# Russian-Kyrgyz Development Fund

Financial Statements

for the year ended 31 December 2018

**Contents**

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# 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.

### *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

KPMG Bishkek LLC

20 March 2019

| | 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** | | | |
| *Items that are or may be reclassified subsequently to profit or loss:* | | | |
| 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*

РКФР
РКӨФ
Россия-Кыргыз өнүгүү фонду ★ Russian Kyrgyz Development Fund ★ Российско-Кыргызский Фонд развития
ИНН 03012201410228

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.

| | 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.

| | 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.

| 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** | | | | |
| *Items that are or may be reclassified subsequently to profit or loss:* | | | | |
| 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.

# 1 Reporting entity

## (a) Organisation and operations

For the purpose of economic cooperation between the Kyrgyz Republic and the Russian Federation as a part of the Eurasian economic integration, with due consideration of the interest of adaptation and stability of the economy of the Kyrgyz Republic to the terms of the contractual legal framework of the Customs Union of the Republic of Belarus, Republic of Kazakhstan and Russian Federation; development of cooperation, including in the following areas: agribusiness, clothing and textile industry, manufacturing, mining and metals industry, transport, housing construction, trade, business development, infrastructure development, the Government of the Kyrgyz Republic and Government of the Russian Federation have established the Russian-Kyrgyz Development Fund (hereinafter - the "Fund").

The Fund is an international organisation established in accordance with the Agreement between the Government of the Kyrgyz Republic and Government of the Russian Federation on the Russian-Kyrgyz Development Fund dated 24 November 2014 (hereinafter referred to as the "Agreement on Incorporation")

The Agreement on Incorporation was ratified by the Law of the Kyrgyz Republic No.174 dated 30 December 2014 and the Federal Law of the Russian Federation No.136-ФЗ dated 8 June 2015.

The Fund has been established to promote economic cooperation between the Kyrgyz Republic and Russian Federation, modernisation and development of the Kyrgyz Republic economy, efficient use of abilities provided by the participation of the Parties in the Eurasian economic integration.

Objectives, functions, structure and procedure of the Fund functioning as well as the competence and powers of its management bodies shall be determined by the Charter of the Fund.

In accordance with the Charter, to achieve the goals of its activity and address the tasks set, the Fund shall perform the following functions:

- select and assess the projects proposed for fundung in accordance with the Fund's regulations and procedures;
- project financing (including by means of participation in the capital of legal entities);
- determine conditions for selection and funding of the lending insitutions for the project implementation;
- exercise monitoring of implementation of the projects, which are financed by the Fund or with participation of the Fund;
- obtain credits and place the bonded loans and other debt securities in the national and international financial markets in accordance with the Fund's policy;
- place the temporarily surplus funds in accordance with the Fund's policy;
- cooperate with the international organisations, corporations and development institutions for the purpose of implementation of the projects in the Kyrgyz Republic;
- provide the financial and investment consulting services;
- carry out other activity, which does not contradict the goals of the Fund determined by the Agreement on Incorporation and Charter of the Fund.

The Fund cooperates with the international organisations, corporations and development institutions for the purpose of implementation of the projects in the Kyrgyz Republic and renders technical assistance to the projects supported by the Fund.

The Fund's registered office is 21 Erkindik Boulevard, Bishkek, Kyrgyz Republic.

The total number of the employees of the Fund as at 31 December 2018 is 46 (2017: 34).

# 1 Reporting entity, continued

### (a) Organisation and operations, continued

In accordance with the Agreement on Incorporation, the Fund enjoys immunities, privileges and preferences in the territory of the Fund member states. The Fund enjoys the immunity from prosecution. The Fund's property and assets located in the territory of the Fund member states enjoy immunities from search, requisition, attachment confiscation, expropriation or any other form of seizure or alienation, except for disputes and disagreements between the Fund and the State Party, such disagreements shall be settled in an arbitration court. No actions and claims shall be taken against the Fund by any of its parties or any person, body and institution of the Fund member states, acting for or making claims on behalf of such party. To the extent required to achieve the objectives and perform functions of the Fund, and subject to the provisions of the Fund's Charter, all property and assets of the Fund shall be free from any restrictions, regulations or moratoria. Archives, property as well as any information that belong to the Fund or is owned by the Fund, shall be indefeasible in the territory of the Fund member states. The Fund, its income, property and other assets, and also its operations and transactions carried out in accordance with the Charter of the Fund in the territory of the Fund member states shall be exempt from any taxes, including income tax, duties, fees and other mandatory payments to the budget, except for those that arise for the customers and counterparties of the Fund in connection with their operations and transactions with the Fund.

### (b) Business environment

The Fund's operations are located in the territory of the Fund member states. In this regard, the Fund's operations are primarily located in Kyrgyzstan. Consequently, the Fund is exposed to risks of the economic and financial markets of its member states, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Fund member states. In particular, the current economic and political situation, including extension of sanctions against the Russian Federation by some countries, and introduction of response sanctions by the Russian Federation against individual countries, gives rise to certain risks for the operations carried out by the Fund. The financial statements reflect management's assessment of the impact of the business environment in the Fund member states on the operations and financial position of the Fund. The future business environment may differ from management's assessment.

# 2 Basis of accounting

### (a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Fund's annual financial statements to which IFRS 9 *Financial Instruments* has been applied. Changes to significant accounting policies are described in Note 2(e).

### (b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value though other comprehensive income are stated at fair values (in 2017: available-for-sale financial assets).

### (c) Functional and presentation currency

The functional currency of the Fund is the US dollar (USD) as it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The USD is also the presentation currency for the purposes of these financial statements.

When electing the functional currency the Fund has taken into account the following factors: the Fund is an international organisation; the Fund's charter capital has been formed in US dollars; funds from the financing activities are raised predominantly in US dollars and majority of the Fund's operations are carried out in US dollars.

Financial information presented in USD is rounded to the nearest thousand.

# 2 Basis of accounting, continued

## (d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant judgements made by management in applying the Fund's accounting policies are the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2017, except for the areas described below.

**Judgements**

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(c)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

**Assumptions and estimations uncertainty**

Information about assumptions and estimation uncertainties that have a significant impact on the financial statements as at and for the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only
  - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- Applicable to 2018 and 2017
  - impairment of financial instruments – Note 4.
  - estimates of fair values of financial assets and liabilities – Note 22.

## (e) Changes in accounting policies and presentation

The Fund has adopted IFRS 9 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Fund's financial statements.

Due to the transition methods chosen by the Fund in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

# 2 Basis of accounting, continued

## (e) Changes in accounting policies and presentation, continued

***IFRS 9 Financial instruments***

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Fund has applied consequential amendments to IAS 1 '*Presentation of Financial Statements*', which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Fund disclosed this amount in notes to the financial statements.

Additionally, the Fund has adopted consequential amendments to IFRS 7 '*Financial Instruments: Disclosures*' that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Fund's accounting policies resulting from its adoption of IFRS 9 are summarised below.

***Classification of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

For an explanation of how the Fund classifies financial instruments under IFRS 9, see Note 3(c)(i)).

***Impairment of financial assets***

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Fund applies the impairment requirements of IFRS 9, see Note 3(c)(v).

***Transition***

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

The Fund used the exemption not to restate comparative periods, but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and other comprehensive income, the Fund has changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

# 2 Basis of accounting, continued

## (e) Changes in accounting policies and presentation, continued

In the transition to IFRS 9, available-for-sale investment securities measured at fair value through other comprehensive income were reclassified to “measured at amortized cost”. When IFRS 9 was first applied, the carrying amount of these assets was adjusted so that their amortized cost under IFRS 9 was the same as if these assets were recorded at amortized cost from their initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

# 3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Fund has consistently applied the following accounting policies to all periods.

## (a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Fund at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

## (b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and accounts held with the National Bank of the Kyrgyz Republic (NBKR) and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Fund in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

## (c) Financial instruments

In accordance with IFRS 9, financial assets and financial liabilities are recognized in the accounts and in the Fund’s balance sheet, provided that the Fund becomes a party to the transaction, as a result of which it assumes the fulfillment of all contractual terms relating to this financial instrument. This rule means that a financial instrument is recognized when the Fund actually has the right for benefits or liabilities for the supply of resources that include the economic benefits associated with this instrument. Assets whose economic future benefit consists in receiving goods or services, in contrast to the right to receive money or another financial asset, are not financial assets

### *(i) Classification*

***Financial assets – Policy applicable from 1 January 2018***

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### _(i) Classification, continued_

**_Financial assets – Policy applicable from 1 January 2018, continued_**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**_Business model assessment_**

The Fund makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realised.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(i) Classification, continued*

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

***Assessment whether contractual cash flows are solely payments of principal and interest***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

***Financial liabilities – Policy applicable from 1 January 2018***

The Fund classifies its financial liabilities, other than loan commitments, as measured at amortised cost or FVTPL.

***Policy applicable before 1 January 2018***

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments); or
- upon initial recognition, designated as at fair value through profit or loss.

The Fund may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(i) Classification, continued*

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Fund has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Fund:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale; or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Fund has the positive intention and ability to hold to maturity, other than those that:

- the Fund upon initial recognition designates as at fair value through profit or loss;
- the Fund designates as available-for-sale; or
- meet the definition of loans and receivables.

*Available-for-sale financial assets* are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

### *(ii) Reclassification*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets. The Fund should reclassify financial assets if the Fund changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Fund's senior management as a result of external or internal changes and must be significant to the Fund's operations and demonstrable to external parties. Accordingly, a change in the Fund's business model will occur only when the Fund either begins or ceases to perform an activity that is significant to its operations; for example, when the Fund has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

### *(iii) Derecognition*

#### *Financial assets*

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(iii) Derecognition, continued*

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Fund neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Fund continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

***Financial liabilities***

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

### *(iv) Modification of financial assets and financial liabilities*

***Policy applicable from 1 January 2018***

***Financial assets***

If the terms of a financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Fund due to changes in the NBKR key rate, if the loan agreement entitles the Fund to do so.

The Fund performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Fund assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Fund analogizes to the guidance on the derecognition of financial liabilities.

The Fund concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- inclusion of conversion feature.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### _(iv) Modification of financial assets and financial liabilities, continued_

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Fund plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Fund further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Fund first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(c)(iii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method. (see Note 3(a)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Fund treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

***Financial liabilities***

The Fund derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Fund performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Fund concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(iv) Modification of financial assets and financial liabilities, continued*

***Policy applicable before 1 January 2018***

***Financial assets***

If the terms of a financial asset were modified, then the Fund evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see Note 3(c)(iii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see Note 3(c)(v)).

***Financial liabilities***

The Fund derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

### *(v) Impairment*

See also Note 4.

***Policy applicable from 1 January 2018***

The Fund recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Fund measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Fund considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(v) Impairment, continued*

***Measurement of ECL***

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Fund if the commitment is drawn down and the cash flows that the Fund expects to receive.

Analysis of the factors used in estimating ECL is also disclosed in Note 4.

***Credit-impaired financial assets***

At each reporting date, the Fund assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Fund on terms that the Fund would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

***Presentation of allowance for ECL in the statement of financial position***

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments*: generally, as a provision;
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

***Policy applicable before 1 January 2018***

The Fund assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Fund determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(v) Impairment, continued*

***Policy applicable before 1 January 2018, continued***

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Fund would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

***Financial assets carried at amortised cost***

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Fund reviews its loans and receivables to assess impairment on a regular basis.

The Fund first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Fund uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Fund writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

***Available-for-sale financial assets***

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

# 3 Significant accounting policies, continued

## (c) Financial instruments, continued

### *(v) Impairment, continued*

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

***Write-offs***

***Policy applicable from 1 January 2018***

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Fund determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

***Policy applicable before 1 January 2018***

The Fund writes off assets deemed to be uncollectible.

### *(vi) Repurchase and reverse repurchase agreements*

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

### *(vii) Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Fund currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund and all counterparties.

# 3 Significant accounting policies, continued

## (d) Loans to customers

***Policy applicable from 1 January 2018***

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortised cost (see Note 3(c)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

***Policy applicable before 1 January 2018***

Loans to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Fund did not intend to sell immediately or in the near term.

Loans to customers were classified as loans and receivables. Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

## (e) Investment securities

***Policy applicable from 1 January 2018***

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(c)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI (see Note 3(c)(i)).

***Policy applicable before 1 January 2018***

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

**Held-to-maturity**

Held-to-maturity investments were non-derivative assets with fixed or determinable payments and fixed maturity that the Fund had the positive intent and ability to hold to maturity, and which were not designated as at FVTPL or as available-for-sale.

Held-to-maturity investments were carried at amortised cost using the effective interest method, less any impairment losses (see Note 3(c)(v)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Fund from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that were so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Fund had collected substantially all of the asset's original principal; and
- sales or reclassifications that were attributable to non-recurring isolated events beyond the Fund's control that could not have been reasonably anticipated.

**Available-for-sale**

Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value could not be measured reliably were carried at cost. All other available-for-sale investments were measured at fair value after initial recognition.

# 3 Significant accounting policies, continued

## (e) Investment securities, continued

Interest income was recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. Impairment losses were recognised in profit or loss (see Note 3(c)(v)).

Other fair value changes, other than impairment losses (see Note 3(c)(v)), were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

A non-derivative financial asset might be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Fund had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

## (f) Impairment of non-financial assets

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

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

## (g) Property and equipment

### *(i) Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

### *(ii) Depreciation*

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

| | |
|---|---|
| Furniture and office equipment | from 3 to 7 years; |
| Computers | from 3 to 5 years; |
| Motor vehicles | 5 years. |

## (h) Provisions

A provision is recognised in the statement of financial position when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

# 3 Significant accounting policies, continued

## (i) Credit related commitments

In the normal course of business, the Fund enters into credit related commitments, comprising undrawn loan commitments.

Loan commitments are not recognised in the financial statements, except in the following cases:

- loan commitments that the Fund designates as financial liabilities at fair value through profit or loss;
- if the Fund has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- commitments to provide a loan at a below-market interest rate.

The Fund has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- *from 1 January 2018:* the Fund recognises a loss allowance (see Note 3(c)(v));
- *before 1 January 2018:* the Fund recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within Other liabilities.

## (j) Charter capital

Charter capital is recognised at cost. Incremental costs directly attributable to the issue of share capital are recognised as a deduction from equity.

## (k) Taxation

The Fund, its income, property and other assets as well as the Fund's operations in the territory of the Fund member states, which are carried out in accordance with the Agreement Establishing the Fund are exempt from taxes, duties, fees and other payments, except for those that arise for the customers and counterparties of the Fund in connection with their operations and transactions with the Fund.

## (l) Income and expense recognition

***Effective interest rate***

***Policy applicable from 1 January 2018***

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

# 3 Significant accounting policies, continued

## (l) Income and expense recognition, continued

*Amortised cost and gross carrying amount*

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

*Calculation of interest income and expense*

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(c)(v).

*Presentation*

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost and interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

*Policy applicable before 1 January 2018*

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

*Presentation*

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

# 3 Significant accounting policies, continued

## (l) Income and expense recognition, continued

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

## (m) Comparative information

As a result of adoption of IFRS 9 the Fund changed presentation of certain captions in the primary forms of consolidated financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the statement of financial position as at 31 December 2017 is as follows:

- "Available-for-sale financial assets" and "Held-to-maturity investments" were presented within "Investment securities" line item;

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

- The Fund has changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

## (n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2018, and are not applied in preparing these financial statements. The Fund plans to adopt these pronouncements when they become effective.

The following amended standards and interpretations are not expected to have a significant impact on the Fund's financial statements:

- IFRS 16 *Leases;*
- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Long-term Interests in Associates and Joint Ventures (*Amendments to IAS 28*);*
- *Plan Amendment, Curtailment or Settlement (*Amendments to IAS 19*);*
- Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;
- Amendments to References to Conceptual Framework in IFRS Standards;
- IFRS 17 *Insurance Contracts.*

# 4 Financial risk review

This note presents information about the Fund's exposure to credit risks. For information on the Fund's financial risk management framework, see Note 18.

## (i) *Credit risk - Amounts arising from ECL*

### *Significant increase in credit risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Fund assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

The Fund uses the following criteria for determining whether there has been a significant increase in credit risk.

*For loans to customers:*

- continuous overdue of counterparty's liability is more than 30 calendar days;
- one loan restructuring due to the inability to service liabilities on current terms;
- the use of significant interventions by the Fund to reduce credit risks, such as direct control (management) of operating activities;
- disclaimer or modified audit opinion provided by external auditor on the Client's financial statements;
- the client does not provide annual financial statements and / or other information within 90 days from the deadline specified in the loan agreement;
- reduction of credit rating by 3 or more grades from the date of initial recognition of a financial instrument (but not to the default level);
- facts that led or may lead to significant negative changes in the financial and economic activities of the counterparty (but not to the default level).

*For loans to banks:*

- continuous overdue of counterparty's liability is more than 1 day;
- one loan restructuring;
- facts of incompliance with prudential normative (capital adequacy ratio, liquidity ratio);
- bank does not comply with NBKR requirements for more than 30 calendar days;
- disclaimer or modified audit opinion provided by external auditor;
- presence of negative information, which is by the Fund's judgement, can lead to overdue days;
- bank does not provide its quarterly or annual financial information to the Fund for more than 15 calendar days as it is prescribed in the loan agreement;
- decrease in credit rating by 3 or more grades from the date of initial recognition (but not to the default level);
- existing or projected adverse changes in commercial, financial or economic conditions that are expected to lead to a significant change in the borrower's ability to meet its debt obligations (but not to the default level).

# 4 Financial risk review, continued

## *(i) Credit risk - Amounts arising from ECL, continued*

*For investment securities issued by the Russian Federation and the Kyrgyz Republic:*

- for investment securities with sovereign credit rating (further "SCR") of "BB-" and above at the purchase date:
  - decrease in sovereign credit rating by two grades from the purchase date;
- for investment securities with SCR below "BB-" at the purchase date:
  - decrease in SCR by one point from purchase date;
- continues overdue of counterparty's liability is more than 1 day;
- in case of credit rating withdrawal, a change in Foreign Debt/GDP indicator is above 60% threshold, with a simultaneous increase in the indicator by more than 10% since the purchase of securities;
- technical defaults on debt service after the purchase of securities (based on the definition in security prospectus).

*For investment securities issued by non-governmental institutions:*

- for investment securities with credit rating of "BB-" and above at the purchase date:
  - decrease in credit rating by more than two grades;
- for investment securities with credit rating below "BB-" at the purchase date:
  - decrease in credit rating by one point;
- technical defaults on debt service after the purchase of securities (based on the definition in security prospectus);
- withdrawal of credit rating from international rating agencies Standard and Poor's, Moody's, Fitch.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Fund determines a probation period during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

The Fund considers the following criteria for decision that there is no longer a significant increase in credit risk:

*Loans to customers and loans to banks*

A loan to customers and loans to banks can be reclassified from Stage 2 to Stage 1 if the conditions which led to the previous reclassification were eliminated.
*Investment securities*
With regard to a downgrade of a security is earlier of two events: (a) upgrade of the security rating to the level at the time of purchase, or (b) the repayment of at least two consecutive payments on time.

***Credit risk grades***

The Fund allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

# 4 Financial risk review, continued

## (i) *Credit risk - Amounts arising from ECL, continued*

| Corporate exposure | All exposures |
|---|---|
| • Information obtained during periodic review of customer files – e.g. financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes | • Payment record – this includes overdue status as well as a range of variables about payment ratios |
| • Data from credit reference agencies, press articles, changes in external credit ratings | • Utilisation of the granted limit<br>• Requests for and granting of forbearance |
| • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities | • Existing and forecast changes in business, financial and economic conditions |

***Generating the term structure of PD***

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Fund collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading.

The Fund employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

***Shadow-Rating model for estimation of PD for non-financial institutions***

The shadow rating approach is based on an orderly choice model (model breakdown) and allows the Fund to assess the potential credit rating of a non-financial organization based on a set of qualitative and quantitative characteristics available to an external user. The potential credit rating is further correlated with the probability of default based on the statistics of defaults within a single rating group from Standard & Poor's, adjusted for the impact of the projected macroeconomic changes.

***Definition of default***

In accordance with IFRS 9, the Fund considers a financial asset to be in default when the following indicators for certain financial instruments occurred.

*Loans to customers:*

- continuous overdue of counterparty's liability is more than 90 calendar days;
- loan restructurings related to worsening of borrower's financial position, in particular:
  - loan restructurings at conditions unfavourable for Fund which individually or in aggregate led to decrease in NPV for more than 10%;
  - related to borrower's insolvency as a result of which the only way to repay the outstanding loan amount is realization of collateral, guarantees and support from guarantors;
  - three or more restructurings, regardless whether they relate to worsening of borrower's financial position;
- the likelihood of bankruptcy or other financial reorganization of the borrower;
- the use of significant measures by the Fund to reduce credit risks, such as direct control (management) of operating activities;

# 4 Financial risk review, continued

## *(i) Credit risk - Amounts arising from ECL, continued*

### *Definition of default, continued*

*Loans to customers, continued:*

- other events - in the case of revealing direct or indirect evidence of a high probability of negative events, recognition of default can be made by forming an appropriate professional judgment by the responsible structural unit of the Fund and by decision of the Fund's Management Board:
  - significant overdue;
  - facts, that may lead or have led to significant adverse changes in borrower's financial position;
  - the fact that deliberately false information was provided and confirmed by the counterparty, entailing a high risk of non-recoverability.

*Loans to banks:*

- continuous overdue of counterparty's liability is more than 7 calendar days;
- loan restructurings related to worsening of borrower's financial position, in particular:
  - one or set of restructurings at conditions unfavourable for Fund which individually or in aggregate led to decrease in NPV for more than 10%;
  - related to borrower's insolvency as a result of which the only way to repay the outstanding loan amount is realization of collateral, guarantees and support from guarantors;
  - two or more restructurings, regardless whether they relate to worsening of borrower's financial position;
- bankruptcy of the borrower;
- other events - in the case of revealing direct or indirect evidence of a high probability of negative events, recognition of default can be made by forming an appropriate professional judgment by the responsible structural unit of the Fund and by decision of the Fund's Management Board:
  - significant overdue;
  - facts, that may lead or have led to significant adverse changes in borrower's financial position;
- the application of significant measures by the regulatory authorities, such as the introduction of direct supervision, which may entail non-performance or improper performance of obligations.

*Investment securities:*

Quantitative factors:

- the issuer fails to pay the interest/principal amount on a contractual date, and this lasts for more than 7 calendar days;
- the issuer's failure to comply with other obligations in relation to the issuer's other securities issues subject to default, for which the debt is not paid within 7 days after the delivery of the default notification by one of the holders;
- other grounds for default or cross-default provided by the prospectus.

Qualitative factor include declaration of default by the issuer.
Baseline data when assessing the occurrence of a default event on a financial instrument and its significance may change over time in order to reflect changes in circumstances.

# 4 Financial risk review, continued

## (i) *Credit risk - Amounts arising from ECL, continued*

### *Incorporation of forward-looking information*

In accordance with IFRS 9, the Fund incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Fund uses expert judgment to evaluate forward-looking information. This estimate is also based on information obtained from external sources. External information may include economic data and forecasts published by government agencies and monetary authorities of countries in which the Fund operates, such as the NBKR, as well as some external sources in relation to the country, such as the International Monetary Fund and the Eurasian Economic Commission, as well as individual and scientific forecasts.

The Fund determined and documented a list of the main factors affecting the assessment of credit risk and credit losses by portfolio of financial instruments and, using the analysis of historical data, assessed the relationship between macroeconomic variables and credit risk. The key factors identified are the change in CPI and unemployment rate forecasts.

The Fund used the following macroeconomic factors:

***For financial instruments issued by institutions based in the Kyrgyz Republic***

| Macroeconomic factor | 2019 | 2020 |
|---|---|---|
| CPI change | 104.7% | 105.75% |
| Unemployment rate | 7% | 7% |

***For financial instruments issued by institutions based in the Russian Federation***

| Macroeconomic factor | 2019 | 2020 |
|---|---|---|
| Brent oil price change | 20.63% | 1.12% |
| CPI change | 17.95% | 4.35% |

### *Modified financial assets*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(c)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

## (ii) *Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

# 4 Financial risk review, continued

## *(ii) Measurement of ECL, continued*

### *Economic LGD*

Calculated on the basis of cash flows resulting from the process of working with overdue debts (the volume of lost flows). In the framework of the economic LGD method, the level of losses from the amount of debt at the time of default is defined as discounted income from the sale of collateral property with the exception of the cost of implementation. Application is limited to corporate and institutional borrowers.

### *Statistical LGD*

It is calculated on the basis of analysis of historical LGD data and financial instrument characteristics. The method is based on statistical processing of data on the level of debt collection based on information from financial institutions on borrower defaults and penalties. It is applicable to all types of loans.

### *Market LGD*

The market LGD is calculated on the basis of market prices for similar non-default bonds/loans obtained from open historical data and bank research. This approach does not take into account the peculiarities of the national economy and its use is mainly justified in the case when the amount of data for calculating the economic and statistical LGD is insufficient, for example, in the case of interbank loans with complex collateral objects (loan portfolio). Application is limited to corporate and institutional borrowers.

### *Exposure at default - EAD*

EAD represents the expected exposure in the event of a default. The Fund derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

# 5 Transition to IFRS 9

**Classification of financial assets and financial liabilities on the date of initial application of IFRS 9**

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Fund's financial assets and financial liabilities as at 1 January 2018.

| USD'000 | Note | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 9 | Loans and receivables | Amortised cost | 38,009 | 38,009 |
| Loans to banks | 11 | Loans and receivables | Amortised cost | 70,491 | 70,702 |
| Loans to customers | 12 | Loans and receivables | Amortised cost | 86,798 | 87,270 |
| Investment securities - debt | 10 | Held-to-maturity investments | Amortised cost | 46,637 | 48,327 |
| Investment securities - debt | 10 | Available for sale | Amortised cost | 271,076 | 271,625 |
| Deposits in NBKR | 14 | Loans and receivables | Amortised cost | 31,160 | 31,160 |
| Deposits in commercial banks | | Loans and receivables | Amortised cost | 745 | 745 |
| Other assets | - | Loans and receivables | Amortised cost | 157 | 157 |
| **Total financial assets** | | | | **545,073** | **547,995** |
| **Financial liabilities** | | | | | |
| Loans from NBKR | 14 | Amortised cost | Amortised cost | 28,337 | 28,337 |
| Other liabilities | 15 | Amortised cost | Amortised cost | 8,084 | 6,788 |
| **Total financial liabilities** | | | | **36,421** | **35,125** |

The Fund's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(c)(i). The application of these policies resulted in the reclassifications set out in the table above and explained below:

Certain debt securities are held by the Fund in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Fund considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

# 5 Transition to IFRS 9, continued

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

| USD'000 | IAS 39 carrying amount 31 December 2017 | Reclassification | Remeasurement | IFRS 9 carrying amount 1 January 2018 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| ***Amortised cost*** | | | | |
| Cash and cash equivalents | 38,009 | - | - | 38,009 |
| Loans to banks | 70,491 | - | 211 | 70,702 |
| Loans to customers | 86,798 | | 472 | 87,270 |
| Deposits in NBKR | 31,160 | - | - | 31,160 |
| Deposits in commercial banks | 745 | - | - | 745 |
| Held-to-maturity investments and other investments in securities | 46,637 | (46,637) | - | - |
| Investment securities: | | | | |
| From held to maturity | - | 46,637 | 1,690 | 48,327 |
| From available-for-sale (AFS) | - | 271,076 | (356) | 270,720 |
| Reversal of revaluation reserve for AFS | - | - | 905 | 905 |
| Closing balance of Investment securities | - | 317,713 | 2,239 | 319,952 |
| Other assets | 157 | - | - | 157 |
| **Total amortised cost** | **273,997** | **271,076** | **2,922** | **547,995** |
| ***Available-for-sale*** | | | | |
| Available-for-sale financial assets | 271,076 | (271,076) | - | - |
| **Total FVOCI** | **271,076** | **(271,076)** | **-** | **-** |
| | | | | |
| **Financial liabilities** | | | | |
| ***Amortised cost*** | | | | |
| Loans from NBKR | (28,337) | - | - | (28,337) |
| Other liabilities (provision for loan commitments) | (8,084) | - | 1,296 | (6,788) |
| **Total amortised cost** | **(36,421)** | **-** | **1,296** | **(35,125)** |

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the amortised cost category under IFRS 9.

| | |
|---|---|
| **From available-for-sale financial assets under IAS 39** | |
| Fair value at 31 December 2018 (USD'000 ) | 49,759 |
| Fair value gain that would have been recognised during 2018 in other comprehensive income if the financial assets had not been reclassified (USD'000 ) | (581) |

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

# 5 Transition to IFRS 9, continued

| USD'000 | Impairment allowance and provisions: 31 December 2017 (IAS 39/ IAS 37) | Reclassification | Remeasurement | 1 January 2018 (IFRS 9) |
|---|---|---|---|---|
| Loans and receivables and held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, loans to banks and loans to customers) | 8,646 | - | (2,373) | 6,273 |
| Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9 | - | - | 356 | 356 |
| **Total measured at amortised cost** | **8,646** | - | **(2,017)** | **6,629** |
| Provision for loan commitments | 2,085 | - | (1,296) | 789 |
| **Total** | **10,731** | - | **(3,313)** | **7,418** |

# 6 Net interest income

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| **Interest income calculated using the effective interest method** | | |
| Investment securities | 8,861 | 8,875 |
| Loans to customers | 4,119 | 2,673 |
| Loans to banks | 2,871 | 2,969 |
| | **15,851** | **14,517** |
| **Interest expense** | | |
| Loan from the National Bank of the Kyrgyz Republic | (1,216) | (1,128) |
| Other financial liabilities | (27) | (5) |
| | **(1,243)** | **(1,133)** |
| **Net interest income** | **14,608** | **13,384** |

# 7 Impairment losses

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| Loans to customers | 1,008 | 3,559 |
| Loans to banks | 497 | 149 |
| Credit related commitments | 80 | 329 |
| Investment securities | 70 | (63) |
| | **1,655** | **3,974** |

# 8 General and administrative expenses

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| Employee compensation | 1,805 | 1,665 |
| Social payments | 175 | 222 |
| Other employee compensation | 133 | 185 |
| | **2,113** | **2,072** |
| Rent | 299 | 299 |
| Depreciation and amortization | 162 | 164 |
| Consulting and professional services | 78 | 60 |
| Other administrative expenses | 166 | 153 |
| | **705** | **676** |
| | **2,818** | **2,748** |

# 9 Cash and cash equivalents

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| **Cash on hand** | **-** | **1** |
| **Current accounts with NBKR** | **24** | **3,437** |
| **Current accounts with other banks** | | |
| - rated BBB- | 2 | - |
| - rated BB+ | 188 | 30,502 |
| - rated BB- | 20 | 3 |
| - not rated | 3,537 | 4,066 |
| **Total current accounts with other banks** | **3,747** | **34,571** |
| **Total cash and cash equivalents** | **3,771** | **38,009** |

The credit ratings are presented by reference to the credit ratings of Standard & Poor's credit ratings agency or other agencies converted into Standard & Poor's scale.

All cash and cash equivalents are in Stage 1 as at 31 December 2018 and 31 December 2017.

As at 31 December 2018 and 31 December 2017 the Fund has no counteragents whose balances exceed 10% of equity.

**Credit quality analysis**

The following table sets out information about the credit quality of current accounts in other banks in accordance with the Fund's internal credit rating.

| | 31 December 2018 | | | |
|---|---|---|---|---|
| **USD'000** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Cash and cash equivalents*** | | | | |
| Rated BBB- | 2 | - | - | **2** |
| Rated from BB- to BB+ | 208 | - | - | **208** |
| Rated B | 3,249 | - | - | **3,249** |
| Rated B- | 288 | - | - | **288** |
| **Carrying amount** | **3,747** | **-** | **-** | **3,747** |

# 10 Investment securities

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| *Measured at amortised cost* | | |
| **Held by the Fund** | | |
| **Debt and other fixed-income instruments measured at amortised cost** | | |
| **- Government bonds** | | |
| Eurobonds of the Government of the Russian Federation | 46,981 | 90,045 |
| Bonds of the Government of the Kyrgyz Republic | 48,656 | 48,770 |
| **Total government bonds** | **95,637** | **138,815** |
| **- Corporate bonds** | | |
| Gazprom | 52,625 | - |
| Gazprombank | 49,937 | 11,059 |
| Vneshekonombank | 41,465 | 60,275 |
| Sberbank | 41,191 | 6,343 |
| Rosneft | 25,140 | - |
| Vneshtorgbank | 21,883 | 58,005 |
| Eurasian Development Bank | 6,581 | - |
| Rosselhozbank | - | 45,349 |
| **Total corporate bonds** | **238,822** | **181,031** |
| **Total investment securities held by the Fund** | **334,459** | **319,846** |
| Loss allowance | (879) | (2,133) |
| **Total investment securities held by the Fund, net of loss allowance – measured at amortised cost** | **333,580** | **317,713** |
| *Measured at FVOCI* | | |
| **Pledged under sale and repurchase agreements** | | |
| **- Corporate bonds** | | |
| Rosneft | 4,413 | - |
| **Total pledged under sale and repurchase agreements** | **4,413** | **-** |
| Loss allowance | - | - |
| **Total corporate bonds – measured at FVOCI** | **4,413** | **-** |
| **Total investment securities** | **337,993** | **317,713** |

All investment securities are in Stage 1 as at 31 December 2018 and 31 December 2017.

# 10 Investment securities, continued

The following table shows reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| **USD'000** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| **Investment securities measured at amortised cost** | | | | | |
| Balance at 1 January | 799 | - | - | 799 | 2,196 |
| Transfer to Stage 1 | - | - | - | - | |
| Transfer to Stage 2 | - | - | - | - | |
| Transfer to Stage 3 | - | - | - | - | |
| Net remeasurement of loss allowance | 164 | - | - | 164 | (63) |
| New financial assets originated or purchased | 237 | - | - | 237 | |
| Financial assets that have been derecognised | (331) | - | - | (331) | |
| Foreign exchange and other movements | 10 | - | - | 10 | - |
| **Balance at 31 December** | **879** | **-** | **-** | **879** | **2,133** |

# 11 Loans to banks

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| **Loans to the banks in the Kyrgyz Republic** | | |
| -not rated | 89,970 | 71,711 |
| Loss allowance | (1,306) | (1,220) |
| **Net loans to banks** | **88,664** | **70,491** |

The following table shows reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| **USD'000** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| **Loans to banks at amortised cost** | | | | | |
| Balance at 1 January | 1,009 | - | - | 1,009 | 1,066 |
| Transfer to Stage 1 | - | - | - | - | |
| Transfer to Stage 2 | - | - | - | - | |
| Transfer to Stage 3 | - | - | - | - | |
| Net remeasurement of loss allowance | 473 | - | - | 473 | 149 |
| New financial assets originated or purchased | 24 | - | - | 24 | |
| Foreign exchange and other movements | (200) | - | - | (200) | 5 |
| **Balance at 31 December** | **1,306** | **-** | **-** | **1,306** | **1,220** |

All loans to banks are in Stage 1 as at 31 December 2018 and 31 December 2017.

# 11 Loans to banks, continued

## (a) Analysis of collateral and other credit enhancements

Because of the Fund's focus on borrowers' creditworthiness, an updated valuation of collateral is generally not carried out unless the credit risk of a loan increases significantly and the loan is monitored more closely.

According to the Fund's policy a value-to- loan ratio should be minimum 100% - 105% for deposits and cash, 110% - 115% - for government securities, 200% - for the rights of claim to the third parties and 120% - for other collaterals.

The following tables provides information on collateral and other credit enhancements securing loans to banks, net of impairment, by types of collateral:

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| Rights of claim to the third parties – final borrowers | 68,103 | 42,499 |
| Traded securities | 12,694 | 20,019 |
| Cash | 4,327 | 4,428 |
| Real estate | 3,540 | 3,545 |
| | **88,664** | **70,491** |

As at 31 December 2018 loans to banks of USD 5,807 thousand (31 December 2017: USD 4,165 thousand) are partially secured by cash deposits of USD 1,280 thousand (31 December 2017: USD 5,800 thousand) (Note 15).

At 31 December 2018, the Fund did not hold any financial instruments for which no loss allowance is recognised because of collateral.

During the period, there was no change in the Fund's collateral policies.

## (a) Concentration of loans to banks

As at 31 December 2018 and 31 December 2017 the Fund has no counteragents, whose balances exceed 10% of equity.

## (b) Credit quality analysis

The following table sets out information about the credit quality of loans to banks measured at amortised cost in accordance with the Fund's internal credit rating.

| | 31 December 2018 | | | |
|---|---|---|---|---|
| **USD'000** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Loans to banks – at amortised cost*** | | | | |
| Rated from CCC to B+ | 89,970 | - | - | 89,970 |
| | **89,970** | - | - | **89,970** |
| **Loss allowance** | **(1,306)** | - | - | **(1,306)** |
| **Carrying amount** | **88,664** | - | - | **88,664** |

# 12 Loans to customers

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| **Loans to corporate customers** | **98,483** | **92,091** |
| Loss allowance | (6,050) | (5,293) |
| **Net loans to customers** | **92,433** | **86,798** |

# 12 Loans to customers, continued

The following table shows reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| **USD'000** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| **Loans to customers at amortised cost** | | | | | |
| Balance at 1 January | 3,489 | 1,332 | - | 4,821 | 1,734 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | (178) | 178 | - | - | - |
| Transfer to Stage 3 | - | (307) | 307 | - | - |
| Net remeasurement of loss allowance | (151) | 410 | - | 259 | 3,559 |
| New financial assets originated or purchased | 652 | 97 | - | 749 | - |
| Foreign exchange and other movements | 221 | - | - | 221 | - |
| **Balance at 31 December** | **4,033** | **1,710** | **307** | **6,050** | **5,293** |

As at 31 December 2018 one loan to customer was credit-impaired with total exposure for USD 1,993 thousand (31 December 2017: nil). The value of identifiable collateral (immovable property and equipment) held against this loan amounted USD 1,993 thousand, excluding the effect of overcollateralisation.

## (a) Analysis of collateral and other credit enhancements

Because of the Fund's focus on borrowers' creditworthiness, an updated valuation of collateral is generally not carried out unless the credit risk of a loan deteriorates significantly and the loan is monitored more closely.

As at 31 December 2018 and 31 December 2017 all loans issued to customers were covered by real estate, equipment and guarantees from third parties.

The following tables provides information on collateral and other credit enhancements securing loans to customers, net of impairment, by types of collateral:

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| Movable property | 20,209 | 12,505 |
| Real estate | 72,224 | 74,293 |
| | **92,433** | **86,798** |

According to the Fund's policy a value-to-loan ratio should be at least 120% for other types of collaterals (real estate, equipment, etc.).

At 31 December 2018, the Fund did not hold any financial instruments for which no loss allowance is recognised because of collateral.

During the period, there was no change in the Fund's collateral policies.

# 12 Loans to customers, continued

## (b) Industry analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Kyrgyz Republic who operate in the following economic sectors:

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| Agriculture, forestry and fishery | 33,575 | 30,528 |
| Manufacturing and processing industry | 25,161 | 19,783 |
| Trade infrastructure | 14,045 | 17,978 |
| Transport and warehousing | 5,325 | 11,706 |
| Tourist infrastructure | 15,070 | 7,088 |
| Communication and information technologies | 3,314 | 2,945 |
| Mining and quarry operation | 1,993 | 2,063 |
| | **98,483** | **92,091** |
| Loss allowance | (6,050) | (5,293) |
| | **92,433** | **86,798** |

## (c) Significant credit exposures

As at 31 December 2018 and 31 December 2017 the Fund does not have borrowers, whose loan balances exceed 10% of equity.

## (d) Loan maturities

The maturity of the loan portfolio is presented in Note 18(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

## (e) Credit quality analysis

The following table sets out information about the credit quality of loans to customers measured at amortised cost in accordance with the Fund's internal credit rating.

| | | 31 December 2018 | | |
|---|---|---|---|---|
| **USD'000** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Loans to customers at amortised cost*** | | | | |
| Rated from C to B+ | 86,290 | 10,200 | - | 96,490 |
| Rated D | | | 1,993 | 1,993 |
| | **86,290** | **10,200** | **1,993** | **98,483** |
| **Loss allowance** | **(4,033)** | **(1,710)** | **(307)** | **(6,050)** |
| **Carrying amount** | **82,257** | **8,490** | **1,686** | **92,433** |

# 13 Property, equipment and intangible assets

| USD'000 | Furniture and office equipment | Compu-ters | Motor vehicles | Leasehold improve-ment | Intan-gible assets | Total |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| As at 31 December 2017 | 159 | 223 | 222 | 21 | 55 | 680 |
| Additions | 1 | - | - | - | - | 1 |
| **As at 31 December 2018** | **160** | **223** | **222** | **21** | **55** | **681** |
| ***Depreciation and amortisation*** | | | | | | |
| As at 31 December 2017 | (57) | (97) | (100) | (6) | (6) | (266) |
| Depreciation and amortisation for the year | (41) | (60) | (44) | (7) | (11) | (163) |
| **As at 31 December 2018** | **(98)** | **(157)** | **(144)** | **(13)** | **(17)** | **(429)** |
| ***Carrying amount*** | | | | | | |
| **As at 31 December 2018** | **62** | **66** | **78** | **8** | **38** | **252** |

| USD'000 | Furniture and office equipment | Compu-ters | Motor vehicles | Leasehold improve-ment | Intan-gible assets | Total |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| As at 31 December 2016 | 81 | 139 | 222 | 62 | 13 | 517 |
| Additions | 78 | 84 | - | - | 42 | 204 |
| Write-offs | - | - | - | (41) | - | (41) |
| **As at 31 December 2017** | **159** | **223** | **222** | **21** | **55** | **680** |
| ***Depreciation and amortisation*** | | | | | | |
| As at 31 December 2016 | (21) | (41) | (55) | (22) | - | (139) |
| Depreciation and amortisation for the year | (36) | (56) | (45) | (21) | (6) | (164) |
| Write-offs | - | - | - | 37 | - | 37 |
| **As at 31 December 2017** | **(57)** | **(97)** | **(100)** | **(6)** | **(6)** | **(266)** |
| ***Carrying amount*** | | | | | | |
| **As at 31 December 2017** | **102** | **126** | **122** | **15** | **49** | **414** |

# 14 Loan from the National Bank of the Kyrgyz Republic

As at 31 December 2018 the Fund has received a loan denominated in Kyrgyz soms in the amount equivalent to USD 32,222 thousand (2017: USD 28,337 thousand) from the National Bank of the Kyrgyz Republic and placed collateral of USD denominated deposit for the total amount of USD 35,805 thousand (2017: USD 31,160 thousand). The loan was received under the General Agreement on granting loans to the international organisations established in the Kyrgyz Republic jointly with other states as a part of the Eurasian Economic Union, according to which the Fund has issued loans to commercial banks for targeted financing of small and medium businesses at interest rates not exceeding 10%. The tranches are given at 4% interest rate for six months with option to extend the maturity period.

The Management of the Fund believes that this transaction represents a collateralised loan, rather than derivative, and therefore has presented the loan and the deposit on a gross basis.

# 15 Other liabilities

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| **Other liabilities** | | |
| Cash collateral pledged under loans to banks (Note 11) | 1,280 | 5,800 |
| Other borrowed funds | 993 | - |
| **Total other financial liabilities** | **2,273** | **5,800** |
| Provision on credit related commitments | 838 | 2,085 |
| Other liabilities | 354 | 199 |
| **Total other nonfinancial liabilities** | **1,192** | **2,284** |
| **Total other liabilities** | **3,465** | **8,084** |

# 16 Charter capital and reserves

## (a) Charter capital

As at 31 December 2018 the paid-up charter capital was USD 500,000 thousand (31 December 2017: USD 500,000 thousand) and was fully paid by the Russian Federation in accordance with the Fund Foundation Agreement, out of which USD 150,000 were paid by cash during 2016 and USD 350,000 thousand were paid by cash during 2015.

## (b) Revaluation reserve on debt financial instruments

The revaluation reserve on debt financial instruments measured at FVOCI comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

## (c) Special reserves

For successful implementation of projects, increase of effectiveness of the invested funds, the Fund creates special reserves which are directed to technical assistance of potential investment projects. The order their formation and amount of the reserves are set by the management bodies in accordance with their competence. As at 31 December 2018 special reserves amounted to USD 1,357 thousand (2017: USD 513 thousand).

## (d) Retained earnings

The profit of the Fund is used for charter goals of the Fund (Note 1).

When making decisions on discontinuation of activities of the Fund, distribution of unused funds of the Fund between member states is made in accordance with the decision of the member states and by representation of the Council of the Fund.

# 17 Capital management

The Fund manages its capital in such a way that to enable the Fund's successful operations and, at the same time, to improve its performance through optimisation of the structure of borrowings and capital. The Fund's charter capital is formed to cover possible losses from the Fund's operations.

The structure of the Fund's capital consists of the funds related to the Fund member states, which represent the charter capital, provisions and retained earnings recognised in the statement of changes in equity.

The Management Board of the Fund reviews the capital structure on the monthly basis. As a part of this process, the Fund reviews the value of raising the funds and risks associated with each category of the capital, and makes decisions on borrowing the funds or repayment of existing liabilities. The Council of the Fund approves changes in the charter capital of the Fund and distribution of profit.

# 18 Risk management

## (a) Risk management policies and procedures of the Fund

The risk management policies of the Fund aim to identify, analyse, assess, monitor, control and taking preventive measures to reduce the risks faced by the Fund, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Internal regulations for risk management are reviewed regularly to reflect changes in market conditions, products and services offered and legal requirements.

The Council of the Fund has overall responsibility for the oversight of the risk management framework, and approving significantly large exposures. The Fund's Management Board is responsible for efficiency of the risk management in the Fund's day-to-day operations.

The risk managers are responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Risk managers report directly to the Council.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled by the Management Board of the Fund.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

## (b) Market risk

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

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

Management Board of the Fund is responsible for market risk management within the frameworks of the market risk limits approved the Council of the Fund.

The Fund manages its market risk by setting open currency position limits in relation to the size of portfolios, certain financial instruments and types thereof. The Fund carries out regular monitoring of compliance with the limits, and results of monitoring are reviewed and approved by the Management Board and Council of the Fund.

# 18 Risk management, continued

## (b) Market risk, continued

### *(i) Interest rate risk*

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

***Interest rate gap analysis***

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

| USD'000 | Less than 3 months | 3-6 months | 6-12 months | 1-10 years | Interest free | Carrying amount |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 3,247 | - | - | - | 524 | 3,771 |
| Investment securities | 10,447 | 21,548 | 122,345 | 183,653 | - | 337,993 |
| Loans to banks | 2,621 | 6,588 | 12,336 | 67,119 | - | 88,664 |
| Loans to customers | 2,539 | 3,824 | 6,813 | 79,257 | - | 92,433 |
| Deposit in National Bank of the Kyrgyz Republic | - | - | - | - | 35,805 | 35,805 |
| | **18,854** | **31,960** | **141,494** | **330,029** | **36,329** | **558,666** |
| **LIABILITIES** | | | | | | |
| Loan from National Bank of the Kyrgyz Republic | 17,499 | 14,723 | - | - | - | 32,222 |
| Other financial liabilities | 235 | 233 | 158 | 367 | 1,280 | 2,273 |
| | **17,734** | **14,956** | **158** | **367** | **1,280** | **34,495** |
| | **1,120** | **17,004** | **141,336** | **329,662** | **35,049** | **524,171** |

| USD'000 | Less than 3 months | 3-6 months | 6-12 months | 1-10 years | Interest free | Carrying amount |
|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 2,480 | - | - | - | 35,529 | 38,009 |
| Available-for-sale financial assets | 21,235 | 58,024 | 140,180 | 51,637 | - | 271,076 |
| Loans to banks | 4,926 | 3,154 | 9,195 | 53,216 | - | 70,491 |
| Loans to customers | 1,866 | 2,398 | 6,874 | 75,660 | - | 86,798 |
| Held-to-maturity investments and other investments in securities | 424 | - | - | 46,213 | - | 46,637 |
| | **30,931** | **63,576** | **156,249** | **226,726** | **35,529** | **513,011** |
| **LIABILITIES** | | | | | | |
| Loan from National Bank of the Kyrgyz Republic | 24,122 | 4,215 | - | - | - | 28,337 |
| | **24,122** | **4,215** | **-** | **-** | **-** | **28,337** |
| | **6,809** | **59,361** | **156,249** | **226,726** | **35,529** | **484,674** |

# 18 Risk management, continued

## (b) Market risk, continued

### *(i) Interest rate risk, continued*

***Average effective interest rates***

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2018 and 31 December 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

| | 2018 Average effective interest rates, % | | 2017 Average effective interest rates, % | |
|---|---|---|---|---|
| | **USD** | **KGS** | **USD** | **KGS** |
| **Interest bearing assets** | | | | |
| Investment securities | 2.50 | 1.7 | 2.50 | - |
| Loans to banks | 1.06 | 7.01 | 1.00 | 7.44 |
| Loans to customers | 4.23 | 8.91 | 4.21 | 10.47 |
| **Interest bearing liabilities** | | | | |
| Loan from National Bank of the Kyrgyz Republic | - | 4.00 | - | 4.00 |
| Other financial liabilities | 5.5 | - | - | - |

***Interest rate sensitivity analysis***

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 31 December 2017, is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Profit or loss USD'000** | **Equity USD'000** | **Profit or loss USD'000** | **Equity USD'000** |
| 100 bp parallel fall | (847) | (847) | (1,129) | (1,129) |
| 100 bp parallel rise | 847 | 847 | 1,129 | 1,129 |

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though other comprehensive income due to changes in the interest rates, based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Profit or loss USD'000** | **Equity USD'000** | **Profit or loss USD'000** | **Equity USD'000** |
| 100 bp parallel fall | 98 | 98 | - | 2,021 |
| 100 bp parallel rise | (98) | (98) | - | (1,913) |

### *(ii) Currency risk*

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The financial position and cash flows of the Fund are subject to fluctuations in foreign currencies exchange rates.

Currency risk management is carried out by the Management Board of the Fund through management of an open currency position. The maximum level of the Fund's currency position by any of the currencies should not exceed 3% of the amount of temporary free funds.

# 18 Risk management, continued

## (b) Market risk, continued

### (ii) *Currency risk, continued*

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2018:

| | USD USD'000 | KGS USD'000 | RUB USD'000 | Total USD'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 2,960 | 793 | 18 | 3,771 |
| Investment securities | 337,785 | - | 208 | 337,993 |
| Deposit with the National Bank of the Kyrgyz Republic | 35,805 | - | - | 35,805 |
| Loans to banks | 54,218 | 34,446 | - | 88,664 |
| Loans to customers | 91,067 | 1,366 | - | 92,433 |
| | **521,835** | **36,605** | **226** | **558,666** |
| **LIABILITIES** | | | | |
| Loan from National Bank of the Kyrgyz Republic | - | 32,222 | - | 32,222 |
| Other financial liabilities | 2,063 | - | 210 | 2,273 |
| | **2,063** | **32,222** | **210** | **34,495** |
| **Net position as at 31 December 2018** | **519,772** | **4,383** | **16** | **524,171** |

The following table shows the currency structure of financial assets and liabilities as at 31 December 2017:

| | USD USD'000 | KGS USD'000 | RUB USD'000 | Total USD'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 36,111 | 1,894 | 4 | 38,009 |
| Available-for-sale financial assets | 271,076 | - | - | 271,076 |
| Deposit with the National Bank of the Kyrgyz Republic | 31,160 | - | - | 31,160 |
| Deposits with commercial banks | 745 | - | - | 745 |
| Loans to banks | 37,475 | 33,016 | - | 70,491 |
| Loans to customers | 86,034 | 764 | - | 86,798 |
| Held-to-maturity investments and investments in securities | 46,637 | | | 46,637 |
| | **509,238** | **35,674** | **4** | **544,916** |
| **LIABILITIES** | | | | |
| Loan from National Bank of the Kyrgyz Republic | - | 28,337 | - | 28,337 |
| Other financial liabilities | 5,800 | - | - | 5,800 |
| | **5,800** | **28,337** | **-** | **34,137** |
| **Net position as at 31 December 2017** | **503,438** | **7,337** | **4** | **510,779** |

# 18 Risk management, continued

## (b) Market risk, continued

### *(ii) Currency risk, continued*

A weakening of the USD, as indicated below, against the following currencies at 31 December 2018 and 31 December 2017, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Fund considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Profit or loss USD'000** | **Equity USD'000** | **Profit or loss USD'000** | **Equity USD'000** |
| 30% depreciation of KGS against USD | 1,342 | 1,342 | 2,201 | 2,201 |
| 30% depreciation of RUB against USD | 5 | 5 | 1 | 1 |

## (c) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Fund has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and active monitoring of credit risk. The credit policy is reviewed and approved by the Council of the Fund, while the Lending Regulation is reviewed and approved by the Management Board of the Fund.

The credit policy establishes the general principles of organisation of the lending process and key lending parameters.

The lending Regulation establishes:

- procedures for reviewing and approving loan applications;
- credit documentation requirements;
- limits of exposure depending on sector of economy;
- procedures for the ongoing monitoring of loans and other credit exposures;
- financial position of the borrowers, counteragents and issuers is subject to assessment;
- collateral requirements.

Methodology for the evaluation of the proposed collateral is regulated by the Collateral Policy approved by the Management Board of the Fund.

Loan applications are analysed by the relevant experts from the Lending and Investment Activity Service, which is responsible for the corporate loan portfolio. Analysis reports from this Service are based on the business analysis, financial position, credit history of the borrower and other significant parameters affecting the credit level risk, with due consideration of the opinions of the Legal Service (legal and regulatory risks); Security and Information Technology Service (assessment of business reputation, fraud risks, corruption risk and partially - the political risk) and Collateral Service (liquidity risk and colateral adequacy risk). The loan application and report as well as opinions of the above-mentioned Services are then independently reviewed by the risk managers, who issue the opinion on the risk level of the credit project, including recommendations for mitigation thereof; in this case it is verified, whether requirements of the credit policy and other internal regulations of the Fund governing the lending process, are met. Decisions on the credit projects are made by the Management Board, and in cases established by the Charter and other internal regulations, by the Council of the Fund.

# 18 Risk management, continued

## (c) Credit risk, continued

The Fund continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements, credit history and other information submitted by the borrower, or otherwise obtained by the Fund.

Apart from individual customer analysis, the credit portfolio is assessed by the risk managers as a whole with regard to credit concentration, market risk, operating risk and liquidity risk.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the 31 December is as follows:

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| **ASSETS** | | |
| Cash equivalents | 3,771 | 38,009 |
| Investment securities | 337,993 | 317,713 |
| Deposit with National Bank of the Kyrgyz Republic | 35,805 | 31,160 |
| Deposits with commercial banks | - | 745 |
| Loans to banks | 88,664 | 70,491 |
| Loans to customers | 92,433 | 86,798 |
| **Total maximum exposure** | **558,666** | **544,916** |

For the analysis of collateral held against loans to banks and concentration of credit risk in respect of loans to banks, see Note 11. For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 12.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 19.

As at 31 December 2018 the Fund has three conteragents (2017: three counteragents), credit risk exposure to whom exceeds 10 percent of maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2018 is USD 110,225 thousand (2017: USD 208,325 thousand).

## (d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/-or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses and inability of the financial institution to fulfil its liabilities within the contractual terms (risk of the Fund's paying capacity).

The Fund maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed by the Management Board and approved by the Council of the Fund. The Fund seeks to actively support a diversified and stable funding base comprising long- and short-term loans from the National Bank of the Kyrgyz Republic and other financial institutions, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

# 18 Risk management, continued

## (d) Liquidity risk, continued

The liquidity management policy requires:

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

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

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Management Board. Under normal market conditions, liquidity reports covering the liquidity position are presented to the Management Board on a monthly basis. Decisions on liquidity management are made by the Management Board and implemented by the Finance Service.

Given the strong liquidity position of the Fund, which is demonstrated in the table below, currently the liquidity risk is assessed as low.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

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

| USD'000 | Demand and less than 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 1 year | Total gross amount inflow (outflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Loan from National Bank of the Kyrgyz Republic | 1,432 | 25,530 | 5,260 | - | - | 32,222 | 32,222 |
| Other financial liabilities | 57 | 179 | 233 | 158 | 1,646 | 2,273 | 2,273 |
| **Total financial liabilities** | **1,489** | **25,709** | **5,493** | **158** | **1,646** | **34,495** | **34,495** |
| Credit related commitments | 41,310 | | | | | 41,310 | 41,320 |

# 18 Risk management, continued

## (d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

| USD'000 | Demand and less than 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 1 year | Total gross amount inflow (outflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Loan from National Bank of the Kyrgyz Republic | 5,492 | 17,898 | 5,155 | - | - | 28,545 | 28,337 |
| Other financial liabilities | - | - | - | - | 5,800 | 5,800 | 5,800 |
| **Total financial liabilities** | **5,492** | **17,898** | **5,155** | **-** | **5,800** | **34,345** | **34,137** |
| Credit related commitments | 64,997 | - | - | - | - | 64,997 | 64,997 |

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2018:

| USD'000 | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 2 years | From 2 to 5 years | Total |
|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | |
| Cash and cash equivalents | 3,771 | - | - | - | - | 3,771 |
| Investment securities | 10,447 | 21,548 | 122,345 | 135,213 | 48,440 | 337,993 |
| Deposit with National Bank of the Kyrgyz Republic | - | 19,445 | 16,360 | - | - | 35,805 |
| Loans to banks | 217 | 2,402 | 18,925 | 25,992 | 41,128 | 88,664 |
| Loans to customers | 313 | 2,227 | 10,636 | 16,912 | 62,345 | 92,433 |
| **Total assets** | **14,748** | **45,622** | **168,266** | **178,117** | **151,913** | **558,666** |
| **Non-derivative financial liabilities** | | | | | | |
| Loan from National Bank of the Kyrgyz Republic | 1,432 | 25,530 | 5,260 | - | - | 32,222 |
| Other financial liabilities | 57 | 179 | 391 | 283 | 1,363 | 2,273 |
| **Total liabilities** | **1,489** | **25,709** | **5,651** | **283** | **1,363** | **34,495** |
| **Net position** | **13,259** | **19,913** | **162,615** | **177,834** | **150,550** | **524,171** |

# 18 Risk management, continued

## (d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2017:

| USD'000 | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 2 years | From 2 to 5 years | Total |
|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | |
| Cash and cash equivalents | 38,009 | - | - | - | - | 38,009 |
| Available-for-sale financial assets | - | 21,235 | 198,204 | 39,269 | 12,368 | 271,076 |
| Deposit with National Bank of the Kyrgyz Republic | 7,000 | 19,525 | 4,635 | - | - | 31,160 |
| Deposits with commercial banks | 745 | - | - | - | - | 745 |
| Loans to banks | 543 | 4,383 | 12,349 | 18,404 | 34,812 | 70,491 |
| Loans to customers | 848 | 1,018 | 9,272 | 14,085 | 61,575 | 86,798 |
| Held-to-maturity investments and other investments in securites | 424 | - | - | - | 46,213 | 46,637 |
| **Total assets** | **47,569** | **46,161** | **224,460** | **71,758** | **154,968** | **544,916** |
| **Non-derivative financial liabilities** | | | | | | |
| Loan from National Bank of the Kyrgyz Republic | 395 | 23,727 | 4,215 | - | - | 28,337 |
| Other financial liabilities | - | - | - | - | 5,800 | 5,800 |
| **Total liabilities** | **395** | **23,727** | **4,215** | **-** | **5,800** | **34,137** |
| **Net position** | **47,174** | **22,434** | **220,245** | **71,758** | **149,168** | **510,779** |

# 19 Credit related commitments

The Fund has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans.

The Fund applies the same credit risk management policies and procedures when granting credit commitments, as it does for granting loans to customers. The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced.

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| **Contracted amount** | | |
| Loan and credit line commitments | 35,218 | 62,828 |
| Guarantees | 6,092 | 2,169 |
| | **41,310** | **64,997** |

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. As at 31 December 2018 and 31 December 2017 the Fund has no significant concentration of credits associated with the credit related commitments.

# 20 Contingencies

## (a) Insurance

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

## (b) Litigations

Management is unaware of any significant actual, pending or threatened claims against the Fund.

# 21 Related party transactions

## (a) Key management remuneration

Total remuneration included in personnel expenses for the period from 31 December 2017 to 31 December 2018 is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **USD'000** | **Related party transactions** | **Total for category according to the financial statements items** | **Related party transactions** | **Total for category according to the financial statements items** |
| Wages and salaries and other employee benefits, excluding expenses on rent of apartments | 579 | 1,778 | 551 | 1,712 |
| Expenses on rent of apartments for employees | 37 | 75 | 39 | 75 |
| **Total** | **616** | **1,853** | **590** | **1,787** |

Said remuneration includes short-term payments.

## (b) Transactions with other related parties

Under IAS 24 Related Party Disclosures, other related parties of the Fund include the Russian Federation and the Kyrgyz Republic, Governments of these member states, national companies and other organisations under control of said member states.

# 21 Related party transactions, continued

## (b) Transactions with other related parties, continued

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related profit or loss amounts of transactions for the period from 31 December 2017 to 31 December 2018 with other related parties are as follows.

| | The Russian Federation | | Entities controlled by the Russian Federation | | The Kyrgyz Republic, NBKR and other entities controlled by the Kyrgyz Republic | | |
|---|---|---|---|---|---|---|---|
| | USD'000 | Average effective interest rate, % | USD'000 | Average effective interest rate, % | USD'000 | Average effective interest rate, % | Total USD'000 |
| **Statement of financial position** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents : | | | | | | | |
| - in USD | - | - | 193 | - | 2,479 | - | 2,672 |
| - in KGS | - | - | - | - | 793 | - | 793 |
| - in RUB | - | - | 18 | - | - | - | 18 |
| Investment securities | | | | | | | |
| - in USD | 51,188 | 2.50 | 238,405 | 2.80 | 48,192 | 1.7 | 337,785 |
| - in RUB | - | - | 208 | 5.00 | - | - | 208 |
| Deposit with the National Bank of the Kyrgyz Republic: | | | | | | | |
| - in USD | - | - | - | - | 35,805 | - | 35,805 |
| Loans to banks: | | | | | | | |
| - in USD | - | - | - | - | 19,641 | 1.00 | 19,641 |
| - in KGS | - | - | - | - | 24,824 | 6.89 | 24,824 |
| Loans to customers | | | | | | | |
| - in USD | - | - | - | - | 8,549 | 4.07 | 8,549 |
| **LIABILITIES** | | | | | | | |
| Loan from the National Bank of the Kyrgyz Republic: | | | | | | | |
| - in KGS | - | - | - | - | 32,222 | 4.00 | 32,222 |
| Other financial liabilities | | | | | | | |
| - in USD | - | - | 785 | 5.00 | - | - | 785 |
| - in RUB | - | - | 208 | 5.00 | - | - | 208 |
| **Profit or loss** | | | | | | | |
| Interest income calculated using the effective interest method | 1,374 | | 7,487 | | 3,236 | | 12,097 |
| Interest expense | - | | (27) | | (1,216) | | (1,243) |
| Impairment losses | - | | (38) | | (723) | | (761) |

# 21 Related party transactions, continued

## (b) Transactions with other related parties, continued

The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the period from 31 December 2016 to 31 December 2017 with other related parties are as follows.

| | The Russian Federation | | Entities controlled by the Russian Federation | | The Kyrgyz Republic, NBKR and other entities controlled by the Kyrgyz Republic | | |
|---|---|---|---|---|---|---|---|
| | **USD'000** | **Average effective interest rate, %** | **USD'000** | **Average effective interest rate, %** | **USD'000** | **Average effective interest rate, %** | **Total USD'000** |
| **Statement of financial position** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents : | | | | | | | |
| - in USD | - | - | 30,501 | - | 5,543 | - | 36,044 |
| - in KGS | - | - | - | - | 1,890 | - | 1,890 |
| - in RUR | - | - | 3 | - | 25 | - | 28 |
| Available-for-sale financial assets: | | | | | | | |
| - in USD | 90,045 | 2.7 | 181,031 | 2.85 | - | - | 271,076 |
| Deposit with the National Bank of the Kyrgyz Republic: | | | | | | | |
| - in USD | - | - | - | - | 31,160 | - | 31,160 |
| Loans to banks: | | | | | | | |
| - in USD | - | - | - | - | 15,234 | 1.00 | 15,234 |
| - in KGS | - | - | - | - | 24,958 | 7.34 | 24,958 |
| Loans to customers | | | | | | | |
| - in USD | - | - | - | - | 14,361 | 4.06 | 14,361 |
| Held-to-maturity investments and other investments in securities: | | | | | | | |
| - in USD: | - | - | - | - | 46,637 | 1.75 | 46,637 |
| **LIABILITIES** | | | | | | | |
| Loan from the National Bank of the Kyrgyz Republic: | | | | | | | |
| - in KGS | - | - | - | - | 28,337 | 4.00 | 28,337 |
| **Profit or loss** | | | | | | | |
| Interest income calculated using the effective interest method | 2,441 | | 4,645 | | 4,033 | | 11,119 |
| Interest expense | - | | (4) | | (1,128) | | (1,132) |
| Impairment losses | - | | - | | (1,021) | | (1,021) |

## 22 Financial assets and liabilities: fair values and accounting classifications

### (a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018 and 31 December 2017:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| **USD'000** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Cash and cash equivalents | 3,771 | 3,771 | 38,009 | 38,009 |
| Investment securities | 337,993 | 337,993 | 317,713 | 317,713 |
| Deposit with National Bank of the Kyrgyz Republic | 35,805 | 35,805 | 31,160 | 31,160 |
| Deposits with commercial banks | - | - | 745 | 745 |
| Loans to banks | 88,664 | 88,664 | 70,491 | 70,491 |
| Loans to customers | 92,433 | 92,433 | 86,798 | 86,798 |
| | **558,666** | **558,666** | **544,916** | **544,916** |
| | | | | |
| Loan from National Bank of the Kyrgyz Republic | 32,222 | 32,222 | 28,337 | 28,337 |
| Other financial liabilities | 2,273 | 2,273 | 5,800 | 5,800 |
| | **34,495** | **34,495** | **34,137** | **34,137** |

# 22 Financial assets and liabilities: fair values and accounting classifications, continued

## (a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

| USD'000 | Held-to-maturity | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | 38,009 | - | - | 38,009 | 38,009 |
| Available-for-sale financial assets | - | - | 271,076 | - | 271,076 | 271,076 |
| Deposit with National Bank of the Kyrgyz Republic | - | 31,160 | - | - | 31,160 | 31,160 |
| Deposits with commercial banks | - | 745 | - | - | 745 | 745 |
| Loans to banks | - | 70,491 | - | - | 70,491 | 70,491 |
| Loans to customers | - | 86,798 | - | - | 86,798 | 86,798 |
| Held-to-maturity investments and other investments in securities | 46,637 | - | - | - | 46,637 | 46,637 |
| | **46,637** | **227,203** | **271,076** | **-** | **544,916** | **544,916** |
| Loan from National Bank of the Kyrgyz Republic | - | - | - | 28,337 | 28,337 | 28,337 |
| Other borrowed funds | - | - | - | 5,800 | 5,800 | 5,800 |
| | **-** | **-** | **-** | **34,137** | **34,137** | **34,137** |

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

The estimated fair value of all financial assets and liabilities, except for the available-for-sale financial assets and held-to-maturity investments, is calculated using the discounted cash flows method based on the estimated future cash flows and discount rates on similar instruments valid at the reporting date.

# 22 Financial assets and liabilities: fair values and accounting classifications, continued

## (b) Fair value hierarchy

The Fund measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Fund determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Fair value measurement of financial instruments accounted for at amortised cost as at 31 December 2018 and 31 December 2017 is categorised to Level 2 of fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

| **USD'000** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets measured at FVOCI | | | | |
| - Pledged under sale and repurchase agreement (repo) | 4,413 | - | - | 4,413 |

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

| **USD'000** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| - Debt securities | 271,076 | - | - | 271,076 |