Russian-Kyrgyz Development Fund

Financial Statements for the year

ended 31 December 2019

Content

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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 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics. 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 judgement 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:

Maxim Pristalov

Attorney

Aida Asyrandiyeva
Executive Director of KPMG Bishkek LLC
Certified Auditor of the Kyrgyz Republic,
Auditor's Qualification Certificate
Serial A, No. 0232 of 13 November 2014

27 March 2020

	Note	31 December 2019 USD'000	31 December 2018 USD'000
Interest income calculated using effective interest method	5	18,421	15,851
Interest expense	5	(1,462)	(1,243)
Net interest income		**16,959**	**14,608**
Net fee and commission income		86	70
Net foreign exchange income/(loss)		11	(76)
Operating income		**17,056**	**14,602**
Impairment losses on debt financial assets	6	(5,399)	(1,655)
General administrative expenses	7	(3,022)	(2,818)
Profit before income tax		**8,635**	**10,129**
Income tax expense		-	-
Profit and total comprehensive income for the year		**8,635**	**10,129**

The financial statements as set out on pages 6 to 52 were approved by management on 26 March 2020:

Mr. Aaliev A.K.
Chairman of the Management Board

Ms. Nam O.R.
Chief Accountant

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

	Note	2019 USD'000	2018 USD'000
ASSETS			
Cash and cash equivalents	8	11,045	8,184
Investments in securities	9	318,003	333,580
Deposits with the National Bank of the Kyrgyz Republic	13	40,415	35,805
Loans to banks	10	96,007	88,664
Loans to customers	11	108,003	92,433
Property, plant and equipment and intangible assets	12	120	252
Other assets		622	182
Total assets		**574,215**	**559,100**
LIABILITIES			
Loan from the National Bank of the Kyrgyz Republic	13	36,625	32,222
Other liabilities	14	5,609	3,465
Total liabilities		**42,234**	**35,687**
EQUITY			
Charter capital	15	500,000	500,000
Retained earnings and special reserves		31,981	23,413
Total equity		**531,981**	**523,413**
Total liabilities and equity		**574,215**	**559,100**

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

	2019 USD'000	2018 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	18,835	23,461
Interest payments	(1,457)	(1,233)
Fee and commission payments	(18)	(25)
General administrative expenses payments	(2,680)	(2,754)
(Increase)/decrease in operating assets		
Deposits with the National Bank of the Kyrgyz Republic	(4,610)	(4,645)
Deposits with commercial banks	-	745
Loans to banks	(7,134)	(18,203)
Loans to customers	(20,309)	(6,423)
Other assets	(440)	-
Increase/(decrease) in operating liabilities		
Loan from the National Bank of the Kyrgyz Republic	4,403	3,885
Other liabilities	1,343	(4,187)
Cash flows used in operating activities	**(12,067)**	**(9,379)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(124,196)	(232,525)
Sales and repayments of investment securities	138,943	211,508
Purchases of property, equipment and intangible assets	(2)	-
Cash flows from/(used in) investing activities	**14,745**	**(21,017)**
Net increase/(decrease) in cash and cash equivalents	**2,678**	**(30,396)**
Effect of changes in exchange rates on cash and cash equivalents	183	571
Cash and cash equivalents at the beginning of the year	8,184	38,009
Cash and cash equivalents as at the end of the year (Note 9)	**11,045**	**8,184**

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**	**Retained earnings and special reserves**	**Total equity**
Balance 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	-	**10,129**	**10,129**
Balance at 31 December 2018	**500,000**	**23,413**	**523,413**
Balance at 1 January 2019	**500,000**	**23,413**	**523,413**
Total comprehensive income			
Profit for the year	-	8,635	8,635
Total comprehensive income for the year	-	**8,635**	**8,635**
Use of the Fund for Preparation and Support of the Projects	-	(67)	**(67)**
Balance at 31 December 2019	**500,000**	**31,981**	**531,981**

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

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 funding 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 institutions 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 2019 is 50 (2018: 46).

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) Kyrgyzstan 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 in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 2(e).

(b) Basis for measurement

The financial statements are prepared on the historical cost basis.

(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.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs 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 may 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.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the Note 2(c): Functional and presentation currency.

Judgements

Information about judgments 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 risk of resulting in a material adjustment in the data is included in the following notes:

- impairment of financial instruments: assessment of input data for ECL measurement model, including forward-looking information – Note 4.

(e) Changes in accounting policies and presentation

IFRS 16 *Leases*

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Fund can choose whether to:

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Fund has applied the practical expedient. The Fund applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Transition

The Fund applied IFRS 16 on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of initial application of IFRS 16 of USD 522 thousand was recognised in the statement of financial position as the right-of-use assets and lease liabilities.

The Fund elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Nature of the effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Fund classified each of its leases (as lessee) at the inception date as operating lease, the value of the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised in other assets.

As a result of application of IFRS 16, the Fund started applying a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Fund has applied special transition requirements and practical expedients provided for by the standard.

Leases previously accounted for as operating leases

The Fund recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Fund also applied the available practical expedients wherein it applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.

Summary of new accounting policies

Set out below are the new accounting policies of the Fund upon adoption of IFRS 16, which have been applied from the date of initial application:

Initial measurement of a lease

At the commencement date of the lease the Fund as a lessee recognises as lease in the form of right-of-use assets and lease liabilities in the statement of financial position.

At the commencement date of the lease a lessee should measure a right-of-use assets at cost, which includes the following:

- the amount of lease liabilities recognised;
- lease payments made at or before the commencement date less any lease incentives received;
- direct costs incurred by a lessee;
- estimate of costs to dismantle and remove the underlying asset.

At the commencement date of the lease the Fund measures the lease liability at the present value of the lease payments that are not paid at the commencement date:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the lessee.

The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Fund applies its incremental borrowing rate.

Subsequent measurement of a lease

Lease payment consists of finance costs (interest) and payments used to settle the liability. Finance costs are allocated by periods during a lease term so that to generate a constant periodic interest rate on outstanding liability balance.

In addition to finance costs the Fund as a lessee bears the amortisation expenses on a lease asset. The amortisation policy with regard to the leased assets complies with the policy applied to the owned assets. If it is not reasonably certain that the lessee obtains a right of ownership by the end of a lease term, an asset should be fully amortised during the shorter of two periods: lease term or useful life of an asset.

Impairment of assets

At each reporting date the Fund assesses whether there is an objective evidence of the assets that have been leased and accounted for on the Fund's balance sheet. If such evidence is available, the Fund recognises the impairment loss. Once the impairment loss is recognised, the amortisation charge on this asset is adjusted in future periods to allocate the changed carrying amount of the assets on a regular basis, during its remaining useful life.

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 was 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 recognised 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 fulfilment of all contractual terms relating to this financial instrument. This rule means that a financial instrument is recognised 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

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

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 financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it 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 revenue 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 OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are 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, including 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 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 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.

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);
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Financial liabilities

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

(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.

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

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. 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 analogises 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.

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. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. 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, 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.

As part of credit risk management activities, the Fund renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Fund plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Fund concludes that modification of financial assets modified as part of the Fund's forbearance policy is not substantial, the Fund performs qualitative evaluation of whether the modification is substantial.

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.

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.

(v) Impairment

See also Note 4.

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, other than purchased or originated credit-impaired assets, 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).

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.

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 retail loan that is overdue for 90 days or more is considered 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.

Write-offs

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.

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.

(d) Loans to customers

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.

(e) Investment securities

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.

(f) Impairment of non-financial assets

Other non-financial assets 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 is reversed only 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, plant 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	3 to 7 years;
Computers	from 3 to 5 years;
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.

(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 the Fund recognised a loss allowance (see Note 3(c)(v)).

(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

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.

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.

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 interest expense on financial liabilities measures at amortised cost.

(m) New standards and interpretations not yet adopted

The following standards, amended standards and interpretations, effective from 1 January 2020, are not expected to have a significant impact on the Fund's financial statements.

— *Amendments to References to Conceptual Framework in IFRS Standards.*

— *Definition of a Business (Amendments to IFRS 3).*

— *Definition of Material (Amendments to IAS 1 and IAS 8).*

— *IFRS 17 Insurance Contracts.*

(n) Comparative information

During the current year the Fund reclassified investment securities purchased under overnight reverse REPO agreements from "investment in securities" caption to "cash and cash equivalents" to ensure more appropriate presentation of the nature of these assets.

To ensure comparability with the current period presentation the following adjustments have been made:

- in statement of financial position as at 31 December 2018:

	As previously reported	Reclassification	As reclassified
Cash and cash equivalents	3,771	4,413	8,184
Investments in securities			
- pledged under reverse repurchase agreements	337,993	(4,413)	333,580

- in the statement of cash flows for the year ended 31 December 2018:

	As previously reported	Reclassification	As reclassified
Purchase of securities	(236,938)	4,413	(232,525)
Cash flows used in investing activities	**(25,439)**	**4,413**	**(21,017)**
Net increase/(decrease) in cash and cash equivalents	(34,809)	4,413	(30,396)
Cash and cash equivalents at the end of the year	**3,771**	**4,413**	**8,184**

4 Financial risk review

This note presents information about the Fund's exposure to financial risks. For information on the Fund's financial risk management framework, see Note 17.

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; and
- 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 non-compliance 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);
- 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 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 on principle and /or interest 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.

Investments in 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. The Fund will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the 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.

Credit risk exposure

- Information obtained during periodic review of borrower files – e.g. audited 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;
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- Requests for and granting of forbearance.

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 organisation 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;
- Restructuring of claims from the date of conclusion of the initial loan agreement:
    - at conditions unfavourable for Fund - the Fund made decision to restructure the claims (or a number of decisions on restructuring from the date of conclusion of the initial loan agreement), which 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 realisation of collateral, guarantees and support from guarantors;
    - three or more restructurings, regardless whether they relate to worsening of borrower's financial position;
- a breach of contract such as a default or past due event;
- the use of significant interventions by the Fund to reduce credit risks, such as direct control (management) of operating activities;
- 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 to the Fund or other counterparties 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 realisation 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.

Investments in 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.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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:

- the remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on 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).

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

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

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

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. 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 at the date of default. The Fund calculates the EAD for loans as balance of principal and accumulated interest; for unconditional credit lines - as the amount of full credit limit and accumulated interest; for conditional credit line EAD is applied in the amount equal to the sum of a loan issued and accrued interest, and for guarantees - as the amount of a guarantee issued.

5 Net interest income

	2019 USD'000	2018 USD'000
Interest income		
Investments in securities	10,904	8,836
Loans to customers	4,461	4,119
Loans to banks	2,926	2,871
Cash equivalents - receivables under reverse repurchase agreements	130	25
	18,421	**15,851**
Interest expense		
Loan from the National Bank of the Kyrgyz Republic	(1,358)	(1,216)
Other borrowed funds	(104)	(27)
	(1,462)	**(1,243)**
Net interest income	**16,959**	**14,608**

6 Impairment losses

	2019 USD'000	2018 USD'000
Loans to customers	4,864	1,008
Credit related commitments	709	80
Loans to banks	(184)	497
Investments in securities	10	70
	5,399	**1,655**

7 General administrative expenses

	2019 USD'000	2018 USD'000
Employee benefits	1,924	1,805
Social contributions	185	175
Other personnel costs	126	133
Total personnel costs	**2,235**	**2,113**
Lease and maintenance of property, plant and equipment	301	299
Consulting and professional services	212	78
Depreciation and amortisation	134	162
Other administrative expenses	140	166
Total administrative expenses other than personnel costs	**787**	**705**
	3,022	**2,818**

8 Cash and cash equivalents

	2019 USD'000	2018 USD'000
Accounts with NBKR	**4**	**24**
Accounts with other banks		
- rated BBB-	1,223	2
- rated BB+	2	188
- rated BB-	-	20
- not rated	4,290	3,537
Total accounts with other banks	**5,515**	**3,747**
Cash equivalents - receivables under reverse repurchase agreements		
- rated BBB-	5,526	4,413
Total cash equivalents	**5,526**	**4,413**
Total cash and cash equivalents	**11,045**	**8,184**

All credit ratings are presented in accordance with Standard&Poor's credit agency scale or in scale of other agencies transferred to Standard&Poor's scale.

All cash and cash equivalents are in Stage 1 as at 31 December 2019 and 31 December 2018.

As at 31 December 2019 and 31 December 2018 the Fund has no counteragents whose balances exceed 10% of equity.

9 Investments in securities

	2019 USD'000	2018 USD'000
Amortised cost		
Debt and other fixed-income instruments		
- Government bonds		
Eurobonds of the Government of the Russian Federation	29,912	46,981
USD-denominated bonds of the Government of the Kyrgyz Republic	48,537	48,656
Total government bonds	**78,449**	**95,637**
- Corporate bonds		
Gazprom	63,113	52,625
Vneshekonombank	56,857	41,465
Sberbank of Russia	44,240	41,191
Vneshtorgbank	38,419	21,883
Rosneft	24,412	25,140
Eurasian Development Bank	13,396	6,581
Gasprombank	-	49,937
Total corporate bonds	**240,437**	**238,822**
Total investments in securities	**318,886**	**334,459**
Impairment allowance	(883)	(879)
Total investments, net of impairment allowance – measured at amortised cost	**318,003**	**333,580**

All investment securities are in Stage 1 as at 31 December 2019 and 31 December 2018.

As at 31 December 2019 the Fund has two counteragents whose balances account for 10% of equity (31 December 2018: one counterparty). Credit risk exposure to these counteragents is USD 119,970 thousand as at 31 December 2019 (31 December 2018: USD 52,625 thousand).

The following table shows reconciliations from the opening to the closing balances of the loss allowance on investments in securities.

USD'000	2019 Stage 1	2018 Stage 1
Investments in securities measured at amortised cost		
Balance at 1 January	879	799
Net remeasurement of loss allowance	114	164
New financial assets originated or purchased	119	237
Financial assets that have been derecognised	(229)	(331)
Movements in foreign exchange rates and other movements	-	10
Balance at 31 December	**883**	**879**

10 Loans to banks

	2019 USD'000	2018 USD'000
Loans to the banks in the Kyrgyz Republic		
- not rated	97,130	89,970
Impairment allowance	(1,123)	(1,306)
Net loans to banks	**96,007**	**88,664**

The following tables show reconciliations from the opening to the closing balances of loans to banks:

USD'000	2019 Stage 1	2018 Stage 1
Loans to banks measured at amortised cost		
Balance at 1 January	89,970	71,711
Repayments and issue of new tranches under the loan agreements existing as at 1 January	(11,473)	8,816
New financial assets originated or purchased	18,633	9,443
Balance at 31 December	**97,130**	**89,970**

The following table shows reconciliations from the opening to the closing balances of the loans to customers.

USD'000	2019 Stage 1	2018 Stage 1
Loans to banks measured at amortised cost		
Balance at 1 January	1,306	1,009
Net remeasurement of loss allowance	(239)	473
New financial assets originated or purchased	55	24
Other movements	1	(200)
Balance at 31 December	**1,123**	**1,306**

During 2019 and 2018 there were no movements between the stages of loans to banks.

(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 table provides information on collateral and other credit enhancements securing loans to banks, net of impairment allowance, by types of collateral:

USD'000	2019 USD'000	2018 USD'000
Rights of claim to the third parties – final borrowers	68,969	68,103
Traded securities	15,553	12,694
Cash	7,021	4,327
Real estate	4,464	3,540
Total loans to banks	**96,007**	**88,664**

As at 31 December 2019 loans to banks of USD 7,021 thousand (31 December 2018: USD 4,327 thousand) are partially secured by cash deposits of USD 1,840 thousand (31 December 2018: USD 1,280 thousand), which represent the cash securities that the Fund has in its circulation (Note 14).

At 31 December 2019, the loans for which no loss allowance is recognised because of collateral, were issued to the banks in the amount of USD 3,487 thousand (31 December 2018: USD 0).

During 2019, there was no change in the Fund's collateral policies.

(b) Concentration of loans to banks

As at 31 December 2019 and 31 December 2018 the Fund has no counteragents, whose balances exceed 10% of equity.

(c) 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 2019		31 December 2018	
USD'000	**Stage 1**	**Total**	**Stage 1**	**Total**
Loans to banks				
Rated from B- to B+	87,263	87,263	81,169	81,169
Rated from CCC- to CCC+	9,868	9,868	8,801	8,801
	97,130	**97,130**	**89,970**	**89,970**
Loss allowance	**(1,123)**	**(1,123)**	**(1,306)**	**(1,306)**
Carrying amount	**96,007**	**96,007**	**88,664**	**88,664**

11 Loans to customers

	2019 USD'000	2018 USD'000
Loans to corporate customers	**118,918**	**98,483**
Impairment allowance	(10,915)	(6,050)
Net loans to customers	**108,003**	**92,433**

The following table shows reconciliations of balances of loans to corporate customers for the years ended 31 December 2019 and 31 December 2018.

	2019				
USD'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers - at amortised cost					
Balance at 1 January	86,291	10,200	1,993	-	98,484
Transfer to Stage 2	(19,161)	19,161	-	-	-
Transfer to Stage 3	-	(3,163)	3,163	-	-
Repayments and issue of new tranches under the loan agreements existing as at 1 January	(8,790)	2,428	63	-	(6,299)
New financial assets originated or purchased	25,735	837	-	161	26,733
Balance at 31 December	**84,075**	**29,463**	**5,220**	**161**	**118,918**

	2018				
USD'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers - at amortised cost					
Balance at 1 January	84,054	8,037	-	-	92,091
Transfer to Stage 2	(3,704)	3,704	-	-	-
Transfer to Stage 3	-	(2,063)	2,063	-	-
Net change of a loan	788	(981)	(70)	-	(263)
Repayments and issue of new tranches under the loan agreements existing as at 1 January	5,152	1,503	-	-	6,655
Balance at 31 December	**86,292**	**10,200**	**1,993**	-	**98,483**

The following table shows reconciliations from the opening to the closing balances of the loss allowance for loans to customers.

	2019				
USD'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers - at amortised cost					
Balance at 1 January	4,033	1,710	307	-	6,050
Transfer to Stage 2	(1,816)	1,816	-	-	-
Transfer to Stage 3	-	(356)	356	-	-
Net remeasurement of loss allowance	(522)	3,703	646	-	3,827
New financial assets originated or purchased	840	169	-	28	1,037
Other movements	1	-	-	-	1
Balance at 31 December	**2,536**	**7,042**	**1,309**	**28**	**10,915**

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

As at 31 December 2019 two loans to customers were credit-impaired with total exposure for USD 5,220 thousand (31 December 2018: USD 1,993 thousand). The value of identifiable collateral (immovable property and equipment) held against these loans amounted USD 3,882 thousand. The value of collateral is limited by the maximum nominal value of the loan issued.

(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 2019 and 31 December 2018 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 allowance, by types of collateral:

	2019 USD'000	**2018 USD'000**
Movable property	22,871	20,209
Real estate	85,132	72,224
	108,003	**92,433**

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

At 31 December 2019, the Fund did not hold any financial instruments for which no loss allowance is recognised because of collateral.

During 2019, there was no change in the Fund's collateral policies.

(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:

	2019 USD'000	2018 USD'000
Manufacturing and processing industry	37,547	25,161
Agriculture, forestry and fishery	35,059	33,575
Tourist infrastructure	19,085	15,070
Trade infrastructure	10,577	14,045
Supply of electric energy gas and heat energy	5,604	-
Transport and warehousing	4,412	5,325
Communication and information technologies	3,710	3,314
Mining and quarry operation	2,182	1,993
Health care infrastructure	771	-
	118,947	**98,483**
Impairment allowance	(10,944)	(6,050)
	108,003	**92,433**

(c) Significant credit exposures

As at 31 December 2019 and 31 December 2018 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 17(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 2019				
USD'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers - at amortised cost					
Rated from B- to B+	36,383	-	-	-	36,383
Rated from CCC- to CCC+	41,552	6,997	-	-	48,549
Rated from CC- to CC+	6,140	17,525	-	-	23,665
Rated from C- to C+	-	4,941	-	-	4,941
Rated D	-	-	5,191	189	5,380
	84,075	**29,463**	**5,191**	**189**	**118,918**
Loss allowance	**(2,537)**	**(7,041)**	**(1,309)**	**(28)**	**(10,915)**
Carrying amount	**81,538**	**22,422**	**3,882**	**161**	**108,003**

USD'000	31 December 2018 Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers - at amortised cost					
Rated from B- to B+	33,758	-	-	-	33,758
Rated from CCC- to CCC+	42,873	1,503	-	-	44,376
Rated from CC- to CC+	9,659	5,534	-	-	15,193
Rated from C- to C+	-	3,163	-	-	3,163
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**

12 Property, plant and equipment and intangible assets

USD'000	Furniture and office equipment	Computers	Motor vehicles	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2018	160	223	222	21	55	681
Additions	1	-	-	-	1	2
As at 31 December 2019	**161**	**223**	**222**	**21**	**56**	**683**
Depreciation and amortisation						
As at 31 December 2019	(98)	(157)	(144)	(13)	(17)	(429)
Depreciation and amortisation for the year	(33)	(38)	(45)	(8)	(10)	(134)
As at 31 December 2019	**(131)**	**(195)**	**(189)**	**(21)**	**(28)**	**(564)**
Carrying amount						
As at 31 December 2019	**30**	**28**	**33**	**-**	**28**	**120**

USD'000	Furniture and office equipment	Computers	Motor vehicles	Leasehold improvements	Intangible 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						
At 31 December 2018	(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**

13 Loan from the National Bank of the Kyrgyz Republic

As at 31 December 2019 the Fund has received a loan denominated in Kyrgyz soms in the amount equivalent to USD 36,625 thousand (2018: USD 32,222 thousand) from the National Bank of the Kyrgyz Republic and placed collateral of USD denominated deposit for the total amount of USD 40,415 thousand (2018: USD 35,805 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 separately.

14 Other liabilities

	2019 USD'000	2018 USD'000
Other liabilities		
Cash collateral pledged under loans to banks (Note 10)	1,840	1,280
Other financial liabilities	1,341	993
Total other financial liabilities	**3,181**	**2,273**
Provision for credit related commitments	1,547	838
Lease liabilities	522	-
Other liabilities	359	354
Total other non-financial liabilities	**2,428**	**1,192**
Total other liabilities	**5,609**	**3,465**

15 Charter capital and reserves

(a) Charter capital

As at 31 December 2019 the paid-up charter capital was USD 500,000 thousand (31 December 2018: 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) 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 of their formation and the amount of the reserves are set by the management bodies in accordance with their competence. As at 31 December 2019 special reserves amounted to USD 1,896 thousand (2018: USD 1,357 thousand). During the year ended 31 December 2019 USD 604 thousand were allocated to the Fund for Project Preparation and Implementation (for 2018: USD 709 thousand), out of which USD 67 thousand were used for support to entrepreneurs through providing technical assistance for the investment projects being realised.

(c) Retained earnings

The profit of the Fund is used for charter goals of the Fund. 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.

16 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.

17 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 determination of the level of assurance over the 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, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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.

(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 interest-bearing financial instruments is as follows:

USD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Non-interest bearing	Carrying value
31 December 2019						
ASSETS						
Cash and cash equivalents	9,786	-	-	-	1,259	11,045
Investments in securities	46,831	29,676	108,540	132,956	-	318,003
Deposits with the National Bank of the Kyrgyz Republic	-	-	-	-	40,415	40,415
Loans to banks	3,393	8,552	16,085	67,977	-	96,007
Loans to customers	3,628	4,172	9,067	91,136	-	108,003
	63,638	**42,400**	**133,692**	**292,069**	**41,674**	**573,473**
LIABILITIES						
Loan from the National Bank of the Kyrgyz Republic	25,606	9,192	1,827	-	-	36,625
Other financial liabilities	2,332	379	332	138		3,181
	27,938	**9,571**	**2,159**	**138**	**-**	**39,806**
	35,700	**32,829**	**131,533**	**291,931**	**41,674**	**533,667**

USD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Non-interest bearing	Carrying value
31 December 2018						
ASSETS						
Cash and cash equivalents	7,660	-	-	-	524	8,184
Investments in securities	6,034	21,548	122,345	183,653	-	333,580
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
Deposits with the 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 the 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**

Average interest rate

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2019 and 31 December 2018.

	2019 Average effective interest rates, %			2018 Average effective interest rates, %	
	US Dollars	KGS	RUB	US Dollars	
Interest bearing assets					
Cash and cash equivalents	4.0	1.5	-	4.0	1.5
Investments in securities	3.20	-	7.00	2.50	1.70
Loans to banks	1.13	6.70	-	1.06	7.01
Loans to customers	4.31	9.11	-	4.23	8.91
Interest bearing liabilities					
Loan from the National Bank of the Kyrgyz Republic	-	4.00	-	-	4.00
Other financial liabilities	5.3	-	-	5.50	-

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 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 2019 and 31 December 2018, is as follows:

	2019		2018	
	Profit or loss USD'000	**Equity USD'000**	**Profit or loss USD'000**	**Equity USD'000**
100 bp parallel fall	1,172	1,172	(847)	(847)
100 bp parallel rise	(1,172)	(1,172)	847	847

(ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Financial position and cash flows of the Fund are exposed to impact of fluctuations in foreign currency exchange rates.

The financial position and cash flows of the Fund are subject to fluctuations in foreign currencies exchange rates. 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.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019:

	USD	**KGS**	**RUB**	
	USD'000	**USD'000**	**USD'000**	**USD'000**
ASSETS				
Cash and cash equivalents	9,008	2,012	25	11,045
Investments in securities	317,77	-	236	318,003
Deposits with the National Bank of the Kyrgyz Republic	40,415	-	-	40,415
Loans to banks	62,234	33,773	-	96,007
Loans to customers	104,730	3,273	-	108,003
	534,154	**39,058**	**261**	**573,473**
LIABILITIES				
Loan from the National Bank of the Kyrgyz Republic	-	36,625	-	36,625
Other financial liabilities	2,992	-	189	3,181
	2,992	**36,625**	**189**	**39,806**
Net position as at 31 December 2019	**531,162**	**2,433**	**72**	**533,667**

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	7,373	793	18	8,184
Investments held-to maturity and investments in securities	333,372	-	208	333,580
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 the 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**

US dollar rate, as indicated below, against the following currencies at 31 December 2019 and 31 December 2018, 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.

	2019		**2018**	
	Profit or loss USD'000	**Equity USD'000**	**Profit or loss USD'000**	**Equity USD'000**
30% depreciation of KGS against USD	730	730	1,342	1,342
30% depreciation of RUB against USD	22	22	5	5

(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 obligation. 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 collateral 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.

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 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 reporting date is as follows:

	2019 USD'000	**2018. USD'000**
ASSETS		
Cash and cash equivalents	11,045	8,184
Investments held-to maturity and other investment securities	318,003	333,580
Deposit with the National Bank of the Kyrgyz Republic	40,415	35,805
Loans to banks	96,007	88,664
Loans to customers	108,003	92,433
Total maximum exposure	**573,473**	**558,666**

For the analysis of collateral held against loans to banks and concentration of credit risk in respect of loans to banks, see Note 10. For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 11.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 18.

As at 31 December 2019 the Fund has one counteragent (2018: none), credit risk exposure to whom exceeds 10 percent of maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2019 is USD 63,047 thousand (2018: none).

(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.

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 2019 is as follows:

USD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loan from the National Bank of the Kyrgyz Republic	-	25,754	9,348	1,866	-	36,968	36,625
Other financial liabilities	1,854	476	385	342	139	3,196	3,181
Total financial liabilities	**1,854**	**26,230**	**9,733**	**2,208**	**139**	**40,164**	**39,806**
Credit related commitments	72,441	-	-	-	-	72,441	72,441

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 months to 1 year	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities							
Loan from the 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

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2019:

USD'000	On demand and less 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	11,045	-	-	-	-	11,045
Investments in securities	4	46,827	138,216	132,720	236	318,003
Deposit with the National Bank of the Kyrgyz Republic	-	28,467	11,948	-	-	40,415
Loans to banks	243	3,151	24,637	27,753	40,223	96,007
Loans to customers	438	3,190	13,239	24,133	67,003	108,003
Total assets	**11,730**	**81,635**	**188,040**	**184,606**	**107,462**	**573,473**
Non-derivative financial liabilities						
Loan from the National Bank of the Kyrgyz Republic	-	25,606	9,192	1,827	-	36,625
Other financial liabilities	1,854	478	379	332	138	3,181
Total liabilities	**1,854**	**26,084**	**9,571**	**2,159**	**138**	**39,806**
Net position	**9,876**	**55,551**	**178,469**	**182,447**	**107,324**	**533,667**

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

USD'000	On demand and less 1 year	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	8,184	-	-	-	-	8,184
Investments in securities	6,034	21,548	122,345	135,213	48,440	333,580
Deposit with the 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**
Loan from the 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**	**5,561**	**283**	**1,363**	**34,495**
Net position	**13,259**	**19,913**	**162,615**	**177,834**	**150,550**	**524,171**

18 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.

	2019 USD'000	2018 USD'000
Contracted amount		
Loan and credit line commitments	66,787	35,218
Guarantees issued	5,654	6,092
	72,441	**41,310**

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 2019 and 31 December 2018 the Fund has no significant concentration of loans associated with the credit related commitments.

19 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.

20 Related party transactions

(a) Key management remuneration

Total remuneration included in personnel expenses for the period from 31 December 2018 to 31 December 2019 is as follows:

	2019		2018	
USD'000	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Wages and salaries and other employee benefits, excluding expenses on rent of apartments	540	1,894	579	1,778
Expenses on rent of apartments for employees	37	78	37	75
Total	**577**	**1,972**	**616**	**1,853**

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.

The outstanding balances and the related average effective interest rates as at 31 December 2019 and related profit or loss amounts of transactions with other related parties are as follows:

	Russian Federation		Entities controlled by the Russian Federation		The Kyrgyz Republic, NBKR and other entities controlled by the Kyrgyz Republic		Total
	USD'000	Average effective interest rate, %	USD'000	Average effective interest rate, %	USD'000	Average effective interest rate, %	USD'000
Statement of financial position							
ASSETS							
Cash and cash equivalents:							
- in USD	-	-	6,754	-	2,254	0.30	9,008
- in KGS	-	-	-	-	2,012	4.00	2,012
- in RUR	-	-	25	-	-	-	25
Investments in securities							
- in USD	29,676	3.30	240,155	3.8	47,936	1.75	317,767
- in RUR	236	8.21	-	-	-	-	236
Deposit with the National Bank of the Kyrgyz Republic							
- in USD	-	-	-	-	40,415	-	40,415
Loans to banks:							
- in USD	-	-	-	-	21,633	1.07	21,633
- in KGS	-	-	-	-	21,571	6.60	21,571
Loans to customers:							
- in USD	-	-	-	-	16,108	4.13	16,108
- in KGS	-	-	-	-	667	8.30	667
LIABILITIES							
Loan from the National Bank of the Kyrgyz Republic:							
- in KGS	-	-	-	-	36,625	4.00	36,625
Other financial liabilities:							
- in USD	-	-	1,152	5.30	-	-	1,152
- in RUR	-	-	189	5.00	-	-	189
Profit or loss							
Interest income	991		9,203		3,214		13,408
Interest expense	-		(70)		(1,358)		(1,428)
Impairment losses	-		(288)		(2,860)		(3,148)

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related profit or loss amounts of transactions with other related parties are as follows:

	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	-	-	4,606	-	2,479	-	7,085
- in KGS	-	-	-	-	793	-	793
- in RUR	-	-	18	-	-	-	18
Investments in securities							
- in USD	51,188	2.50	233,992	2.80	48,192	1.7	333,372
- in RUR	-	-	208	5.00	-	-	208
- 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 RUR	-	-	208	5.00	-	-	208
Profit or loss							
Interest income	1,374		7,487		3,236		12,097
Interest expense	-		(27)		(1,216)		(1,243)
Impairment losses	-		(38)		(723)		(761)

21 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

As at 31 December 2019 and 31 December 2018 the carrying amounts of financial assets and financial liabilities approximate its fair values.

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 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.

(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 difference 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.

The table below analyses financial instruments measured at fair value at 31 December 2019 and 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised.

USD'000	Level 1	Level 2	Level 3	Total at 31 December 2019
Financial assets				
Cash and cash equivalents	-	5,519	-	**5,519**
Investments in securities	270,067	47,936	-	**318,003**
Loans to banks	-	-	96,007	**96,007**
Loans to customers	-	-	108,003	**108,003**

USD'000	Level 1	Level 2	Level 3	Total at 31 December 2018
Financial assets				
Cash and cash equivalents	-	3,771	-	**3,771**
Investments in securities	285,388	48,192	-	**333,580**
Loans to banks	-	-	88,664	**88,664**
Loans to customers	-	-	92,433	**92,433**

22 Subsequent events

The first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus and failure to reach agreement as part of OPEC+ format. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices and depreciation of the Kyrgyz som. These developments, if continued, may impact the credit risk of financial institutions providing USD-denominated funding to corporate borrowers, and the Fund is one of such borrowers.

At the same time the Fund, given its functional currency, which is US Dollar, and structure of assets and liabilities, has, in general, a stable financial position, due to the following reasons:

1. Portfolio of loans to customers exposed to the borrowers' currency risk does not account for a significant share in the Fund's capital (about 20%). Provisions for this portfolio together with the Fund's retained earnings cover more than 1/3 of the value of this portfolio. At the same time, the level of collaterisation of this portfolio is high.
2. The Fund is not exposed to liquidity risk as the Fund practically has no leverage in its balance sheet. Exposure to interest rate risk is also minimal. The Fund's active operations are funded by its capital. KGS-denominated resources from the NBKR are attracted against collateral of its capital - US Dollars. At the same time, more than 60% of the Fund's capital are represented by cash or placed in highly liquid securities having investment grade ratings and short-term durations, which allows the Fund to avoid liquidity risk and price risk hereon.
3. The Fund's direct exposure to currency risk is at acceptable level due to insignificance of its open currency position.

However, the current events are increasing further the level of uncertainty in the Kyrgyz business environment; therefore, the Fund exercises an ongoing monitoring in order to reduce risk exposures related, in general, to development of the macroeconomic situation.