Business Forum.

In the coming year, the Fund intends to further improve and optimize core business processes. In particular, organizational structure will further be optimized with more attention to work in the regions of the country and quality monitoring of the provided loans. For more qualitative analysis and consideration of incoming applications, it is planned to establish a standing Credit and Investment Committee. A new software module will be introduced to increase automation of the Fund's operations, taking into account the increase in their number and complexity of operations.



Increase in financing by up to \$102 million under direct lending and SMEs financing program



Joint implementation of pilot project involving Russian companies



Entering to the capital of systemically important financial institutions of the Kyrgyz Republic



Participation of businesses of the Kyrgyz Republic in the capital



Launch of a Project Preparation and Support Fund to provide technical assistance to business



Attraction of grants from international organizations (UNDP, UNIDO) so that to provide technical and advisory assistance under the projects implemented by the Fund



Field meetings, conferences in the regions of the Kyrgyz Republic involving local business community



The Kyrgyz-Russian Business Forum



Sewing women's garment, brand «AYIMA»



Garment production «AYIMA»

Women's garment is exported to Russia, Kazakhstan, Uzbekistan, and is also sold in shopping centres and markets of Kyrgyzstan.



The largest international data centre in Kyrgyzstan



LLC «NSP»

This data processing centre will operate 24/7 365 days a year and provide server and network equipment placement (Colocation).

Production of cement clinker

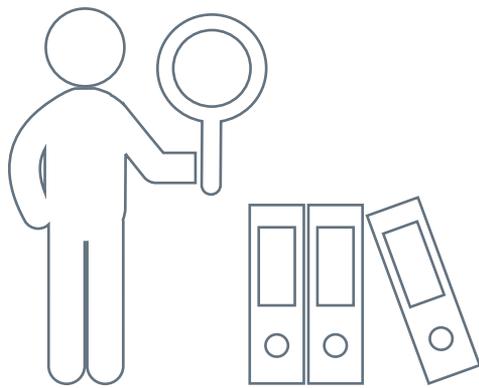


LLC «Southern Plant of Building Materials»

Construction of a new line for dry production of cement clinker. The production capacity will increase from 200,000 tons to 1 million tons of cement per year.



AUDITED FINANCIAL STATEMENTS



AUDITED FINANCIAL STATEMENTS





KPMG Bishkek LLC
Office 201, 21 Erkindik blvrd
Bishkek, Kyrgyz Republic 720040
Telephone 996 (312) 62-33-80
Fax 996 (312) 62-38-56
Internet www.kpmg.kg

Independent Auditors' Report

To the Council of Russian-Kyrgyz Development Fund

Opinion

We have audited the financial statements of Russian-Kyrgyz Development Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (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.

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

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

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

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

KPMG Bishkek LLC, a company incorporated under the Laws of the Kyrgyz Republic, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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


 Yelena Kim
 Attorney (Audit Partner)
 of KPMG Bishkek LLC
 Power of Attorney No.1/00007
 of 28 July 2017



KPMG Bishkek LLC
 5 March 2018

Russian-Kyrgyz Development Fund
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

	Notes	2017 USD'000	2016 USD'000
Interest income	4	14,517	12,497
Interest expense	4	(1,133)	(952)
Net interest income		13,384	11,545
Net fee and commission expense		(34)	(131)
Net foreign exchange income		58	515
Operating income		13,408	11,929
Impairment losses	5	(3,974)	(6,382)
General administrative expenses	6	(2,748)	(2,969)
Profit before income tax		6,686	2,578
Income tax expense		-	-
Profit for the year		6,686	2,578
Other comprehensive loss			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(1,479)	1,253
Other comprehensive loss for the year		(1,479)	1,253
Total comprehensive income for the year		5,207	3,831

The financial statements as set out on pages 5 to 50 were approved by management on 5 March 2018:



 Mr. E. Asrandiyev
 Chairperson of the Board



 Ms. A. Duisikulova
 Chief Accountant

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

Russian-Kyrgyz Development Fund
Statement of Financial Position as at 31 December 2017

	Note	2017 USD'000	2016 USD'000
ASSETS			
Cash and cash equivalents	7	38,009	21,766
Available-for-sale financial assets			
- Held by the Fund	8	271,076	272,560
- Pledged under sale and repurchase agreement	8	-	5,086
Deposits with the National Bank of the Kyrgyz Republic	14	31,160	30,024
Deposits with commercial banks	9	745	900
Loans to banks	10	70,491	58,775
Loans to customers	11	86,798	34,043
Held-to-maturity investments and other investment in securities	12	46,637	121,744
Property, equipment and intangible assets	13	414	378
Other assets		157	233
Total assets		545,487	545,509
LIABILITIES			
Loan from the National Bank of the Kyrgyz Republic	14	28,337	27,221
Other liabilities	15	8,084	14,429
Total liabilities		36,421	41,650
EQUITY			
Charter capital	16	500,000	500,000
Revaluation reserve for available-for-sale financial assets		(905)	574
Retained earnings and special reserves		9,971	3,285
Total equity		509,066	503,859
Total liabilities and equity		545,487	545,509

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

Russian-Kyrgyz Development Fund
Statement of Cash Flows for the year ended 31 December 2017

	31 December 2017 USD'000	31 December 2016 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	15,195	15,439
Interest payments	(1,225)	(913)
Fee and commission payments	(34)	(125)
General administrative expenses payments	(2,554)	(2,889)
(Increase)/decrease in operating assets		
Deposits with the National Bank of the Kyrgyz Republic	(1,136)	(10,730)
Deposits with commercial banks	155	84,100
Loans to banks	(11,840)	(42,794)
Loans to customers	(56,106)	(34,553)
Increase/(decrease) in operating liabilities		
Loan from the National Bank of Kyrgyz Republic	1,208	9,431
Other liabilities	(6,665)	12,409
Cash flows (used in)/from operating activities	(63,002)	29,375
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(210,148)	(163,878)
Sales and repayments of available-for-sale financial assets	214,009	-
Purchases of held-to-maturity investments	-	(49,991)
Sales and repayments of held-to-maturity investments	75,527	-
Purchases of property, equipment and intangible assets	(163)	(94)
Cash flows from/(used in) investing activities	79,225	(213,963)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of other borrowed funds	-	(195)
Receipts from contributions to the charter capital	-	150,000
Cash flows from financing activities	-	159,236
Net increase/decrease in cash and cash equivalents	16,223	(34,783)
Effect of changes in exchange rates on cash and cash equivalents	20	1,503
Cash and cash equivalents as at the beginning of the year	21,766	55,046
Cash and cash equivalents as at the end of the year (Note 7)	38,009	21,766

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

Russian-Kyrgyz Development Fund
Statement of Changes in Equity for the year ended 31 December 2017

USD'000	Charter capital	Revaluation reserve for available-for- sale financial assets	Retained earnings and special reserves	Total equity
Balance as at 1 January 2016	350,000	(679)	707	350,028
Total comprehensive income				
Profit for the year	-	-	2,578	2,578
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Net change in fair value of available-for- sale financial assets	-	1,253	-	1,253
Total comprehensive income for the year	-	1,253	2,578	3,831
Transactions with owners, recorded directly in equity				
Contributions to the charter capital	150,000	-	-	150,000
Total transactions with owners	150,000	-	-	150,000
Balance as at 31 December 2016	500,000	574	3,285	503,859
Balance as at 1 January 2017	500,000	574	3,285	503,859
Total comprehensive income				
Profit for the year	-	-	6,686	6,686
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Net change in fair value of available-for- sale financial assets	-	(1,479)	-	(1,479)
Total comprehensive income for the year	-	(1,479)	6,686	5,207
Balance as at 31 December 2017	500,000	(905)	9,971	509,066

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

ANNUAL REPORT 2017

The Russian-Kyrgyz Development Fund
Address: Kyrgyz Republic, Bishkek, Erkindik Boulevard, 21
TIN: 03012201410228
OKPO: 28997242
Name of Bank: OJSC "RSK Bank"
BIC: 129001
Account: 1299003250020886
Tel: + 996 312 303751, + 996 312 303752
E-mail: office@rkdf.org
Web: www.rkdf.org

The electronic version of the annual report is available on the website of the Russian-Kyrgyz Development Fund:
http://www.rkdf.org/ru/o_nas/otchety

Format 210 x 280 mm. Number of copies 70.