



**RUSSIAN-KYRGYZ
DEVELOPMENT FUND**

ANNUAL REPORT 2018

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About the Russian-Kyrgyz Development Fund

The Russian-Kyrgyz Development Fund was established to modernize and develop the Kyrgyz economy.

The Russian-Kyrgyz Development Fund (hereinafter – the Fund) was established as a follow up to the arrangements set forth in the Agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation «On the development of economic cooperation in the context of the Eurasian economic integration» of May 29, 2014, and in accordance with the Agreement between the Government of the Kyrgyz Republic and the Russian Federation «On the Russian-Kyrgyz Development Fund» of November 24, 2014.

The Russian-Kyrgyz Development Fund was established to promote economic cooperation between Kyrgyzstan and Russia, modernize and develop the Kyrgyz economy, and effectively use the opportunities generated by the participation of the sides in the Eurasian economic integration. The Fund is an international entity.



Message of the Chairman of the Management Board

In 2018, the Fund focused on the issues of the regional development



Dear clients and partners!

We are gradually moving towards our main goal – to become an effective institution for the development of the economy of the Kyrgyz Republic.

In 2018, the Fund focused on the issues of the regional development.

Given the scale of the regional business, a threshold for direct financing has been reduced to \$200,000, which enabled entrepreneurs to apply to the Fund directly. Consultation centers were opened in all regional cities. RKDF also provided 200 mln KGS to the Guarantee Fund, which can support borrowers who have no sufficient collateral.

A list of new instruments and types of support to local entrepreneurs has been extended. A competition «Regions – Points of Growth» was held. It was aimed at stimulating entrepreneurial activity in each region. In the framework of the competition, up to half of the paid interest will be returned to the successful projects.

I would also note the competition called «The Fund's Equity Share» held in 2018. The main objective of the competition was to find and select a company with a business project in one of the priority sectors of the economy for the Fund to acquire a share in the capital.

Without going into the details of the above measures of the RKDF modernization, in 2019, we will continue improving the financing tools of the Fund, taking into account the needs of the business community.

RKDF is switching from standard loan products to introducing brand new tools of provision of financial support to businesses. In 2019, we will begin a pilot program of financing startups in two sectorial programs – horticulture and fine wool production. The Fund is also planning to increase finance for bilateral Russian-Kyrgyz projects. We intend to actively develop cooperation with international donors and partners, attracting their resources and competencies to implement projects in the Kyrgyz Republic.

Finally, I would like to express my gratitude to all clients and partners of the Fund for close cooperation aimed at development of Kyrgyzstan.

A threshold for direct financing
in regions has been reduced to

\$200,000

The Board of the Fund



Storchak
Sergey Anatolyevich

Deputy Finance Minister
of the RF

Chairman of the Board

It is the supreme body of the Fund, which undertakes the strategic management of its operations. The Board includes 3 representatives from the Russian side and 2 representatives from the Kyrgyz side. The Chairman of the Board is appointed by the Government of the Russian Federation.

In the reporting period, the Board members were:



Pankratov
Oleg Mikhailovich

Minister of Economy of the KR

**Deputy Chairman
of the Board**



Abramian
Rafael Mikhailovich

Director of the Department for
economic cooperation with CIS coun-
tries and development of the Eurasian
integration of the Ministry of Economic
Development of the RF

Member of the Board



Jeenbaeva
Baktygul Janybekovna

Minister of Finance of the KR

Member of the Board



Yachevskaya
Svetlana Viktorovna

Deputy Chairman – Member of
the Executive Board of
Vnesheconombank of the RF

Member of the Board

The Management Board of the Fund



Asrandiev
Erkin Shamshudinovich

Chairman of the Management Board

It is a permanent collegial executive body of the Fund. The Management Board includes three representatives from the Kyrgyz side and two representatives from the Russian side.

In the reporting period, the members of the Management Board were:



Kudiakov
Oleg Amirovich

Deputy Chairman of
the Management Board



Arseniev
Andrei Sergeevich

Member of the
Management Board



Cholponkulov
Almazbek Askerbekovich

Member of the
Management Board



Kasenov
Aimen Abdytalipovich

Member of the
Management Board

Investment and project activity of the Fund

As of December 31, 2018, the Fund approved 1,653 projects for a total amount of \$303.93 million

In 2018, the Russian Kyrgyz Development Fund continued to actively finance projects in the priority sectors of the economy of the Kyrgyz Republic: agriculture, clothing and textile, manufacturing, transportation and tourism.

The investment and lending operations of the Fund were carried out in two directions:

- provision of large investment loans in the framework of direct and project financing;
- provision of targeted funding to the finance and credit institutions of the Kyrgyz Republic for subsequent financing of small and medium businesses in USD and in the national currency.

As of December 31, 2018, the Fund approved 1,653 projects for a total amount of \$303.93 million. Within direct funding, 36 projects received support totaling \$155.78 million. Under the "Lending to Small and medium businesses" Program implemented through commercial banks and microfinance organizations, 1,617 projects were approved, totaling \$148.15 million.

A sectoral structure of the projects approved by the Russian Kyrgyz Development Fund is presented in Table 1.

As part of the activities on the identification and structuring of the projects, during the reporting period, the Fund worked closely with the government agencies and departments of the Kyrgyz Republic, including the Ministry of Economy of the Kyrgyz Republic, the State Tax Service under the Government of the Kyrgyz Republic, and the National Statistical Committee of the Kyrgyz Republic. In order to obtain information about the largest companies operating in the Kyrgyz Republic, the Fund

monitored the TOP-200 magazine, which publishes information and the ratings of the largest companies in the Kyrgyz Republic.

Foundation for the Preparation and Support of Projects (FPPS) was set up to support entrepreneurs through deductions from the Fund's profits. The mechanism was created to provide technical assistance to the current investment projects. In 2018, the regulatory and methodological base was formed to use the funds of FPPS, in the framework of which the maximum amount of technical assistance to one enterprise was determined in the amount of up to \$100,000.

In the reporting year, the Fund started accreditation of the companies providing qualified assistance in the preparation of project documentation (including the business plans, feasibility studies), and on various types of technological and specialized support in supporting projects at all stages of their preparation and implementation.

In 2018, the Fund launched a new financial instrument in a pilot mode, "The Fund's Equity Share", which has set the requirements to the participants and the terms of financing. This product is aimed at the projects, which imply the Fund's to acquire a share in the initiator company. Six applications were received from the interested companies during the competition period.

Based on the results of the competition, two projects were selected for further analysis and structuring of the deal: one on the provision of the Internet access in the regions of the Kyrgyz Republic and another one on the expansion of the enterprise for processing agricultural products.

Table 1

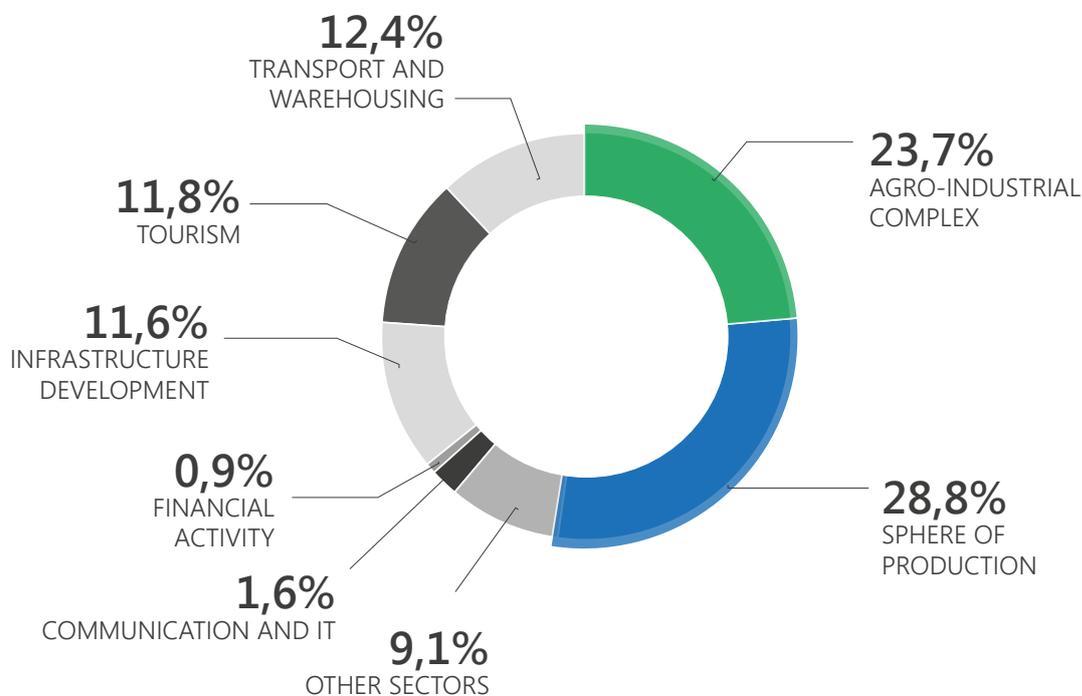
A sectoral structure of the projects approved by the Russian-Kyrgyz Development Fund as of December 31, 2018

Nº	Sector of economy	Number of projects	USD
1	Agricultural sector, production and processing of agricultural products	896	72 169
2	Manufacturing	412	87 404
3	Transport and warehousing	130	37 777
4	Communications and information technology	6	4 989
5	Financial activities	1	2 863
6	Infrastructure development	89	35 243
7	Tourism	88	35 903
8	Other sectors	31	27 583
	Total	1 653	303 931

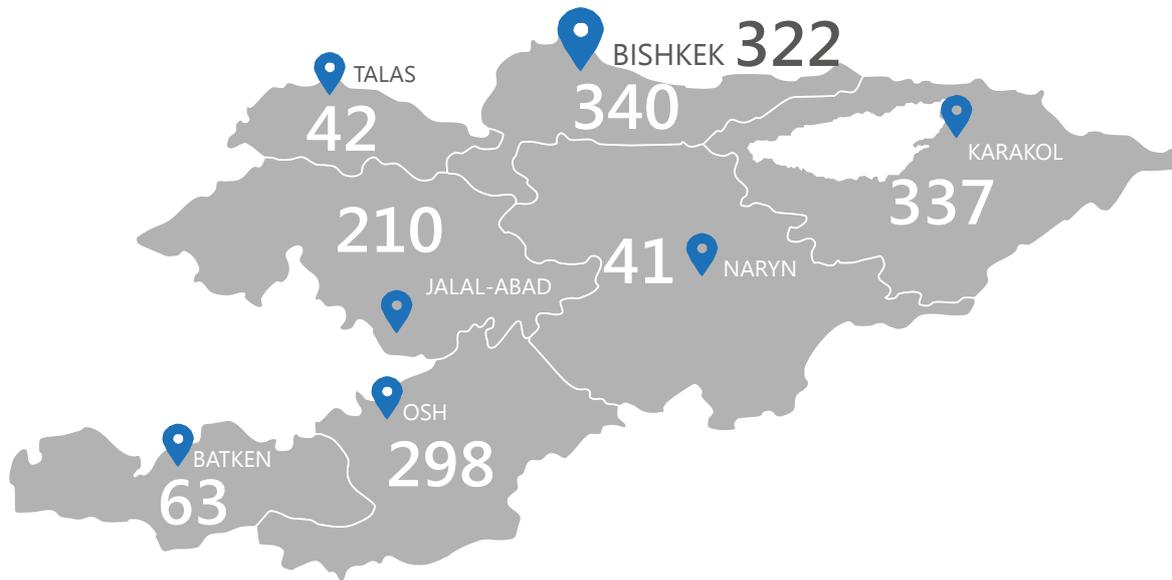
Source: Russian-Kyrgyz Development Fund

The Russian-Kyrgyz Development Fund acquired STO-B of the Ministry of Finance of the Kyrgyz Republic in the amount of \$50 million, of which 2.4 billion KGS (\$ 35.76 million) were allocated for the implementation of the Kyrgyz Government's Program for Affordable Housing for 2015-2020.

RKDF projects by sectors



RKDF projects by regions



Direct financing

In 2018, in the Osh region (Shor-Bulak village, Aravan region), the Fund, together with a partner bank, successfully implemented a project on expanding the cement clinker plant "SCBM" (Southern Plant of Building Materials). The efficiency of the enterprise has been increased to 2,500 tons of clinker per day. The total project cost is \$38.2 million. Currently, the plant has modern equipment that allows producing up to 1 million tons of cement per year. This enterprise is one of the largest cement clinker manufacturers in the country. During the construction of this plant, special attention was paid to the environmental safety requirements.

In Tokmok, Chui region, a project was implemented to expand a manufacturer of yarn and knitwear "Viva Tex". The total cost of the project, designed to produce 600 tons of yarn and 200,000 knitwear per year, amounted to \$2 mln.

The project contributes to the preservation of the number of livestock and the breeding of

the "Merino" sheep, as the company creates a stable demand for wool. This project is an example of the cluster development of value chains, in the framework of which the Fund is working on the development of the livestock sector in the direction of breeding the "Merino" sheep. The company's products are sold on the markets of the EAEU countries, which is the Fund's contribution to the expansion and development of the trade and economic relations between the Union members.

In Bishkek, the Fund has implemented a project of building a metal pipes plant "Metall Torg Servis", with the production capacity of up to 50,000 tons of tube products per year. The project cost totaled \$2.4 million. The successful launch of the plant and the beginning of the sale of products made it possible to replace the import of similar products due to the localization of production in the country. This also allowed exporting metal pipes to the neighboring states, which, in turn, has had a positive impact on the development of the economy of the Kyrgyz Republic.

Kelechek JSC

Bottling of mineral medicinal-table water



The water is **exported** to Tajikistan and Uzbekistan

Southern Plant of Building Materials LLC

Cement clinker production



The plant has modern equipment. It is one of the **largest** in the country and allows producing up to 1 million tons of cement per year

In Ak Tyuz village of the Chui region, the Fund implemented a project on constructing a ski base of the “Manas Handling” company. The total project cost amounted to \$2.2 million. With the length of the lifts equal to 4 km, the overall length of the ski runs is 8 km. It is assumed that the Fund’s financing of the sports and recreation projects will significantly increase the influx of tourists from the neighboring countries and will contribute to the development of the tourism industry in the Kyrgyz Republic.

In the town of Tokmok of the Chui region, a project of the expansion and modernization of the existing enterprise “KazGrain” was implemented. The total project cost amounted to \$7.6 million. As part of the project, 2 lines for producing pasta, with a productive capacity of up to 3,000 tons of products per year were launched.

In the production of building materials in Bishkek, the Fund financed a project of the “Besser CA” company to build a production workshop for making paving slabs and curbs. The total project cost was \$2.3 million. The production capacity of the new line amounted to 1,500 sqm of paving slabs, and 8,400 units of curbs per shift. Due to the commissioning of a new production line, it is planned to significantly increase the assortment and improve the quality of products using modern technologies.

In 2018, the Fund approved the first deal on project financing of Ecoproduct Asia, under which the return of funds will be provided through the implementation of the project. As part of this deal, new financing instruments were tested, in particular, the so-called “mezzanine financing” was used. The project provides for the creation of a juice factory based on the use of the modern high-tech and efficient equipment. The factory is scheduled to be launched in the 2nd quarter of 2019. As part of the deal structuring, the Fund attracted an international financial partner. The implementation of this project is the beginning of the new direction of financing in the market of the Kyrgyz Republic.

Financing of the small and medium businesses

The Fund continued supporting small and medium enterprises as part of the Targeted SME Financing Program through partner banks and microfinance organizations.

Loans for small and medium businesses were provided at the preferential interest rates: 10% per annum in the national currency and 5% per annum in USD. Financing was provided for up to 7 years, depending on the terms of the Fund’s loan products. It is worth noting that the interest rates of lending under the Fund’s programs in comparison with the general size of the interest rates in the financial market of the Kyrgyz Republic were much more preferential.

The partners banks in the framework of the “Lending to Small and Medium Businesses through Commercial Banks” Program were: Aiyl Bank, RSK Bank, BTA Bank, CB Kyrgyzstan, Kyrgyz Investment and Credit Bank, Halyk Bank Kyrgyzstan, Bank of Asia, Capital Bank, Kompanion Bank, Demir Kyrgyz International Bank, Optima Bank, Bakai Bank and Kyrgyzkommertsbank.

In 2018, the growth in the number of the approved projects in the framework of the Program “Lending to Small and Medium Businesses through Commercial Banks” has been driven by the following factors:

- the availability of the loan funds in two currencies (USD, national currency), which enabled SMEs to receive financing in accordance with the currency of the entity’s source of income;
- the establishment of the additional lending ceilings for partner banks, the approval of revolving loan facilities for the individual partner banks (Aiyl Bank, Commercial Bank Kyrgyzstan, Bank of Asia, Bakai Bank and Capital Bank);
- an increase in the number of partners microfinance organizations of the Kyrgyz Republic, in particular, MFI «Salym Finance».

Currently, a regional network of the partner banks and microfinance organizations in the Kyrgyz Republic that issue loans includes 356 units (the branches and regional representative offices) in all regions of the Kyrgyz Republic.

Implementation of the «Lending to Small and Medium Businesses through Commercial Banks» Program contributed to the expansion of the range of banking products for the entrepreneurs of the country.

The partner banks and microfinance organizations as well as the small and medium businesses, showed a high degree of responsibility in observing the terms under which the Fund provides financing. In particular, it concerned the practice of acquisition, renewal, expansion and modernization of the fixed assets of the enterprises operating in the priority sectors of the economy of the Kyrgyz Republic, and the targeted use of the Fund's means.

In order to introduce new technologies of intensive gardening in the Kyrgyz Republic, provide

processing enterprises with the necessary amount of raw materials, and increase export potential of the sector, a new loan product «Financing the Planting of Intensive Gardens» was introduced. Within this product, the funds were provided to the gardening and horticultural farms for up to 7 years. The parameters of the considered product also implied provision of a grace period for payment of the principal amount of the loan up to 24 months. At the end of 2018, the Fund financed 28 intensive gardening projects totaling \$2 mln. The entire planting area of the gardens was about 276 hectares.

The Fund provided institutional support for the development of leasing operations for acquisition of the agricultural machinery, processing equipment, industrial and food products. Within the «Financing the leasing operations through commercial banks and microfinance organizations» Program, at the end of 2018, the Fund financed the acquisition of 51 units of the fixed assets and equipment for a total amount of \$2.5 million (taking into account the borrower's own contribution).

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

356 branches

of partner banks and MFIs



РСК БАНК



БТА БАНК



Банк АЗУУ

capital bank



db DemirBank

Optima Bank

BAKAI BANK

KYRGYZKOMMERTSBANK



САЛЫМ
Ф И Н А Н С

Besser-Central Asia JSC

Production of paving stones



The company makes paving flagstones and curbs using advanced **Color Mix** technology, which is unique in Central Asia

Metall Torg Servis LLC

Manufacture of the metal tubes and profiles



Import substitution of metal pipes and sections is provided by the localization of production in Kyrgyzstan

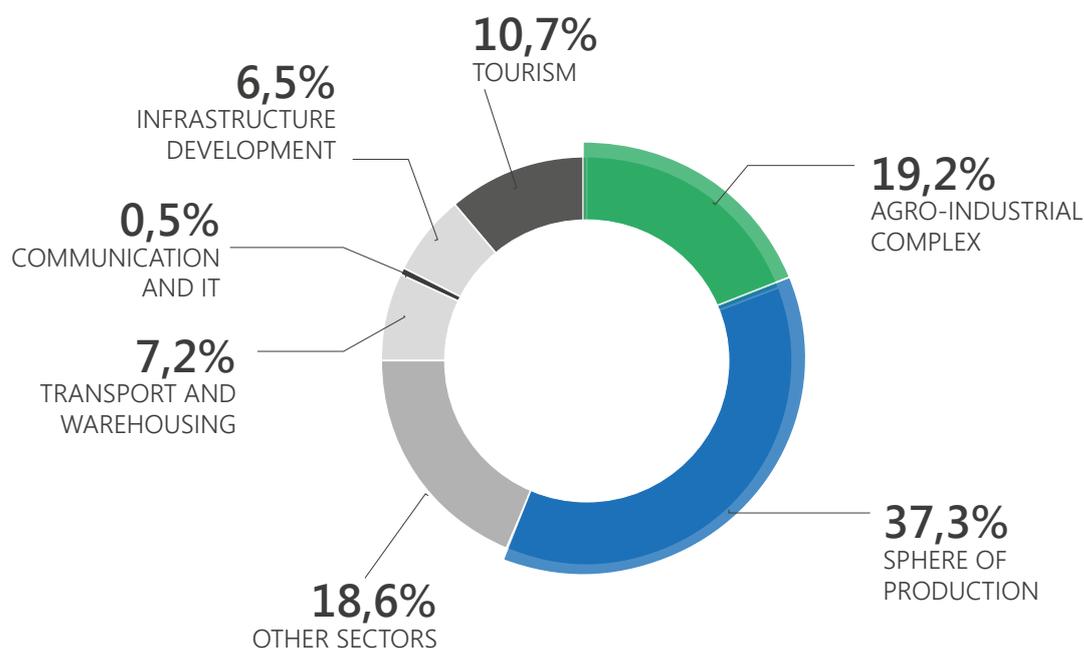
Table 2

Sectoral structure of the projects approved by the Russian-Kyrgyz development Fund under the Program of targeted financing of SMEs through banks and MFIs as of 31.12.2018

Nº	Sector of economy	Number of projects	USD
1	Agricultural sector, production and processing of agricultural products	888	28 513
2	Manufacturing	400	55 195
3	Transport and warehousing	125	10 727
4	Communications and information technology	4	689
5	Financial activities	-	-
6	Infrastructure development	86	9 643
7	Tourism	83	15 803
8	Other sectors	31	27 583
	Total	1 617	148 153

Source: Russian Kyrgyz Development Fund

RKDF's loan portfolio structure of targeted financing of SMEs through banks and MFIs



The Fund developed and introduced a product for financing small businesses through microfinance organizations of the Kyrgyz Republic. In the framework of this product, small businesses and group borrowers were given the opportunity to receive loans of up to 500,000

KGS for establishment and development of their own business. As part of the Agreement with Salym Finance MFI, at the end of 2018, the loans were granted to small businesses at the expense of the Fund's means in the amount of over 65 million KGS.

The Fund developed and introduced a product for financing small businesses through microfinance organizations up to **500,000 KGS**

Based on the reports of partner banks on the results of the implementation of targeted financing of small and medium businesses, the Fund at the end of 2018 found that:

- there is an increase in the revenue of SMEs by an average of 15% compared with the activities of SMEs before receiving targeted financing from the Fund
- up to 4,200 jobs were created;
- there is an increase in taxes and other government payments by an average of 19%.

In the structure of loans issued by partner banks in the framework of the Fund's Program at the end of 2018, the funds were directed to:

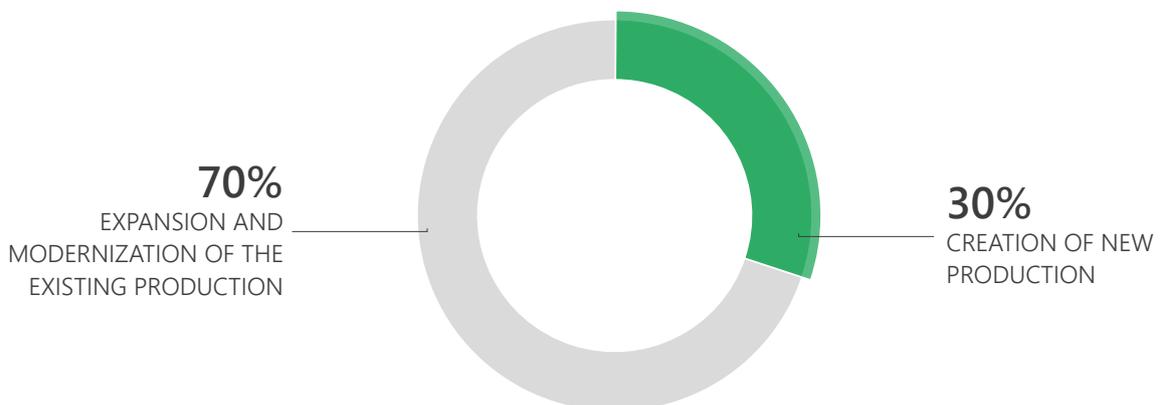
Targeted use:

- on expansion and modernization of the existing production – 70%;
- on creation of new production – 30%.

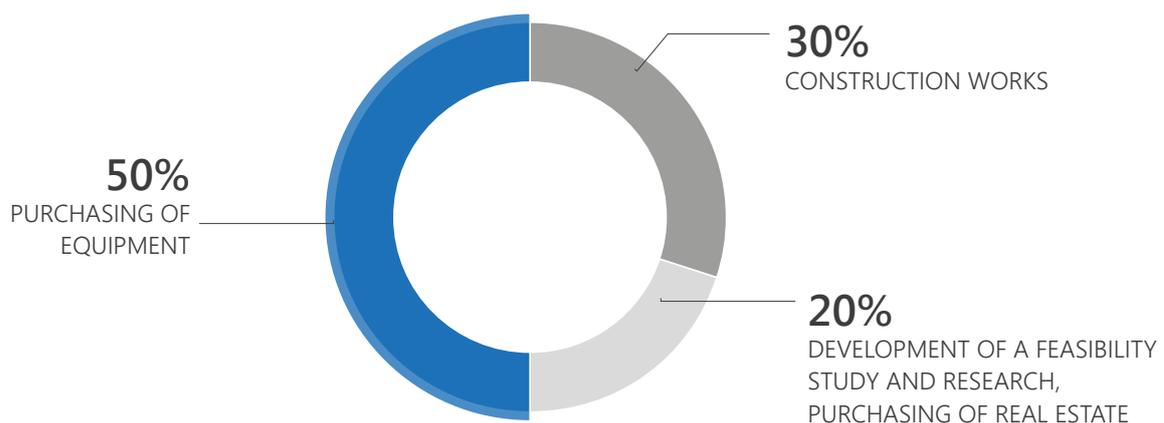
Intended purposes:

- purchasing of equipment – 50%;
- construction works – 30%;
- development of a feasibility study and research, purchasing of real estate – 20%.

Targeted use of loans of targeted SMEs' financing



Intended purposes of loans of targeted SMEs' financing



In 2018, the trend of lowering interest rates on loans continued, which was observed since the beginning of the Fund's cooperation with the partner banks as part of the targeted financing of SMEs.

According to the statistics of the National Bank of the Kyrgyz Republic (hereinafter – NBKR), the weighted average interest rate on the newly issued loans of the commercial banks for a period of more than 3 years in December 2018 amounted to 11.76% per annum, that is, compared to the same indicator in September 2015, it decreased by 5.65 percentage points. (in September 2015, the rate reached 17.41% per annum).

According to the NBKR statistics, the weighted average interest rate on the newly issued loans from commercial banks for a period of more than 3 years on average in 2018 amounted to:

- in national currency – 15,65% p.a. (the same indicator for 2015 was 20.60% per annum);
- in foreign currency – 9.54% per annum (in 2015 – 14.52% per annum).

At the end of 2018, the loan portfolio of the entire banking system of the Kyrgyz Republic reached 127.885 billion KGS, having increased by 18.1% since the beginning of the year (108.3 billion KGS at the end of 2017). The actual loan portfolio of the Fund in the total loan portfolio of the banking system of the Kyrgyz Republic is 10.3%.

According to the NBKR statistics, in the structure of the loan portfolio of the banking system of the Kyrgyz Republic, the bulk of loans was concentrated in such sectors as trade (27.3%), agriculture (18.5%), consumer loans (10.7%) and home loan (9.6%). The loan portfolio repayment ratio in the banking system was 95.9%.

In this context, the sectorial structure of the Fund's loans is more diversified and socially oriented. The share of projects approved by the Fund in the field of agriculture and food

production amounted to 56.5%, transport and logistics – 7.2%, infrastructure development – 6.5%, tourism – 10.7%, in other sectors (including Bank limits) – 18.6%, communications and information technology – 0.5%.

According to the "Report on the stability of the financial sector of the Kyrgyz Republic" (publication by the NBKR), the indicator of the risks of non-repayment of assets (the ratio of special loan loss provision and the loan portfolio), according to the banking system of the Kyrgyz Republic, amounted to 4.1% in the first half of 2018.

The volume of approved loans of the Fund under the SME Program in the field of agrobusiness and food production amounted to \$83,708 (5,847,000 KGS or 16.6% of the loan portfolio of the banking system in this area). In the structure of the loan portfolio of the banking system by the priority sectors of the economy of the Kyrgyz Republic, the loans of the Fund hold a large proportion and play a significant role.

Measures for Regional Development

By the Decree of the President of the Kyrgyz Republic, 2018 was declared the Year of Regional Development. The Fund, together with the partner banks, carried out a number of activities to expand an access to the Fund's resources for regional entrepreneurs, improve their awareness, and facilitate the conditions for obtaining and using loans.

In 2018, for this purpose, in order to expand access to the Fund's financing, Regional Consulting Centers (RCCs) were opened for entrepreneurs in the regions, selected by the Fund through accreditation of consulting companies, the main task of which is to assist in the preparation of business plans and receiving funding from the Fund. In addition, taking into account geographical remoteness, the Fund ensured the availability of a representative of the Fund in the southern regions in Osh.

As a measure of expanding access to direct financing provided by the Fund for regional entrepreneurs, there has been a consistent decreasing of a threshold for the availability of loan funds, given the lower capital intensity of the regional projects. In this regard, in 2018, the Fund decided to reduce the limit of direct financing loans for the regions to \$200,000. The result of the Fund's measures was the receipt of 8 applications by the end of 2018 in the amount of \$2.1 million (each less than \$1.0 million).

A regional limit was set for the partner banks of the Fund designed to shift the concentration of resources from Bishkek and the neighboring areas of the Chui region to the country's regions. Within the «Lending to Small and Medium Businesses through Commercial Banks» Program, for partner banks, the fixed lending limits were established for the newly issued loans in the following order: at least 60% in the regions for the banks with 100% government participation, at least 50% in the regions for private banks.

In accordance with the "Concept for the Regional Policy of the Kyrgyz Republic", in order to implement the projects in the priority sectors of the economy and stimulate entrepreneurship in the regions of the Kyrgyz Republic, the Fund has developed specialized loan products with special terms allowing the provision of technical assistance on the grant basis. In addition, incentive mechanisms are provided in the form of the return of up to ½ of the paid interest on the loan in case of timely fulfillment of the loan obligations. The selection of projects is planned to be carried out as part of the "Regions – Growth Points" competition, which aims to stimulate the most effective projects that have a multiplier effect for the development of a particular region, and to select investment projects with exceptional financing terms. As of the end of 2018, two applications totaling \$8.6 million were received as part of the competition.

Selection of the projects will be carried out at the end of 2019.

Additionally, as part of measures for stimulating the development of regions, the Fund carried out a number of activities:

- loan funds were allocated to the "Guarantee Fund" in the amount of 200 mln KGS. The main condition for granting a loan was the provision of guarantees exclusively in the regions of the Kyrgyz Republic;
- amendments were made to the «Lending to small and medium businesses through commercial banks» Program in terms of the monitoring reports, and the withdrawal limits;
- there was a search for projects in the regions, as part of which, more than 30 meetings were held with regional entrepreneurs in all regions of the country attended also by the representatives of local authorities and financial and credit institutions. Over 2,000 entrepreneurs took part in these meetings across the country.

Regional Consulting Centers were opened in regions to assist the entrepreneurs in the preparation of business plans and receiving funding from the Fund

Kaukhar-Tash JSC

Production of reinforced concrete products for the construction of roads, bridges and railway crossings



The plant uses a **unique** method of pretension reinforcement for the production of bridge slabs

Viva Tex LLC

Production of yarn and knitwear of a full cycle



The company's products meet international standards and are **exported** to Russia, Uzbekistan and Kazakhstan

Cooperation with international and foreign partners

In 2018, within the loan framework agreements concluded by the Fund with the Eurasian Development Bank and Eximbank of Russia, the first deals were signed to raise funds from these financial institutions in the projects implemented by the Fund. The funds of Eximbank in the amount of 14.45 million rubles were raised to purchase machinery and equipment from the Russian manufacturers. The funds of the Eurasian Development Bank in the amount of \$ 1.13 million were involved in the projects of the Fund for the purpose of financing the needs of the Fund's borrowers in the working capital.

In September 2018, the Fund hosted the 1st Kyrgyz-Russian Business Forum in Bishkek, which was held with the support of the Trade Representation of the Russian Federation in the Kyrgyz Republic, the Embassy of the Russian Federation and the Russian Export Center. The purpose of the Business Forum was to organize a platform for establishing closer contacts between Russian and Kyrgyz companies in the priority sectors of the economy, and to search for joint production projects and potential business partners.

The Forum was attended by over 200 people, including representatives of the interested ministries and departments of the Kyrgyz Republic and the Russian Federation, large Kyrgyz and Russian businesses, as well as Russian and international financial institutions. Within the framework of the Forum, a number of important bilateral agreements were signed, including between the Fund and Eximbank of Russia, and between the Russian company «Russian Leather» and the Fund's client – Imperial Group Company.

In 2018, together with the UN Development Program (UNDP), the activities were carried out to create Project Preparation Foundation under the auspices of the Ministry of Economy of the Kyrgyz Republic. As part of the work of this Foundation, a list of enterprises which need technical support in the development of a feasibility study was made to receive funding from the Fund. Supervisory Board of the foundation approved the project selection criteria, the application form, and also approved seven enterprises for receiving technical assistance in the development of a feasibility study through a UNDP grant fund, formed at the expense of the Russian Federation.

In 2018, the Fund proposed cooperation to the partners on the Coordination Council of the Development Partners of the Kyrgyz Republic (CCDP), aimed at the goals and objectives of the Regional Consultation Centers (RCCs) opened by the Fund in five regions of the Kyrgyz Republic. The cooperation resulted in a technical assistance project provided to RCC by the United Nations Food Program (FAO), which started in September 2018.

Also, the Fund was attracting FAO to participate in the projects implemented by the Fund in the field of agriculture. The partners expressed their willingness to consider participating in the Fund's livestock projects by partially covering the investment contribution and providing the borrower with technical assistance from the International Fund for Agricultural Development (IFAD). The UN FAO also expressed its readiness to consider participating in the Fund's crop production projects by partially covering the investment contribution and providing the borrower with technical assistance from the Green Climate Fund (GCF).

RKDF's international cooperation partners



РОСАКСИМБАНК



Европейский банк
реконструкции и развития



Евразийский Банк Развития



CZECH EXPORT BANK
ČESKÁ EXPORTNÍ BANKA



ARIS



EXIM BANK



ICD



UNDP



FAO

Activity in the financial markets and treasury transactions

Cooperation in attracting funds to the projects implemented by the Fund was carried out with the Russian export-import institutions, and international development institutions

Temporarily available funds of the Fund were managed strictly in accordance with the principles of their safeguard. The choice of investment instruments was based on the priority of liquidity and reliability over profitability. As a result of managing temporarily available funds in 2018, the Fund received income that allowed it to continue financing projects at the preferential interest rates.

The main strategic parameters of the Fund's portfolio of the temporarily available funds were determined by the Board of the Fund. Within these parameters, the Management Board of the Fund made decisions on the selection of financial instruments, the volumes and terms of the investment of temporarily available funds.

Within the limits established by the Fund's internal regulatory documents, temporarily

available funds were allocated exclusively in the debt securities of the government and corporate issuers, and in the debt instruments of international financial institutions with a credit rating not lower than "BB –" according to the classification of the rating agencies Standard and Poor's or Fitch Ratings, or "Ba3", according to the classification of Moody's Investors Service. Similar credit quality instruments were also used in the Fund's short-term liquidity management operations.

Cooperation in attracting funds to the projects implemented by the Fund was carried out with the Russian export-import institutions, and international development institutions. The Fund also continued cooperation with the National Bank of the Kyrgyz Republic on raising funds in the national currency of the Kyrgyz Republic.

Risk management

In the reporting year, the Fund did a lot of work on the transition to the IFRS 9 Standard

In 2018, the capital adequacy standards were at a high level demonstrating stability and balance of the Fund. During the reporting period, the amount of capital is sufficient to cover all expected credit losses.

In the reporting year, the Fund did a lot of work on the transition to the IFRS 9 Standard, laying the foundation for further development

of the repayment risk assessment system, and formation of the adequate reserves in accordance with the international standards. As part of the implementation of the Standard, financial models were developed, and amendments were made to the regulations of the Fund.

KazGrain LLC

Production of flour and pasta



The company's products comply with the international quality
standards ISO 9001: 2008

Imperial Group Company LLC

The first domestic footwear factory using robots and digital technology



The company makes civil and safety footwear. The manufacture makes **import substitution** of special footwear possible

Activity plans for 2019

In 2019 it is planned to approve financing up to \$96 million

In 2019, the Fund intends to continue preferential financing of businesses of the Kyrgyz Republic. Within the framework of the Fund's direct lending, project financing, and financing programs for small and medium businesses in 2019, it is planned to approve financing up to \$96 million.

A separate area of the Fund's activities for 2019 is the implementation of the pilot deals for financing start-up projects, in the framework of which business projects will be developed and financed at the initial stage of their formation. The main goal of these projects is the formation and development of business projects in the regions of the Kyrgyz Republic with the possibility of their further expansion. In this area, \$1 million is allocated to start-up projects under the direct financing program and start-up projects financed through the partner banks of the Fund. In particular, it is planned to increase the activity of the Fund in this direction in the Batken, Naryn and Talas regions.

The Fund is planning to continue implementation of the Program «The Fund's Equity Share» aimed at extending a range of financial services available in the market of the Kyrgyz Republic. In 2018, it is planned to summarize the results of the selection of the applications received from entrepreneurs, and conclude a pilot deal with the winner of this competition.

In order to implement projects and stimulate the development of entrepreneurship in the regions, and support the Decree of the President of the Kyrgyz Republic on declaring 2019 the Year of Regional Development and Digitalization of the country, the competition "Regions – Growth Points" was prolonged until the end of 2019, and the selection of projects continued.

The Fund intends, in a pilot mode, to implement a plan for the development of horticulture, aimed at increasing the productivity of the existing gardens and planting the new ones. It is planned to create infrastructure facilities for storage, processing and export of fruit products in the region. These events will be implemented jointly with the relevant government agencies, international organizations and the business community.

In 2019, the Fund plans to approve and, together with the government agencies, international financial institutions and donors, start implementing a program for the development of sheep husbandry in the Kyrgyz Republic. It is expected that this direction will be of great importance for the cluster development of the sector, including the processing of fine fleece, mutton, fur and fur sheepskins with further development of the garment industry, including leather goods.

As part of the activities supporting the development of the financial sector and expanding financing of the economy of the Kyrgyz Republic, in 2019, it is planned to continue considering equity participation in the backbone financial institution of the Kyrgyz Republic.

It is planned to find and structure the joint Kyrgyz-Russian projects as measures to build up economic interconnections of the Kyrgyz and Russian businesses and to integrate Kyrgyz businesses in the EAEU market. Particular attention will be paid to the cluster projects focused on the development of value chains in the priority sectors of the economy of the Kyrgyz Republic.

The Fund intends to expand cooperation with international development institutions and specialized export organizations in attracting loan funds to the projects implemented by the Fund, primarily with the existing institutions, such as the Eximbank of Russia and the Eurasian Development Bank.

Measures to improve the quality of the project documentation will be continued. Technical assistance will be provided in preparing business plans and feasibility studies, as well as involving independent experts and audit companies. At the same time, the funds of the Foundation for Preparation and Support of Projects (FPPS) and international organizations, including UNDP, UNIDO, and USAID will be used. As part of measures to improve the quality of projects, the Fund also plans to form a public expert council in the key areas of the Fund's financing.

In 2019, it is planned to continue raising awareness of the business community about new products and changes in the existing financing products of the Fund through field meetings, conferences in the regions of the Kyrgyz Republic with the local business community.

An important area of the Fund's international activities will be organizing and conducting business forums and round tables with the participation of

the Russian and foreign investors. Such events are intended to become a platform for the meetings of the business community of the Kyrgyz Republic with the Russian and foreign investors. The Kyrgyz-Russian business forum will traditionally become one of the central events for the business community of the Kyrgyz Republic.



Financing approval up to \$96 million;



Implementation of the pilot deals for financing start-up projects;



Implementation of the Program «The Fund's Equity Share»;



Prolongation of the competition "Regions – Growth Points" until the end of 2019;



Implementation of a plan for the development of horticulture;



Approval and implementation of program for the development of sheep husbandry together with the government agencies, international financial institutions and donors;



Considering equity participation in the backbone financial institution of the KR;



Finding and structuring the joint Kyrgyz-Russian projects;



Expansion of cooperation with international development institutions and specialized export organizations in attracting loan funds to the projects implemented by the Fund;



Field meetings, conferences in the regions of the KR with the local business community;



Organizing and conducting business forums and round tables with the participation of the Russian and foreign investors;



Improving of the quality of the project documentation.

Private entrepreneur Omonova D.

Garment industry



The goods are **exported** to the EAEU countries, including Kazakhstan

Alaiku Organiks LLC

Production of natural dairy products



The company was built in accordance with the HACCP international food safety **standards**

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 2018, 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 2018, 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



Russian-Kyrgyz Development Fund
Independent Auditors Report
Page 2

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.

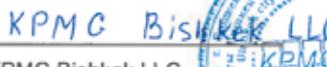
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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:


Ashley Clarke
Attorney


KPMG Bishkek LLC

20 March 2019



Russian-Kyrgyz Development Fund
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

	Notes	2018 USD'000	2017* USD'000
Interest income calculated using effective interest method	6	15,851	14,517
Interest expense	6	(1,243)	(1,133)
Net interest income		14,608	13,384
Net fee and commission income/(expense)		70	(34)
Net foreign exchange (expense)/income		(76)	58
Operating income		14,602	13,408
Impairment losses on debt financial assets	7	(1,655)	(3,974)
General administrative expenses	8	(2,818)	(2,748)
Profit before income tax		10,129	6,686
Income tax expense		-	-
Profit for the year		10,129	6,686
Other comprehensive loss			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve			
- Net change in fair value		-	(1,479)
Other comprehensive loss for the year		-	(1,479)
Total comprehensive income for the year		10,129	5,207

*The Fund has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Fund changed presentation of certain captions, comparative information is re-presented accordingly.

The financial statements as set out on pages 5 to 59 were approved by management on 20 March 2019:



 Mr. E. Asrandiyev
 Chairperson of the Board


 Ms. O. Nam
 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 2018

	Note	31 December 2018 USD'000	31 December 2017* USD'000
ASSETS			
Cash and cash equivalents	9	3,771	38,009
Investment securities			
- Held by the Fund	10	333,580	317,713
- Pledged under sale and repurchase agreement	10	4,413	-
Deposits with the National Bank of the Kyrgyz Republic	14	35,805	31,160
Deposits with commercial banks		-	745
Loans to banks	11	88,664	70,491
Loans to customers	12	92,433	86,798
Property, equipment and intangible assets	13	252	414
Other assets		182	157
Total assets		559,100	545,487
LIABILITIES			
Loan from the National Bank of the Kyrgyz Republic	14	32,222	28,337
Other liabilities	15	3,465	8,084
Total liabilities		35,687	36,421
EQUITY			
Charter capital	16	500,000	500,000
Revaluation reserve for debt investment securities			
-Net change in fair value		-	(905)
Retained earnings and special reserves		23,413	9,971
Total equity		523,413	509,066
Total liabilities and equity		559,100	545,487

*The Fund has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Fund changed presentation of certain captions, comparative information is re-presented accordingly.

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 2018

	2018 USD'000	2017* USD'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	23,461	15,195
Interest payments	(1,233)	(1,225)
Fee and commission payments	(25)	(34)
General administrative expenses payments	(2,754)	(2,554)
(Increase)/decrease in operating assets		
Deposits with the National Bank of the Kyrgyz Republic	(4,645)	(1,136)
Deposits with commercial banks	745	155
Loans to banks	(18,203)	(11,840)
Loans to customers	(6,423)	(56,106)
Increase/(decrease) in operating liabilities		
Loan from the National Bank of Kyrgyz Republic	3,885	1,208
Other liabilities	(4,187)	(6,665)
Cash flows used in operating activities	(9,379)	(63,002)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(236,938)	(210,148)
Sales and repayments of investment securities	211,508	289,536
Purchases of property, equipment and intangible assets	-	(163)
Cash flows from investing activities	(25,430)	79,225
Net (decrease)/increase in cash and cash equivalents	(34,809)	16,223
Effect of changes in exchange rates on cash and cash equivalents	571	20
Cash and cash equivalents as at the beginning of the year	38,009	21,766
Cash and cash equivalents as at the end of the year (Note 9)	3,771	38,009

*The Fund has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Fund changed presentation of certain captions, comparative information is re-presented accordingly.

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 2018

USD'000	Charter capital	Revaluation reserve for debt investment securities	Retained earnings and special reserves	Total equity
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
Balance as at 31 December 2017*	500,000	(905)	9,971	509,066
Adjustment on initial application of IFRS 9	-	905	3,313	4,218
Restated balance as at 1 January 2018	500,000	-	13,284	513,284
Total comprehensive income				
Profit for the year	-	-	10,129	10,129
Total comprehensive income for the year	500,000	-	10,129	10,129
Balance as at 31 December 2018	500,000	-	23,413	523,413

*The Fund has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Fund changed presentation of certain captions, comparative information is re-presented accordingly.

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 2018

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

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on the website of the Russian-Kyrgyz Development Fund:
http://www.rkdf.org/ru/o_nas/otchet

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