КЫРГЫЗ БАНКЫ

ANNUAL REPORT 2018

Bishkek-2019

Annual Report of the National Bank of the Kyrgyz Republic for 2018

The report of the National Bank of the Kyrgyz Republic for the year of 2018 is prepared in accordance with Articles 54 and 55 of the Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" No.206 of December 16, 2016.

The annual report of the National Bank for 2018 is approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2019-П-10/13-2-(ВД) of March 20, 2019.

The consolidated financial statements of the National Bank for the year ended on December 31, 2018 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2019-П-15/18-1-(ВД) of April 2, 2019.

The separate financial statements of the National Bank for the year ended on December 31, 2018 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2019-П-15/18-2-(ВД) of April 2, 2019.

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

Translation into the English language was performed by GlobalOneTranslation LLC
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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of the National Bank of the Kyrgyz Republic ("the National Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at

31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with financial reporting principles disclosed in Note 2 of the consolidated financial statements.

Basis for Opinion

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

Emphasis of matter

As discussed in Note 1 to the consolidated financial statements, the National Bank of the Kyrgyz Republic obtained a controlling interest in a commercial bank as a result of Compensation Agreement with its shareholders. Management have assessed the fair value of the commercial bank on the date of acquisition in order to determine the effect of the transaction. As there is limited relevant market information available, the fair value assessment was based on unobservable data, which is subject to inherent uncertainty. Our opinion is not qualified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of the National Bank for the year 2018, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Other Matter

The financial statements of the National Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 14 March 2018.

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

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

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

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

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

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

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

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

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

Kanyshai Sadyrbekova

Managing Director
LLC Deloitte & Touche

State license on auditing
in the Kyrgyz Republic
№0001, type GK
given by the Ministry of Justice
of the Kyrgyz Republic
dated 4 July 2002

Nurlan Bekenov

Engagement Partner

2 April 2019
Bishkek, the Kyrgyz Republic

Consolidated statement of financial position as at 31 december 2018

(in thousands of Soms)

	Notes	31 December 2018	31 December 2017
ASSETS			
Gold	6	32 151 881	19 936 798
Cash on hand, due from banks and other financial institutions	7	84 648 482	86 782 689
Loans to banks and international organisations	8	9 136 922	7 519 897
Loans to customers and financial-credit organisations	9	2 377 037	-
Financial assets at fair value through profit or loss	10	1 254	-
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	11	33 843 372	43 009 884
Investments at amortised cost (2017: Investments held-to maturity)	12	186 424	251 313
Property and equipment	13	2 600 505	1 741 359
Intangible assets		314 849	148 836
Long-term assets held for sale	14	957 679	-
Deferred tax assets	30	18 608	-
Prepaid income tax		2 057	-
Other assets	15	1 630 718	1 718 734
Total assets		**167 869 788**	**161 109 510**
LIABILITIES			
Banknotes and coins in circulation	16	93 502 438	91 104 265
Financial liabilities at fair value through profit or loss	10	13 322	-
Due to banks and other financial institutions	17	18 728 886	20 609 050
Due to the Government of the Kyrgyz Republic	18	12 468 565	9 235 231
Customer accounts	19	2 950 284	-
Debt securities issued	20	7 942 309	5 212 268
Loans received	21	171 922	925 499
Liabilities to the IMF in respect of SDR allocations	22	8 222 162	8 311 236
Other liabilities	23	495 083	97 086
Total liabilities		**144 494 971**	**135 494 635**
EQUITY			
Charter capital	24	2 000 000	2 000 000
Obligatory reserve		7 266 168	7 036 083
Revaluation reserve for foreign currency and gold		11 838 087	14 284 368
Revaluation reserve for investments at fair value through other comprehensive income (2017: Revaluation reserve for investments available-for-sale)		9 125	(6 425)
Retained earnings		2 240 420	2 300 849
Total capital attributable to shareholders of the bank		**23 353 800**	**25 614 875**
Non-controlling interest		21 017	-
Total equity		**23 374 817**	**25 614 875**
Total liabilities and equity		**167 869 788**	**161 109 510**

Abdygulov T.S.
Chairman of the National Bank

2 April 2019

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

2 April 2019

Bishkek,
Kyrgyz Republic

Consolidated statement of profit or loss for the year ended 31 december 2018

(in thousands of Soms)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	25	2 603 484	1 808 795
Interest expense	25	(556 319)	(220 564)
Net interest income	25	**2 047 165**	**1 588 231**
Commission income		88 239	62 494
Commission expense		(16 448)	(7 175)
Net commission income		**71 791**	**55 319**
Impairment losses	1,26	(144 573)	(15 724)
Net realised gain on foreign currencies and gold operations	27	1 600 253	1 860 747
Net loss from transactions with financial instruments measured at fair value through profit or loss		(4 699)	-
Other income		142 907	270 344
Net non-interest income		**1 593 888**	**2 115 367**
Operating income		**3 712 844**	**3 758 917**
Expenses on production of banknotes and coins, issued into circulation		(232 173)	(308 008)
Administrative expenses	28	(1 160 856)	(947 598)
Other expenses		(105 269)	(202 462)
Operating expenses		**(1 498 298)**	**(1 458 068)**
Profit before income tax		**2 214 546**	**2 300 849**
Income tax benefit	30	11 163	-
Profit for the year		**2 225 709**	**2 300 849**
Loss attributable to non-controlling interest		(28 282)	-
Profit attributable to the National Bank		**2 253 991**	**2 300 849**

Abdygulov T.S.
Chairman of the National Bank

2 April 2019

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

2 April 2019

Bishkek,
Kyrgyz Republic

Consolidated statement of other comprehensive income for the year ended 31 december 2018

(in thousands of Soms)

	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the year	**2 225 709**	**2 300 849**
Items that may be reclassified subsequently to statement of profit or loss		
Revaluation reserve for foreign currency and gold:		
- net (loss)/gain on revaluation of assets and liabilities in foreign currency and gold	(985 120)	3 476 149
- net gain on foreign currency and gold transferred to profit or loss	(1 461 161)	(1 694 160)
Net gain/(loss) on investments at fair value through other comprehensive income (2017: Investments available-for-sale)	17 152	(2 418)
Other comprehensive (loss)/income for the year	**(2 429 129)**	**1 779 571**
Total comprehensive (loss)/income for the year	**(203 420)**	**4 080 420**
Related to:		
- National Bank	(176 740)	4 080 420
- share of non-controlling shareholders	(26 680)	-
	(203 420)	**4 080 420**

Abdygulov T.S.
Chairman of the National Bank

2 April 2019

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

2 April 2019

Bishkek,
Kyrgyz Republic

Consolidated statement of cash flows for the year ended 31 december 2018

(in thousands of Soms)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission received		2 705 665	1 289 552
Interest and fee and commission paid		(492 850)	(175 630)
Realised gain on foreign exchange operations		97 235	62 218
Other income		95 915	269 244
Payroll expenses		(608 781)	(528 708)
Expenses on production of banknotes and coins, issued into circulation		(165 022)	(324 094)
Administrative expenses, excluding payroll expenses		(343 945)	(459 702)
Cash flows from operating activities before changes in operating assets and liabilities		**1 288 217**	**132 880**
(Increase)/decrease in operating assets			
Financial assets at fair value through profit or loss		648	-
Gold		(11 843 852)	(6 051 933)
Due from banks and other financial institutions		(7 670 577)	9 232 838
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)		8 957 762	(106 821)
Loans to banks and international organisations		(2 826 510)	(7 364 977)
Loans to customers and financial-credit organisations		141 598	-
Other assets		84 267	(253 978)
Increase/(decrease) in operating liabilities			
Banknotes and coins in circulation		2 461 868	16 265 465
Financial liabilities measured at fair value through profit or loss		(1 178)	-
Due to banks and other financial institutions		(1 994 560)	(5 084 688)
Due to the Government of the Kyrgyz Republic		1 116 630	(1 722 130)
Customer accounts		(419 313)	-
Debt securities issued		2 704 363	(31 180)
Other liabilities		(47 242)	(17 727)
Net cash (outflow)/inflow from operating activities		**(8 047 879)**	**4 997 749**

Consolidated statement of cash flows (continued) for the year ended 31 december 2018

(in thousands of Soms)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received as a result of obtaining control in subsidiary	1	32 743	-
Purchase of property, equipment and intangible assets		(186 196)	(185 788)
Proceeds on disposal of property, equipment		2 401	-
Proceeds on redemption of investments at amortised cost (2017: Investments held-to-maturity)		64 352	64 352
Interest received on investments at amortised cost (2017: Investments held-to-maturity)		12 870	16 140
Dividends received		8 807	1 184
Net cash used in investing activities		**(65 023)**	**(104 112)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans received		(742 956)	(875 082)
Net cash used in financing activities		**(742 956)**	**(875 082)**
Net increase in cash and cash equivalents		**(8 855 858)**	**4 018 555**
Effect of changes in exchange rates on cash and cash equivalents		(619 686)	1 319 383
Cash and cash equivalents as at the beginning of the year		54 481 945	49 144 007
Cash and cash equivalents as at the end of the year	**7**	**45 006 401**	**54 481 945**

Abdygulov T.S.
Chairman of the National Bank
2 April 2019
Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant
2 April 2019
Bishkek,
Kyrgyz Republic

CONTENT

Consolidated statement of changes in equity for the year ended 31 december 2018

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments available-for-sale	Retained earnings	Total capital attributable to shareholders of the bank
Balance as at 1 January 2017	1 000 000	6 902 942	12 502 379	(4 007)	3 777 137	24 178 451
Total comprehensive income						
Profit for the year	-	-	-	-	2 300 849	2 300 849
Other comprehensive income						
Net loss on investments available-for-sale	-	-	-	(2 418)	-	(2 418)
Gain on revaluation of assets and liabilities in foreign currencies and gold	-	-	3 476 149	-	-	3 476 149
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 694 160)	-	-	(1 694 160)
Total other comprehensive financial result	-	-	1 781 989	(2 418)	-	1 779 571
Total comprehensive financial result for the year	**-**	**-**	**1 781 989**	**(2 418)**	**2 300 849**	**4 080 420**
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget	-	-	-	-	(2 643 996)	(2 643 996)
Transfer to charter capital	1 000 000	(1 000 000)	-	-	-	-
Transfer to obligatory reserve	-	1 133 141	-	-	(1 133 141)	-
Total amount of transactions recorded directly to equity	**1 000 000**	**133 141**	**-**	**-**	**(3 777 137)**	**(2 643 996)**
Balance as at 31 December 2017	**2** 000 000	**7 036 083**	**14 284 368**	**(6 425)**	**2 300 849**	**25 614 875**

Consolidated statement of changes in equity (continued) for the year ended 31 december 2018

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments at fair value through other comprehensive income	Retained earnings	Total capital attributable to share-holders of the bank	Non-controlling interest	Total
Balance as at 1 January 2018	2 000 000	7 036 083	14 284 368	(6 425)	2 300 849	25 614 875	-	25 614 875
Impact of adopting IFRS 9	-	-	-	-	(13 571)	(13 571)	-	(13 571)
Restated opening balance in accordance with IFRS 9	**2 000 000**	**7 036 083**	**14 284 368**	**(6 425)**	**2 287** 278	**25 601 304**	**-**	**25 601 304**
Total comprehensive income								
Profit for the year	-	-	-	-	2 253 991	2 253 991	(28 282)	2 225 709
Other comprehensive income								
Net gain on investments at fair value through other comprehensive income	-	-	-	15 550	-	15 550	1 602	17 152
Loss on revaluation of assets and liabilities in foreign currencies and gold	-	-	(985 120)	-	-	(985 120)	-	(985 120)
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 461 161)	-	-	(1 461 161)	-	(1 461 161)
Total comprehensive financial result for the year	**-**	**-**	**(2 446 281)**	**15 550**	**2 253 991**	**(176 740)**	**(26 680)**	**(203 420)**
Transactions recorded directly in equity								
Distribution of prior year profit to the state budget	-	-	-	-	(2 070 764)	(2 070 764)	-	(2 070 764)
Transfer to obligatory reserve	-	230 085	-	-	(230 085)	-	-	-
Total amounts of transactions recorded directly to equity	**-**	**230 085**	**-**	**-**	**(2 300 849)**	**(2 070 764)**	**-**	**(2 070 764)**
Obtaining control of the subsidiary OJSC Russian Investment Bank	-	-	-	-	-	-	47 697	47 697
Balance as at 31 December 2018	2 000 000	**7 266 168**	**11 838 087**	**9 125**	**2 240 420**	**23 353 800**	**21 017**	**23 374 817**

Abdygulov T.S.
Chairman of the National Bank
2 April 2019
Bishkek, Kyrgyz Republic

Alybaeva S.K.
Chief Accountant
2 April 2019
Bishkek, Kyrgyz Republic

CONTENT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 GENERAL INFORMATION

(a) Organisation and operations

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

The primary role of the National Bank is ensuring price stability in Kyrgyz Republic. To accomplish the main goal, the functions of the National Bank are the following: determine and carry out monetary policy of the country; promote effective development of the settlement and interbank payment system; issue banknotes and coins for circulation; manage international foreign currency reserves; regulate and supervise commercial banks; license banking and activities of some financial institutions according to the legislation; and act as an agent of the Government of the Kyrgyz Republic.

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

As at 31 December 2018 and 2017 the National Bank has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2018 and 2017 the total number of the National Bank's employees is 657 and 664, respectively.

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

Title	Percentage of voting shares (%) 31 December 2018	31 December 2017	Type of activity
OJSC Russian Investment Bank	71,66	-	Banking services
CJSC Kyrgyz Cash Collection	100	100	Transportation of valuables

Also, the National Bank has an investment in associated company CJSC Interbank Processing Center. The financial statements of CJSC Kyrgyz Cash Collection and CJSC Interbank Processing Center are not consolidated in the financial statements of the National Bank, since their influence on the statements of the National Bank is insignificant.

1 GENERAL INFORMATION (CONTINUED)

(a) Organisation and operations (continued)

Acquisitions

	Primary activity	Date of acquisition	Acquired percentage of shares (%)
OJSC Russian Investment Bank	Banking activity	2 October 2018	71,66%

OJSC Russian Investment Bank is consolidated from 2 October 2018 on which date the control was transferred. As stated in valuation report of independent appraiser the assets and liabilities of OJSC Russian Investment Bank as at 2 October 2018 were recognised at fair value.

Assets acquired and liabilities recognised at the date of acquisition:

	2 October 2018 Fair value
ASSETS:	
Cash and cash equivalents	118 501
Investments at fair value through other comprehensive income	198 719
Due from banks and other financial institutions	14 345
Financial assets at fair value through profit or loss	4 958
Loans to customers and financial-credit organisations	2 532 550
Prepaid income tax	2 057
Property and equipment	908 933
Intangible assets	167 199
Long-term assets held for sale	886 980
Deferred tax asset	7 445
Other assets	109 395
TOTAL ASSETS	**4 951 082**
LIABILITIES AND EQUITY	
LIABILITIES:	
Financial liabilities at fair value through profit or loss	13 185
Due to banks and other financial institutions	74 210
Loan from NBKR	919 107
Provision on contingent liabilities	300 000
Customer accounts	3 371 784
Other liabilities	104 494
Total liabilities	**4 782 780**
Net assets	**168 302**
Net assets attributable to the National Bank (71,66%)	120 605
Net assets attributable to non-controlling interests (28,34%)	47 697

1 GENERAL INFORMATION (CONTINUED)

(a) Organisation and operations, continued

As at 2 October 2018 the National Bank performed assessment of the fair value of the loan with the carrying amount of KGS 300 000 thousand by referring to the fair value of net assets of OJSC Russian Investment Bank taken as collateral. The Management of the National Bank believes that the fair value of net assets of OJSC Russian Investment Bank represents the best estimate of the market price of OJSC Russian Investment Bank based on available information on similar transactions. The National Bank does not expect origination of any intangible assets arising on customer relationships on acquisition of subsidiary. The difference between loan receivable and the fair value of net assets of OJSC Russian Investment Bank is recognised as impairment loss in the amount of KGS 179 395 thousand.

Net cash inflow on obtaining control in subsidiary:

Cash in foreign currency:	
- cash on hand	18 888
- cash on correspondent bank accounts	13 855
Total cash in foreign currency before provision for impairment	**32 743**
Impairment allowance	(1 089)
Cash in foreign currency	**31 654**
Cash in national currency on hand	41 769
Correspondent accounts in the National Bank	45 078
Total cash and cash equivalents at the date of acquisition	**118 501**

Correspondent accounts in the National Bank in the amount of KGS 45 078 thousand and cash in national currency on hand in the amount of KGS 41 769 thousand were eliminated during consolidation as intragroup transactions. Thus, in the statement of cash flows, KGS 32 743 thousand were shown as cash acquired in the result of business combination.

Had these business combinations been effected at 1 January 2018, the revenue of the Group from continuing operations would have been KGS 3 285 610 thousand, and the profit for the year from continuing operations would have been KGS 1 125 074 thousand. The Group management consider these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

These consolidated financial statements were approved by the Management Board of the National Bank on 2 April 2019.

(b) Business environment

In recent years, the Kyrgyz Republic has undergone significant political, economic and social changes. As an emergency market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. In addition, the economy of the Kyrgyz Republic is subject to influence of the still unstable situation on capital markets. These consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when or if they become known and estimable.

2 MAIN FINANCIAL REPORTING PRINCIPLES

(a) Statement of compliance with IFRS

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

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

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

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

In these consolidated financial statements for the year ended 31 December 2018, the same accounting policies, presentation and calculation methods were used as in the preparation of the National Bank's financial statements for the year ended 31 December 2017, except for the accounting policies and the impact of the application of the following new and revised standards and interpretations:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)
Amendments to IAS 40	Transfers of Investment Property
Amendments to other IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle
IFRIC 22	Foreign Currency Transactions and Advance Consideration

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

Impact of initial application of IFRS 9 Financial Instruments. In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow Group not to restate comparatives. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to be accounted for in the opening retained earnings at the beginning of the period. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

The table below represents the impact of adopting IFRS 9 standard on the impairment allowance and reconciliation of the amount of opening balances of the estimated amounts of the impairment allowances of financial assets, accrued in accordance with IAS 39 with the impairment allowance in accordance with IFRS 9.

	IAS 39 as at 31 December 2017	Additional allowance for expected credit losses	IFRS 9 as at 1 January 2018
Impairment allowance			
Nostro accounts with foreign banks	-	(5 689)	(5 689)
Term deposits in foreign banks	(266 027)	(3 311)	(269 338)
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	-	(265)	(265)
Loans to banks and international organisations	(125 572)	-	(125 572)
Investments at amortised cost (2017: Investments held-to-maturity)	-	(3 965)	(3 965)
Other financial assets	(24 253)	(341)	(24 594)
Total	**(415 852)**	**(13 571)**	**(429 423)**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table shows the classification and assessment of the impact of the application of IFRS 9 on the consolidated statement of financial position and retained earnings, including the effect of replacing the incurred credit loss model in accordance with IAS 39 with expected credit losses in accordance with IFRS 9. Additional allowance for expected credit losses is the change in the carrying value of financial assets and liabilities due to changes in their valuation. The reconciliation of the carrying amount between IAS 39 and IFRS 9 as at 1 January 2018 is as follows:

#	Financial assets	Initial classification category in accordance with IAS 39	New classification category in accordance with IFRS 9	Initial carrying amount in accordance with IAS 39 as at 31 December 2017	Additional allowance for expected credit losses	New carrying amount in accordance with IFRS 9
1	Nostro accounts with foreign banks, the International Monetary Fund and the Bank for International Settlements	Loans and receivables	Fair value through other comprehensive income	53 470 770	(5 689)	53 465 081
2	Term deposits in foreign banks and in the Bank for International Settlements	Loans and receivables	Amortised cost	32 300 744	(3 311)	32 297 433
3	Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	Investments available-for-sale	Fair value through other comprehensive income	43 009 884	(265)	43 009 619
4	Loans to banks and international organisations	Loans and receivables	Amortised cost	7 519 897	-	7 519 897
5	Investments at amortised cost (2017: Investments held-to-maturity)	Held-to-maturity investments	Amortised cost	251 313	(3 965)	247 348
6	Other financial assets	Loans and receivables	Amortised cost	278 187	(341)	277 846
	Total			**136 830 795**	**(13 571)**	**136 817 224**

IFRS 15 Revenue from Contracts with Customers. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The application of IFRS 15 has not had a significant impact on the consolidated financial statements of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IAS 40 Transfers of Investment Property. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The application of the amendments to IAS 40 did not have a significant impact on the consolidated financial statements of the Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The application of IFRIC 22 did not have a significant impact on the consolidated financial statements of the Group.

(a) Gold

Gold comprises gold on deposits with foreign banks and gold bullions with a good delivery status. Gold in the consolidated financial statements is measured at market price which is determined by reference to the London Bullion Market Association fixings at the day preceding the reporting date. Gain on revaluation of gold is recognised in other comprehensive income in equity. Loss resulting from revaluation is recognised in the consolidated statement of profit or loss in the amount exceeding any previously accumulated gains on accounts of other comprehensive income in equity. Realised gain and loss on gold is recognised in the consolidated statement of profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency transactions

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

Exchange rates

The exchange rates used by the Group in the preparation of the consolidated financial statements as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
- Som/US Dollar	69,8500	68,8395
- Som/Euro	80,0446	82,5936
- Som/Special drawing rights	96,8578	97,9656
- Som/Canadian Dollar	51,3226	55,0152
- Som/Australian Dollar	49,2512	53,8477
- Som/Great British Pound Sterling	88,3742	93,1320
- Som/Chinese Renminbi	10,1489	10,5900
- Som/Norwegian Krone	7,9915	8,3854
- Som/troy ounce of gold	89 338,15	89 250,41

(c) Cash and cash equivalents

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Basis of consolidation

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

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the National Bank and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the National Bank and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Business Combinations

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments

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

(i) Classification and measurement of financial instruments before 1 January 2018

Financial assets were classified into the following categories: measured at fair value through profit or loss; held-to-maturity; available-for-sale; as well as loans and receivables. The assignment of financial assets to a particular class depended on their characteristics and acquisition objectives and occurred at the time of their recognition

<u>Financial instruments at fair value through profit or loss</u> were financial assets or liabilities that were:

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

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

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

Financial assets at fair value through profit or loss category were recorded at fair value with a revaluation in profit or loss. The Group continues to record these instruments at fair value through profit or loss upon application of IFRS 9.

Loans to banks and international organisations, other receivables with fixed or determinable payments that were not quoted in an active market, due from banks and other financial assets were classified as <u>Loans and receivables</u>. Loans and receivables were carried at amortised cost using the effective interest method, less any impairment. Interest income was recognised by applying the effective interest rate, except for short-term receivables, for which interest income was negligible. The Group continues to record these instruments at amortised cost upon application of IFRS 9.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments, continued

(i) Classification and measurement of financial instruments before 1 January 2018, continued

Investments held-to-maturity were non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group had positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designated as measured at fair value through profit or loss;
- the Group designated as available-for-sale or,
- met the definition of loans and receivables.

Financial assets in the category of investments held-to-maturity were accounted at amortised cost using the effective interest method, less impairment. Interest income is recognised by applying an effective interest rate. The Group continues to record these instruments at amortised cost after applying IFRS 9.

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

All financial liabilities, with the exception of financial liabilities of the category of fair value through profit or loss and financial liabilities arising when the transfer of a financial asset measured at fair value did not meet the criteria for derecognition, were measured at amortised cost.

(ii) Classification and measurement of financial instruments after 1 January 2018

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities;
2. Impairment of financial assets; and
3. General hedge accounting.

Details of these new requirements as well as their impact on the consolidated financial statements of the Group are described in respective sections below.

After 1 January 2018, upon application of IFRS 9, all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments, continued

(ii) Classification and measurement of financial instruments after 1 January 2018, continued

In particular:

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

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

Financial assets measured at amortised cost include the following assets:

- Gold in deposits with foreign banks (Note 6);
- Term deposits in foreign banks, term deposits in international financial institutions and cash on hand in foreign currency (Note 7);
- Loans to banks and international organisations (Note 8);
- Loans to customers and financial-credit organisations (Note 9);
- Securities of the Government of the Kyrgyz Republic, including Government Treasury bills and bonds (Note 12); and
- Accounts receivable (Note 15).

The business model of holding an asset both to collect the contractual cash flows and to sell the financial asset assumes that purpose of managing the financial asset is both obtaining contractual cash flows and selling the financial asset. Under this business model, the receipt of cash from the sale of the financial asset is a priority, which is distinguished by a higher frequency and volume of sales compared to the business model ‘Holding an asset to obtain the contractual cash flows’.

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

- Nostro accounts with foreign banks and international financial institutions (Note 7);
- Investments in state (sovereign), municipal and agency debt instruments, as well as debt instruments of international financial institutions (Note 11).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments, continued

(ii) Classification and measurement of financial instruments after 1 January 2018, continued

All other debt instruments (for example, debt instruments measured at fair value or held for sale) and investments in equity instruments, after initial recognition, are measured at fair value through profit or loss.

However, the Group makes the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

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

Debt instruments that, after initial recognition, are measured at amortised cost or at fair value through other comprehensive income are subject to impairment .

After initial measurement, amortised cost financial assets are measured using the effective interest rate method, less any impairment losses. The fair value of FVTOCI and FVTPL financial assets is determined under IFRS 13, Fair Value Measurement ("IFRS 13"). The fair value gains or losses for FVTPL are recognised in the statement of profit or loss and for FVTOCI are recognised in the other comprehensive income, until these instruments are disposed of, when accumulated profits or losses previously reflected in equity are transferred to profit or loss.

Interest income on an available-for-sale financial asset is recognised when it accrues in profit or loss using the effective interest method.

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

CONTENT

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments, continued

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them, the transferred assets are not derecognised. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group 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 assets.

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

The Group writes off assets deemed to be uncollectible.

The Group derecognises financial liabilities only if they are repaid, canceled, or expired. The difference between the carrying amount of a financial liability, the recognition of which is terminated, and compensation paid or payable is recognised in profit or loss.

The exchange of debt instruments with significantly different conditions between the Group and the borrower is taken into account as the repayment of the initial financial liability and the recognition of a new financial liability. The Group takes into account a significant change in the conditions of an existing financial liability or part of it as repayment of the original financial liability and recognition of a new financial liability. The Group proceeds from the assumption that the terms and conditions of liabilities differ significantly if the discounted present value of cash flows in accordance with the new conditions, including payments of commissions minus received commissions, discounted at the original effective interest rate, differs by at least 10% from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not material, then the difference between: (1) the carrying amount of the obligation prior to the modification; and (2) the present value of the cash flows after the modification should be recognised in profit or loss as income or expense from the modification as part of other income and expenses.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instrument, continued

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment

(i) Impairment of financial assets before 1 January 2018

Financial assets carried at amortised cost consist principally of loans and receivables and financial assets held-to-maturity. The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that a financial asset or a group of assets is impaired include observable information on following events that result in loss: significant financial difficulties of the issuer or borrower, breach of conditions of agreement such as default or delinquency of principal or accrued interest, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that it is probable that the borrower will enter bankruptcy or other form of reorganisation, other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

(i) Impairment of financial assets before 1 January 2018, continued

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

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

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

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

(ii) Impairment of financial assets after 1 January 2018

The Group recognises estimated reserves for expected credit losses in respect of the following financial instruments not at fair value through profit or loss:

- Gold in deposits with foreign banks (Note 6);
- Cash on hand, due from banks and other financial institutions (Note 7);
- Loans to banks and international organisations (Note 8);
- Loans to customers and financial-credit organisations (Note 9);
- Investments at fair value through other comprehensive income (Note 11);
- Investments at amortised cost (Note 12);
- Other financial assets (Note 15); and
- Financial guarantees issued (Note 29).

No impairment loss is recognised on equity instruments.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

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

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

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

Significant increase in credit risk. If there are facts of a significant increase in credit risk since the initial recognition, the Group monitors all financial assets, loan commitments and financial guarantee contracts that are subject to impairment requirements. In the event of a significant increase in credit risk, the Group will assess the amount of the estimated reserve based on the amount of credit losses expected during the entire loan period, and not just the next 12 months. In relation to financial assets with a significant increase in credit risk, the term "Stage 2 assets" is used.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

Following formula is used to calculate ECL:

ECL = EAD * LGD * PD, where

ECL – expected credit loss;

EAD – exposure at default;

LGD – loss given default;

PD – probability of default.

Impairment of gold in deposits with foreign banks, cash on hand, due from banks and other financial institutions and investments in government (sovereign), municipal and agency debt

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

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

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

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

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

LGD vary from nil to 100% and are calculated based on market prices for non-default instruments using the following formula:

LGD =100% - RR

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

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

Impairment of securities of the Government of the Kyrgyz Republic

Indicator of significant increase in credit risk for securities of the Government of the Kyrgyz Republic is a decrease in the sovereign rating of the Kyrgyz Republic by 3 (three) or more levels in accordance with scale of an international rating agency within one year (in the last 12 months).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

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

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

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

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

Impairment of loans to banks and international organisations

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

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

Indicator of credit impairment of a loan issued at credit auctions for the purpose of refinancing and maintaining liquidity is the failure to fulfill contractual obligations for a period of more than 30 days without taking into account the officially granted period of deferment of payments.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

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

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

EAD – exposure at default;

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

Indicators of significant increase in credit risk for loans to customers and financial-credit organisations are:

- Delay in fulfillment of obligations for 30 days or more;
- At least one case of a delay of more than 60 days in the last 6 months, despite the number of overdue days less than 30 on the reporting date;
- Relative changes in 12-month PD. A significant change in a 12-month PD is considered to be a factor in changes in life time PD of the financial instrument. This indicates a significant increase in credit risk. This criterion is used when the Group has an internal credit rating system;
- Relative change in life time PD of a financial instrument. A significant change in the life time PD indicates a significant increase in credit risk. This criterion is used when the Group has an internal credit rating system;
- A significant increase in credit risk is considered for loans that have been included in Stage 3 at least once during the past 12 months;
- Loans in probation period. A significant increase in credit risk is considered when using an external borrowed loan or an external non-performing loan that is on probation (after the recovery period). Moreover, the loan should not have an overdue of more than 30 days or any signs of low probability of payment.

If none of the indicators of significant increase in credit risk is present, the transition from Stage 2 to Stage 1 is performed, with the exception of loans that are in the recovery period.

The Group considers the loan to be defaulted and, therefore, includes it to Stage 3 (credit impaired loans) for calculating ECL when the borrower has overdue of 90 days on his contractual payments.

The Group calculates ECL separately for individually significant loans of Stage 3. The Group combines loans for which ECL is not calculated on an individual basis into smaller homogeneous portfolios based on a combination of the following credit characteristics:

- Type of loan (e.g., corporate, mortgage, credit card, consumer loan, etc.);
- Type of customer (e.g., individual or legal, branch type);
- Collateral type (e.g., property, and deposits cash, etc.);
- Currency;
- Other characteristics.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

As part of a qualitative assessment of whether a customer is insolvent, the Group also considers various cases that may indicate a low probability of repayment. When such events occur, the Group carefully considers whether this event should lead to the fact that the client will be considered at default and, therefore, assessed as Stage 3 for ECL calculations, or whether Stage 2 is appropriate. Such events include:

- Litigation, execution or enforcement with the purpose of debt collection;
- Revocation of the borrower's license;
- Borrower is a related borrower and the main borrower is in default;
- Multiple restructuring for the same asset;
- Reasonable concerns about the ability of the borrower to generate stable and sufficient cash flows in the future;
- Debt service coverage ratio shows that debt is not sustainable;
- Loss of the main customer or tenant;
- Bankruptcy of the client;
- Restructuring as a result of deteriorating creditworthiness of the client;
- Credit institution or consortium leader begins the process of declaring bankruptcy/insolvency proceedings.

In accordance with the Group's policy, the loan is considered "recovered" and, therefore, is reclassified from Stage 3, if none of the indicators has been present for at least three consecutive months. The decision on whether to classify an asset into Stage 2 or Stage 1 after a recovery depends on the updated assessment of the client's creditworthiness during the recovery and whether this indicates a significant increase in credit risk compared with the initial recognition. The group's criterion for recovery for the purpose of calculating ECL is less stringent than the 12-month requirement for restructured non-performing assets.

The Group sometimes makes concessions or changes in the original terms of the loan in response to the financial difficulties of the borrower instead of selling the collateral available. The Group considers the loan restructuring or its modification in the event of financial difficulties of the borrower. The Group would not take these steps if the borrower was financially healthy. Indicators of financial difficulty include default or significant problems identified by the credit risk management department. The revision may include the renewal of payment arrangements and the negotiation of new loan conditions. After the terms have been renegotiated, any impairment is assessed using the original effective interest rate calculated before the terms change. The Group's policy is to monitor restructured loans to ensure that future payments continue to occur.

Decisions on derecognition and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

The group defines the recovery period as the 12-month post-restructuring period, which is used for restructured non-performing loans. Given the fact that it is impossible to identify financial difficulties immediately after the restructuring, it is necessary to use the "recovery" period to determine whether the loan was effectively improved. All overdue non-performing loans must remain in Stage 3 after the date of restructuring, despite the repayment of the loan (no overdue days, etc.).

The group defines a probationary period as the 24-month period after the "recovery" period that applies to restructured, at-risk (excluding any grace period) loans. Once an asset has been classified as at risk, it will remain the same for at least a 24-month probation period.

In order for a loan to be reclassified and recovered, the client must meet all the following criteria:

- All of its sources of cash flow generation should be regarded as working;
- Expiration of the minimum probationary period of two years from the date of restructuring;
- Regular timely payments for at least half of the probation period;
- The client has no delay in contractual obligations of more than 30 days.

PD represents the likelihood that a borrower will not fulfill his financial obligations during the next 12 months or during the remaining term.

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

Financial guarantee contracts.

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

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

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

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

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

Loan commitments at a below market rate.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment, continued

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

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

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

(iv) Impairment of non-financial assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property and equipment

(i) Owned assets

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

(ii) Depreciation

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

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

(i) Intangible assets

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

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

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

(j) Banknotes and coins in circulation

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Charter capital and reserves

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

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

(l) Taxation

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

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

The amount of income tax includes the amount of current tax and the amount of deferred tax. Income tax is recognised in profit or loss in full, with the exception of amounts related to transactions recorded in other comprehensive income, or to transactions with owners reflected directly in capital accounts, which are accordingly reflected in other comprehensive income or directly in the equity. Current income tax is calculated on the basis of the estimated taxable profit for the year, taking into account income tax rates in effect at the reporting date, as well as the amount of liabilities resulting from the adjustments of income tax amounts for previous reporting years. Deferred tax assets and deferred tax liabilities are not recognised in respect of the following temporary differences: differences arising from recognition of goodwill in the consolidated financial statements and that do not reduce the taxable base, and initial of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Also, deferred tax assets and deferred tax liabilities are not recognised for taxable temporary differences associated with investments in subsidiaries when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Taxation, continued

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

(m) Income and expense recognition

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

(i) Recognition of interest income and expenses before 1 January 2018

Interest income and expense are recognised in the statement of profit or loss as they accrue, using the effective interest method. The effective interest method is a method of calculating of the amortised cost of a financial asset or a financial liability and allocating of the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows.

Commissions for arranging loans, loan servicing fees and other fees, considered as an integral part of total loan profitability, as well as the related transaction costs are recorded as deferred income and amortised as interest income over the expected life of the financial instrument using the effective interest rate method.

(ii) Recognition of interest income and expenses after 1 January 2018

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Income and expense recognition, continued

(ii) Recognition of interest income and expenses after 1 January 2018, continued

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

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

(n) Fiduciary assets

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

(o) Offsetting

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

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

(p) Long-term assets held for sale

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Long-term assets held for sale, continued

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

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

4 ADOPTION OF NEW AND REVISED IFRSS

(a) While preparing the consolidated financial statements the Group adopted all new and revised IFRSs applicable to its operations and effective for annual periods beginning from 1 January 2018.

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

New and revised standards, amendments, and interpretations that are not yet effective as at 31 December 2018 have not been applied when preparing the given financial statements.

- IFRS 16	Leases
- IFRS 17	Insurance contracts
- Amendments to IFRS 9	Prepayment Features with Negative Compensation
- Amendments to IAS 28	Long-term interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
- Amendments to IAS 19	Plan Amendment Curtailment or Settlement
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or joint Venture
- Amendments to IFRS 3	Definition of business
- Amendments to IAS 1 and IAS 8	Definition of materiality
- IFRIC 23	Uncertainty over Income Tax Treatments

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

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES

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

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

Significant assumptions

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

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

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

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

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

Sources of uncertainty in the estimates

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

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

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

Fair value measurement. In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available (Note 34), the Group uses valuation models to determine the fair value of its financial instruments.

CONTENT

6 GOLD

	31 December 2018	31 December 2017
Gold		
Gold in deposits with foreign banks and bullions	32 151 881	19 936 798
	32 151 881	**19 936 798**

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

Concentration of gold in accounts with foreign banks

As at 31 December 2018 the National Bank placed gold in deposits with foreign banks with credit ratings of AA- and A + (31 December 2017: Gold in deposits with foreign banks with credit ratings of AA- and A +).

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

	31 December 2018	31 December 2017
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	23 790 991	19 483 569
- rated from A- to AA +	6 597 621	6 756 189
- rated from B- to BBB+	793 277	777 609
- not rated	30 780	-
Total nostro accounts with foreign banks included in cash equivalents	**31 212 669**	**27 017 367**
Impairment allowance	(5 547)	**-**
	31 207 122	**27 017 367**
Nostro accounts not included in cash equivalents	54 910	-
Impairment allowance	(52 745)	-
Total nostro accounts with foreign banks	**31 209 287**	**27 017 367**
Term deposits with foreign banks		
- rated from AA- to AA+	21 583 658	15 180 417
- rated from A- to A+	15 537 795	13 857 394
- not rated	269 932	266 027
Total term deposits with foreign banks	**37 391 385**	**29 303 838**
Impairment allowance	(272 625)	(266 027)
	37 118 760	**29 037 811**
Account at the International Monetary Fund (IMF)	9 551 340	11 657 336
Accounts with the Bank for International Settlements (BIS)		
- Nostro accounts with BIS	2 765 800	14 796 067
- Term deposit with BIS	2 526 706	3 262 933
Total accounts in the BIS and the IMF	**14 843 846**	**29 716 336**
Impairment allowance	(3)	-
	14 843 843	**29 716 336**
Cash on hand in foreign currencies	1 476 592	1 011 175
	84 648 482	**86 782 689**

As at 31 December 2018 and 2017 the National Bank created an allowance for an impaired term deposit with the foreign bank with no credit rating in the amount of KGS 269 932 thousand and KGS 266 027 thousand, respectively.

Concentration of due from banks and other financial institutions

As at 31 December 2018 the National Bank has balances with nine banks and other financial institutions rated from AAA to A- (2017: eight banks and other financial institutions rated from AAA to AA-) whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KGS 59 827 525 thousand (2017: KGS 44 973 079 thousand).

Movement in the impairment allowance is disclosed in Note 26.

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

Cash and cash equivalents

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

	31 December 2018	31 December 2017
Nostro accounts with international banks included in cash equivalents	31 212 669	27 017 367
Accounts with the IMF	9 551 340	11 657 336
Nostro accounts with the BIS	2 765 800	14 796 067
Cash on hand in foreign currencies	1 476 592	1 011 175
Cash and cash equivalents in the statement of cash flows	**45 006 401**	**54 481 945**

None of cash and cash equivalents are past due.

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS

	31 December 2018	31 December 2017
Loans to resident commercial banks	7 014 181	5 694 787
Loans to international organisations	2 250 704	1 950 682
	9 264 885	**7 645 469**
Impairment allowance	(127 963)	(125 572)
Loans issued net of impairment allowance	**9 136 922**	**7 519 897**

Movement in the impairment allowance is disclosed in Note 26.

Analysis of collateral

The following table provides information on collateral securing loans issued to resident commercial banks and international organisations by types of collateral as at 31 December 2018 and 2017, excluding the effect of overcollateralisation.

	31 December 2018	% of unimpaired loan portfolio	31 December 2017	% of unimpaired loan portfolio
Loans to customers	4 217 636	46	2 800 707	37
Deposits in foreign currencies	3 116 180	34	3 041 444	40
State securities	1 803 106	20	1 677 746	23
	9 136 922	**100**	**7 519 897**	**100**

CONTENT

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS (CONTINUED)

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

Concentration of loans extended

As at 31 December 2018 and 2017, the National Bank does not have loans issued to commercial banks whose balances exceed 10% of its own equity.

9 LOANS TO CUSTOMERS AND FINANCIAL-CREDIT ORGANISATIONS

Loans to customers and financial-credit organisations provided by OJSC Russian Investment Bank as at 31 December 2018 are as follows:

	31 December 2018
Loans and advances to corporate clients	1 530 635
Loans and advances to small and medium businesses	595 068
Mortgage loans	158 619
Consumer loans	78 399
Credits to microfinance organisations	15 404
	2 378 125
Impairment allowance	(1 088)
	2 377 037

Below is an analysis of the loan portfolio for pledged funds:

	31 December 2018
Loans secured by real estate	2 056 203
Loans secured by movable property	233 121
Loans secured by deposits and cash	33 343
Other collateral	16 689
Unsecured loans	37 681
Total loans to customers and financial-credit organisations	**2 377 037**

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

9 LOANS TO CUSTOMERS AND FINANCIAL-CREDIT ORGANISATIONS (CONTINUED)

	31 December 2018
Analysis by economy sector/type of customer:	
Trade	1 606 568
Construction	335 107
Real estate	161 652
Consumer sector	84 624
Manufacturing sector	63 010
Agriculture	19 599
Financial sector	15 404
Transport and communication	6 698
Other	84 375
Total loans to customers and financial-credit organisations	**2 377 037**

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

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

		31 December 2018			
		Nominal amount		Fair value	
	Average agreement rate	Receivables	Accounts payable	Assets	Liabilities
Financial assets and liabilities at fair value through profit or loss:					
Swaps	5.00%	445 568	457 636	1 254	13 322
Total financial assets and liabilities at fair value through profit or loss	**5.00%**	**445 568**	**457 636**	**1 254**	**13 322**

10 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Derivative financial instruments are foreign exchange swap contracts entered into by OJSC Russian Investment Bank with other commercial banks.

11 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (2017: INVESTMENTS AVAILABLE-FOR-SALE)

	31 December 2018	31 December 2017
Debt instruments		
Government securities		
Government of Canada Treasury bills	3 031 230	4 939 440
Government of Australia Treasury bills	2 705 764	8 825 030
Government of Great Britain Treasury bills	2 115 546	512 134
Government of the Republic of Korea Treasury bills	1 069 153	-
Government of the United States of America Treasury bills	348 651	3 444 476
Government of the Kyrgyz Republic Treasury bills	211 378	-
Government of the Russian Federation Treasury bills	70 654	70 571
Total government securities	**9 552 376**	**17 791 651**
Debt securities of international financial institutions	22 546 483	16 337 997
Debt instruments of agencies with credit ratings from AA to AAA	1 744 513	8 880 236
Total debt instruments	**33 843 372**	**43 009 884**

As at 31 December 2018 and 2017 investments measured at fair through other comprehensive income (2017: investments available-for-sale) are not past due.

12 INVESTMENTS AT AMORTISED COST (2017: INVESTMENTS HELD-TO-MATURITY)

	31 December 2018	31 December 2017
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	189 485	251 313
Impairment allowance	(3 061)	-
	186 424	**251 313**

CONTENT

13 PROPERTY AND EQUIPMENT

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2018	**632 585**	**312 215**	**868 576**	**75 045**	**349 398**	**2 237 819**
Acquisitions	69 653	16 783	33 096	-	30 152	149 684
As a result of acquisition of subsidiary	717 266	52 278	114 653	18 029	6 707	908 933
Disposals	(487)	(5 211)	(1 498)	(3 163)	(9)	(10 368)
Movements and transfers	12 331	15 383	2 088	-	(30 158)	(356)
Balance at 31 December 2018	**1 431 348**	**391 448**	**1 016 915**	**89 911**	**356 090**	**3 285 712**
Depreciation						
Balance at 1 January 2018	**(110 768)**	**(126 896)**	**(231 171)**	**(27 625)**	**-**	**(496 460)**
Depreciation for the year	(18 639)	(43 754)	(121 167)	(11 906)	-	(195 466)
Disposals	201	4 021	1 400	1 097	-	6 719
Balance at 31 December 2018	**(129 206)**	**(166 629)**	**(350 938)**	**(38 434)**	**-**	**(685 207)**
Carrying amount						
At 31 December 2018	**1 302 142**	**224 819**	**665 977**	**51 477**	**356 090**	**2 600 505**

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

During 2018 and 2017 there were no capitalised borrowing costs associated with the acquisition or construction of property and equipment.

As at 31 December 2018 fully depreciated assets in the amount of KGS 216 008 thousand were recorded in property and equipment (as at 31 December 2017 there were no fully depreciated assets).

13 PROPERTY AND EQUIPMENT (CONTINUED)

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2017	**613 359**	**268 715**	**365 032**	**74 078**	**861 754**	**2 182 938**
Acquisitions	6 766	27 891	30 361	10 208	97 404	172 630
Disposals	(3 704)	(1 177)	(6)	(9 241)	-	(14 128)
Movements and transfers	16 164	16 786	473 189	-	(609 760)	(103 621)
Balance at 31 December 2017	**632 585**	**312 215**	**868 576**	**75 045**	**349 398**	**2 237 819**
Depreciation						
Balance at 1 January 2017	**(103 431)**	**(92 632)**	**(151 650)**	**(26 182)**	**-**	**(373 895)**
Depreciation for the year	(10 851)	(35 421)	(79 526)	(9 263)	-	(135 061)
Disposals	3 514	1 157	5	7 820	-	12 496
Balance at 31 December 2017	**(110 768)**	**(126 896)**	**(231 171)**	**(27 625)**	**-**	**(496 460)**
Carrying amount	**521 817**	**185 319**	**637 405**	**47 420**	**349 398**	**1 741 359**

During 2017 property and equipment in the amount of KGS 103 621 thousand were transferred to intangible assets.

CONTENT

14 LONG-TERM ASSETS HELD FOR SALE

	31 December 2018
Non-residential premises	556 963
Houses	267 006
Apartments	56 471
Land	40 063
Equipment	32 612
Other	4 564
	957 679

Long-term assets held for sale consist of collaterals foreclosed by OJSC Russian Investment Bank as repayment of loans to customers and unused buildings of branches of OJSC Russian Investment Bank that have ceased to operate and it was decided to sell them.

As of the date of foreclosure, collateral is measured at the lower of the carrying amount of the outstanding loan receivable and the fair value of the collateral. The fair value of the long-term assets is determined using Level 3 data of the fair value hierarchy.

15 OTHER ASSETS

	31 December 2018	31 December 2017
Accounts receivable	417 956	302 440
Impairment allowance	(98 759)	(24 253)
Total other financial assets	**319 197**	**278 187**
Inventories	629 418	603 632
Non-monetary gold	322 367	446 658
Investments in subsidiaries and associates	185 136	185 079
Numismatic values	100 605	97 247
Prepayments	41 871	98 609
Other	32 124	9 322
Total other non-financial assets	**1 311 521**	**1 440 547**
	1 630 718	**1 718 734**

Movements in impairment allowance on other assets are disclosed in Note 26.

Non-monetary gold is comprised of gold bullions that are not in compliance with standards of London Bullion Market Association. Non-monetary gold is recognised as inventory and measured at the lower of cost and net realisable value and is not subject to revaluation.

16 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2018 and 2017 banknotes and coins in circulation comprise:

	31 December 2018	31 December 2017
Banknotes and coins in circulation	95 435 458	93 429 341
Less banknotes and coins on hand and in cash desk	(1 933 020)	(2 325 076)
	93 502 438	**91 104 265**

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

17 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Current accounts of commercial banks	15 838 962	18 089 870
Current accounts of other financial institutions	2 852 626	2 519 180
Loans under repurchase agreements	37 298	-
	18 728 886	**20 609 050**

As at 31 December 2018, three commercial banks and one financial institution have balances at the National Bank that exceed 10 percent of equity (in 2017: one bank). The total amount of these balances as at 31 December 2018 is KGS 10 561 757 thousand (in 2017: KGS 4 318 753 thousand).

18 DUE TO THE GOVERNMENT OF THE KYRGYZ REPUBLIC

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

	31 December 2018	31 December 2017
In national currency	11 296 232	8 120 502
In foreign currency	1 172 333	1 114 729
	12 468 565	**9 235 231**

19 CUSTOMER ACCOUNTS

Customer accounts of OJSC Russian Investment Bank as at 31 December 2018 are as follows:

	31 December 2018
Legal entities	
Current/Settlement accounts	399 582
Term deposits	102 517
Total accounts of legal entities	**502 099**
Individuals	
Current accounts	664 700
Term deposits	1 783 485
Total accounts of individuals	**2 448 185**
Total customer accounts	**2 950 284**

As at 31 December 2018 deposits from customers of OJSC Russian Investment Bank totaling KGS 131 136 thousand were held as security against letters of credit, guarantees and loans extended. The fair value of these deposits approximates their carrying value.

As at 31 December 2018, the total deposits of four largest customers of OJSC Russian Investment Bank (including related parties) amounted to KGS 403 353 thousand, or 14% of the total amount of customer accounts.

As at 31 December 2018, there is a limit in the amount of KGS 3 500 000 thousand on total deposits accepted from individuals and individual entrepreneurs.

20 DEBT SECURITIES ISSUED

As of 31 December 2018 and 2017, debt securities issued include securities with the following maturities and carrying amounts:

	31 December 2018	31 December 2017
Notes of the National Bank with a term of 91 days	5 359 690	2 233 637
Notes of the National Bank with a term of 182 days	1 555 746	-
Notes of the National Bank with a term of 28 days	765 098	949 883
Notes of the National Bank with a term of 14 days	261 775	1 253 928
Notes of the National Bank with a term of 7 days	-	774 820
	7 942 309	**5 212 268**

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

21 LOANS RECEIVED

As at 31 December 2018 and 2017 terms and conditions of loans received are as follows:

Issuer	CCY	Interest rate	Issue date	Maturity date	31 December 2018	31 December 2017
IMF, ESF (Exogenous Shocks Facility)	SDR	0%	24 December 2008	7 June 2019	161 268	815 564
IMF, PRGF (Poverty Reduction and Growth Facility)	SDR	0%	19 December 2001	31 May 2018	-	99 435
Accrued interest	USD				10 654	10 500
					171 922	**925 499**

Loan in relation to the Exogenous Shocks Facility (the “ESF”) is denominated in SDR and is given to support the Kyrgyz Republic authorities in addressing several exogenous shocks. The loan bears zero interest rate. As at 3 October 2016 IMF prolonged zero interest rate till the end of 2018. This condition was declared for all recipients of ESF credits around the globe.

Loan in relation to the Poverty Reduction and Growth Facility (the “PRGF”) are denominated in SDR and are given to support fiscal reforms and national currency. PRGF borrowings carry a zero interest rate and have a maturity of 10 years from the beginning of the facility. On 31 May 2018, the PRGF loan was fully repaid.

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

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

21 LOANS RECEIVED (CONTINUED)

	1 January 2017	Cash flow from financing activities (i)	Non-cash changes: Foreign currency exchange rate adjustment	Non-cash changes: Other changes (ii)	31 December 2017
Loans received	1 718 629	(875 082)	82 012	(60)	925 499
	1 718 629	**(875 082)**	**82 012**	**(60)**	**925 499**

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

(ii) Other changes include accruals and interest payments.

22 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS

	31 December 2018	31 December 2017
Liabilities to the IMF in respect of SDR allocations	8 222 162	8 311 236

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by the provision of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 32). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes the Kyrgyz Republic, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84 737 thousand. In 2018 and 2017 this right has not yet been utilised. Interest is accrued on the amount that a country uses. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

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

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

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

			Non-cash changes		
	1 January 2017	**Cash flow from financial activities (i)**	**Foreign currency exchange rate adjustment**	**Other changes (ii)**	**31 December 2017**
Liabilities to the IMF in respect of SDR allocations	7 863 988	-	439 886	7 362	8 311 236
	7 863 988	**-**	**439 886**	**7 362**	**8 311 236**

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

(ii) Other changes include accruals and interest payments.

23 OTHER LIABILITIES

	31 December 2018	31 December 2017
Accounts payable	112 348	87 049
Total other financial liabilities	**112 348**	**87 049**
Provision for contingent liabilities	301 618	-
Other	81 117	10 037
Total other non-financial liabilities	**382 735**	**10 037**
	495 083	**97 086**

24 CHARTER CAPITAL

Paid-in capital

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

Distribution to the state budget and obligatory reserve

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

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

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

On 14 March 2018 the net profit earned for 2017 in the amount of KGS 2 300 849 thousand and distributable to the state budget of the Kyrgyz Republic in the amount of KGS 2 070 764 (2017: KGS 2 643 996 thousand) thousand was approved. These amounts are excluded from the cash flow statement due to the fact that these amounts were recorded as an increase in funds of the Government of the Kyrgyz Republic. KGS 230 085 thousand (2017: KGS 1 133 141 thousand) was transferred to the obligatory reserve.

24 CHARTER CAPITAL (CONTINUED)

Capital management

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

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

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

25 NET INTEREST INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income		
Term deposits in foreign banks and international financial institutions	783 998	554 703
Nostro accounts with foreign banks and international financial institutions	618 851	384 452
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	669 823	413 587
Loans to banks and international organisations	447 737	431 776
Loans to customers and financial-credit organisations	62 248	-
Investments at amortised cost (2017: Investments held-to-maturity)	15 387	19 269
Other	5 440	5 008
	2 603 484	**1 808 795**
Interest expense		
Debt securities issued	(351 184)	(109 966)
Liabilities to the IMF in respect of SDR allocations	(76 870)	(42 954)
Customer accounts	(59 442)	-
Other assets discount recognition	(49 319)	(44 734)
Due to banks and other financial institutions	(11 022)	(16 642)
Other	(8 482)	(6 268)
	(556 319)	**(220 564)**
	2 047 165	**1 588 231**

During the year 2018 the total interest income calculated using the EIR method for financial assets at FVTOCI is KGS 1 288 674 thousand (in 2017 for financial assets available-for-sale: KGS 798 039 thousand) and for financial assets measured at amortised cost is KGS 1 314 810 thousand (in 2017 for financial assets held-to-maturity: KGS 1 010 756 thousand). During the year 2018 the total interest expense calculated using the EIR method for financial liabilities at amortised cost is KGS 556 319 thousand (in 2017: KGS 220 564 thousand).

26 IMPAIRMENT ALLOWANCE

	Cash on hand, banks and other financial institutions (Notes 3, 7)			Loans to banks and international organizations (Notes 3, 8)		Loans to customers and financial-credit organizations (Note 9)		Investments at fair value through other comprehensive income (2017: Investments available-for-sale) (Note 3)		Investments at amortised cost (2017: Investments held-to-maturity) (Notes 3, 12)	Other assets (Notes 3, 15)		Contingent liabilities (Note 29)	
	Stage 1	Stage 2	Stage 3, POCI	Stage 1	Stage 3	Stage 1	Stage 3, POCI	Stage 1	Stage 2	Stage 1	Stage 1	Stage 3, POCI	Stage 1	Total
Impairment allowance as at 1 January 2018	**6 809**	**2 191**	**266 027**	**-**	**125 572**	**-**	**-**	**35**	**230**	**3 965**	**341**	**24 253**	**-**	**429 423**
Changes in the amount		-				-	-	-	-				-	
- Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	(3 316)	(59)	(237)	548	-	1 088	(49 804)	(7)	(2 560)	(904)	334	20 232	(175)	(34 860)
Write-off of assets through impairment allowance	-	-	-	-	-	-	-	-	-	-	-	(4 884)	-	(4 884)
New financial assets originated or purchased	-	38	-	-	-	-	-	-	-	-	-	-	-	38
Derecognised financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in exchange rates and other changes	2 580	-	56 887	-	1 843	-	49 804	-	2 552	-	-	58 483	1 793	173 942
Impairment allowance as at 31 December 2018	**6 073**	**2 170**	**322 677**	**548**	**127 415**	**1 088**	**-**	**28**	**222**	**3 061**	**675**	**98 084**	**1 618**	**563 659**

CONTENT

26 IMPAIRMENT ALLOWANCE (CONTINUED)

Impairment charge for the year ended 31 December 2018 in the consolidated statement of profit or loss also included loss resulting from business combination, which is equal to the difference between the loan debt and the fair value of the net assets of OJSC Russian Investment Bank in the amount of KGS 179 395 thousand (Note 1). Thus, the total amount of impairment losses on assets included in the consolidated statement of profit or loss for the year ended 31 December 2018 was KGS 144 573 thousand.

	Cash on hand, due from banks and other financial institutions (Note 7)	Loans to banks and international organizations (Note 8)	Loans to customers and financial-credit organizations (Note 9)	Investments available-for-sale (Note 11)	Investments held-to-maturity (Note 12)	Other assets (Note 15)	Total
31 December 2016	**267 536**	**284 498**	**-**	**-**	**-**	**8 443**	**560 477**
Provision charge/ (recovery) of provision	-	(71)	-	-	-	15 795	15 724
Write-off of assets through impairment allowance	-	(158 443)	-	-	-	-	(158 443)
Effect of exchange rate differences	(1 509)	(412)	-	-	-	15	(1 906)
31 December 2017	**266 027**	**125 572**	**-**	**-**	**-**	**24 253**	**415 852**

27 NET REALISED GAIN ON FOREIGN CURRENCIES AND GOLD OPERATIONS

	Year ended 31 December 2018	Year ended 31 December 2017
Realised gain from operations with foreign currencies and gold	1 464 455	1 694 160
Income from spot transactions	135 798	166 587
	1 600 253	**1 860 747**

28 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Personnel expenses		
Employee compensation	503 288	442 498
Payments to the Social fund	86 938	76 947
	590 226	**519 445**
Depreciation and amortisation	235 665	161 539
Repairs and maintenance	154 115	134 727
Security	46 683	36 574
Communications and information services	24 919	23 570
Rent expenses	20 528	-
Publication and subscription	14 796	9 584
Professional services	14 571	15 512
Business trip expenses	12 681	10 233
Expenses for social events	10 939	9 466
Staff training	8 520	7 781
Office supplies and stationery	4 144	3 526
Other	23 069	15 641
	1 160 856	**947 598**

29 CONTINGENT LIABILITIES

(a) Tax legislation and legal proceedings

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

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

As at 31 December 2018, there was uncertainty about the tax liability of OJSC Russian Investment Bank in the amount of KGS 1 444 668 thousand. In February 2019 based on repeated complaint of OJSC Russian Investment Bank field audit was conducted by the tax authorities for the period from 1 January 2014 till 31 December 2014. Consequently the tax liability was decreased and was equal to KGS 28 959 thousand.

29 CONTINGENT LIABILITIES (CONTINUED)

(a) Tax and legal proceedings, continued

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

(b) Credit commitments, guarantees and other financial contracts

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

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

	31 December 2018
Loan and credit line commitments	90 262
Guarantees	85 112
Reserve on financial guarantees	(1 618)
Total credit commitments	**173 756**

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

	12 months ECL
Impairment allowance as at 2 October 2018	**1 793**
Net recalculation of the allowance	(175)
Effect of exchange differences	-
Impairment allowance as at 31 December 2018	**1 618**

(c) Operating lease obligations – OJSC Russian Investment Bank as lessee

In the course of its current activities, OJSC Russian Investment Bank leases office and other equipment for the head office and branches.

29 CONTINGENT LIABILITIES (CONTINUED)

(c) Operating lease obligations – OJSC Russian Investment Bank as lessee, continued

Below are the minimum amounts of future rental payments for non-cancellable operating leases:

	31 December 2018
Less than 1 year	40 767
1 to 5 years	166 094
More than 5 years	157 983
Total operating lease obligations	**364 844**

(d) Capital commitments

As at 31 December 2018 and 31 December 2017, the National Bank and its subsidiaries had no liabilities on capital expenditures.

(e) Insurance

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

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

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

30 INCOME TAX BENEFIT

In accordance with the legislation of the Kyrgyz Republic, the National Bank is exempt from income tax. Subsidiaries are subject to taxation.

	31 December 2018
Current tax expense	-
Change in deferred tax assets/liabilities due to occurrence and reversal of temporary differences	11 163
Total income tax benefit	**11 163**

Calculation of the effective tax rate for the year ended 31 December 2018:

	31 December 2018
Profit before income tax	2 214 546
Tax at the statutory tax rate (10%)	221 455
Non-taxable income from operations of the National Bank	(213 579)
Other permanent differences	3 287
Total income tax benefit	**11 163**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The change in the amount of temporary differences from 2 October 2018 (the date of receipt of control over the subsidiary) till 31 December 2018 can be represented as follows:

	2 October 2018	Reflected in profit or loss	31 December 2018
Cash on hand, due from banks and other financial institutions	5 527	(223)	5 304
Long-term assets held for sale	26 584	6 328	32 912
Other assets	6 608	(6 217)	391
Other liabilities	1 452	(309)	1 143
Loans to customers and financial-credit organisations	(6 851)	14 896	8 045
Total deferred tax assets	**33 320**	**14 475**	**47 795**
Property and equipment	(25 875)	(3 312)	(29 187)
Total deferred tax liability	**(25 875)**	**(3 312)**	**(29 187)**
Total net deferred tax assets	**7 445**	**11 163**	**18 608**

31 RISK MANAGEMENT

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

(a) Risk management policies and procedures

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

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

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

In accordance with Investment Strategy on International Reserve Management of the National Bank ("the Investment Strategy") approved by the Board on 21 December 2016, the main goals of risk management are safety and liquidity of the assets and profitability growth of the Group. Operations are conducted within the limitations imposed by this strategy.

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

(b) Market risk

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

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

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

(i) Interest rate risk

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

Average interest rates

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

31 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(i) Interest rate risk, continued

	Weighted average effective interest rate, % 31 December 2018	Weighted average effective interest rate, % 31 December 2017
Interest bearing assets		
Gold		
Gold in accounts with foreign banks	0,07	0,10
Due from banks and other financial institutions		
Nostro accounts		
- USD	2,45	1,44
- EUR	(0,41)	(0,40)
- CAD	1,47	0,60
- AUD	0,25	0,25
- GBP	0,34	0,10
-CNH	0,35	0,35
- NOK	0,63	0,10
Term deposits		
- USD	2,84	1,61
- CAD	1,91	1,10
- GBP	1,03	0,48
- AUD	2,20	1,61
- RUB	4,75	5,90
- CNH	3,62	3,67
- NOK	0,97	0,52
- SGD	1,44	0,58
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)		
- USD	2,46	1,49
- AUD	1,81	1,84
- CAD	1,91	1,04
- GBP	0,63	0,24
- KRW	1,72	-
- KGS	16,66	-
Loans to banks and international organisations		
- KGS	4,83	4,97
Loans to customers and financial-credit organisations		
- KGS	13,94	-
- USD	6,85	-
- RUB	14,00	-
- EUR	14,50	-
Investments at amortised cost (2017: Investments held-to-maturity)		
- KGS	6,35	6,35

31 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(i) Interest rate risk, continued

	Weighted average effective interest rate, % 31 December 2018	Weighted average effective interest rate, % 31 December 2017
Interest bearing liabilities		
Customer accounts		
- KGS	12,97	-
- USD	3,95	-
- RUB	5,37	-
- EUR	0,79	-
Debt securities issued		
- KGS	3,54	4,35
Liabilities to the IMF in respect of SDR allocations	1,10	0,74

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2018		31 December 2017	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
20 bp parallel rise	-	(2 002)	-	(16 451)
20 bp parallel fall	-	19 166	-	6 743

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

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

CONTENT

31 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk

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

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

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

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2018
Financial assets												
Gold in deposits	-	7 423 265	-	-	-	-	-	-	-	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	-	-	48 309 223	3 531 212	4 681 352	2 280 177	9 551 338	2 110 904	726 892	9 423 271	4 034 113	84 648 482
Loans to banks and international organisations	9 136 922	-	-	-	-	-	-	-	-	-	-	9 136 922
Loans to customers and financial-credit organisations	889 526	-	1 471 754	1 120	-	-	-	-	-	-	14 637	2 377 037
Financial assets at fair value through profit or loss	1 125	-	-	129	-	-	-	-	-	-	-	1 254
Investments at fair value through other comprehensive income	211 378	-	23 576 315	-	3 031 230	3 839 750	-	-	2 115 546	-	1 069 153	33 843 372
Investments at amortised cost	186 424	-	-	-	-	-	-	-	-	-	-	186 424
Other financial assets	315 633	-	831	5	-	-	-	-	-	-	2 728	319 197
Total financial assets	**10 741 008**	**7 423 265**	**73 358 123**	**3 532 466**	**7 712 582**	**6 119 927**	**9 551 338**	**2 110 904**	**2 842 438**	**9 423 271**	**5 120 631**	**137 935 953**

31 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2018
Financial liabilities												
Banknotes and coins in circulation	93 502 438	-	-	-	-	-	-	-	-	-	-	93 502 438
Financial liabilities at fair value through profit or loss	-	-	13 322	-	-	-	-	-	-	-	-	13 322
Due to banks and other financial institutions	14 041 749	-	4 676 115	10 006	-	-	-	-	-	-	1 016	18 728 886
Due to the Government of the Kyrgyz Republic	11 296 232	-	50 521	949 941	-	-	-	-	-	-	171 871	12 468 565
Customer accounts	1 803 577	-	950 391	135 739	-	-	-	-	538	5	60 034	2 950 284
Debt securities issued	7 942 309	-	-	-	-	-	-	-	-	-	-	7 942 309
Loans received	-	-	10 654	-	-	-	161 268	-	-	-	-	171 922
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 222 162	-	-	-	-	8 222 162
Other financial liabilities	85 688	-	21 964	1 211	-	-	-	-	-	-	3 485	112 348
Total financial liabilities	**128 671 993**	**-**	**5 722 967**	**1 096 897**	**-**	**-**	**8 383 430**	**-**	**538**	**5**	**236 406**	**144 112 236**
Net balance sheet position	**(117 930 985)**	**7 423 265**	**67 635 156**	**2 435 569**	**7 712 582**	**6 119 927**	**1 167 908**	**2 110 904**	**2 841 900**	**9 423 266**	**4 884 225**	**(6 176 283)**

CONTENT

31 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

The Group's exposure to foreign currency exchange rate risk by currencies as at 31 December 2017 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2017
Financial assets												
Gold in deposits	-	7 415 975	-	-	-	-	-	-	-	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	-	-	52 705 932	2 239 213	1 581 391	1 733 339	11 657 336	2 195 964	2 162 941	9 659 657	2 846 916	86 782 689
Loans to banks and international organisations	7 519 897	-	-	-	-	-	-	-	-	-	-	7 519 897
Investments available-for-sale	-	-	28 361 123	-	4 939 440	8 825 030	-	-	884 291	-	-	43 009 884
Investments held-to-maturity	251 313	-	-	-	-	-	-	-	-	-	-	251 313
Other financial assets	278 187											278 187
Total financial assets	**8 049 397**	**7 415 975**	**81 067 055**	**2 239 213**	**6 520 831**	**10 558 369**	**11 657 336**	**2 195 964**	**3 047 232**	**9 659 657**	**2 846 916**	**145 257 945**

31 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2017
Financial liabilities												
Banknotes and coins in circulation	91 104 265	-	-	-	-	-	-	-	-	-	-	91 104 265
Due to banks and other financial institutions	14 416 114	-	6 182 612	10 324	-	-	-	-	-	-	-	20 609 050
Due to the Government of the Kyrgyz Republic	8 120 502	-	109 197	930 899	-	-	-	-	-	-	74 633	9 235 231
Debt securities issued	5 212 268	-	-	-	-	-	-	-	-	-	-	5 212 268
Loans received	-	-	10 500	-	-	-	914 999	-	-	-	-	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 311 236	-	-	-	-	8 311 236
Other financial liabilities	70 777	-	15 843	429	-	-	-	-	-	-	-	87 049
Total financial liabilities	**118 923 926**	**-**	**6 318 152**	**941 652**	**-**	**-**	**9 226 235**	**-**	**-**	**-**	**74 633**	**135 484 598**
Net balance sheet position	**(110 874 529)**	**7 415 975**	**74 748 903**	**1 297 561**	**6 520 831**	**10 558 369**	**2 431 101**	**2 195 964**	**3 047 232**	**9 659 657**	**2 772 283**	**9 773 347**

31 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

Depreciation of KGS, as indicated in the table below, against following currencies as at 31 December 2018 and 2017 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the Group's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the Group for preparation of report on currency risk for the key management of the Group. The analysis implies that all other variables, especially interest rates, are constant.

	31 December 2018		31 December 2017	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of USD against KGS	-	6 763 516	-	7 474 890
10% appreciation of CNH against KGS	-	942 327	-	965 966
10% appreciation of CAD against KGS	-	771 258	-	652 083
10% appreciation of AUD against KGS	-	611 993	-	1 055 837
10% appreciation of GBP against KGS	-	284 190	-	304 723
10% appreciation of EUR against KGS	-	243 557	-	129 756
10% appreciation of NOK against KGS	-	211 090	-	219 596

Appreciation of the KGS against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Limitations of sensitivity analysis

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

31 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

Limitations of sensitivity analysis, continued

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

(iii) Other price risk

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

As at 31 December 2018 and 2017 the Group was exposed to price risk of gold in accounts with foreign banks.

An increase or decrease in prices in KGS equivalent of gold, as indicated below, at 31 December 2018 and 2017 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on gold pricing movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

	31 December 2018		31 December 2017	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of gold prices in KGS equivalent	-	742 327	-	741 598
10% depreciation of gold prices in KGS equivalent	-	(742 327)	-	(741 598)

(c) Credit risk

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

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

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

Category A

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

Category B

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

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

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

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

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

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

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

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

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

	31 December 2018	31 December 2017
ASSETS		
Gold in deposits	7 423 265	7 415 975
Cash on hand, due from banks and other financial institutions*	83 171 890	85 771 514
Loans to banks and international organisations	9 136 922	7 519 897
Loans to customers and financial-credit organisations	2 377 037	-
Financial assets at fair value through profit or loss	1 254	-
Investments at fair value through other comprehensive income, except for investments in equity (2017: Investments available-for-sale)	33 843 372	43 009 884
Investments at amortised cost (2017: Investments held-to-maturity)	186 424	251 313
Other financial assets	319 197	278 187
Total maximum exposure	**136 459 361**	**144 246 770**

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

Internal credit risk ratings

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

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

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Cash on hand, due from banks and other financial institutions					
Credit rating 1-3: Low or moderate risk	83 729 785	-	-	-	83 729 785
Credit rating 4-6: Watch	-	926 940	-	-	926 940
Credit rating 10: Impaired	-	-	269 932	52 745	322 677
Total gross carrying amount	**83 729 785**	**926 940**	**269 932**	**52 745**	**84 979 402**
Impairment allowance	(6 073)	(2 170)	(269 932)	(52 745)	(330 920)
Carrying amount	**83 723 712**	**924 770**	**-**	**-**	**84 648 482**

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

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Loans to customers and financial-credit organisations					
Credit rating 4-6: Watch	770 281	-	-	-	770 281
Credit rating 7-8: Substandard	-	511 360	-	-	511 360
Credit rating 9: Doubtful	-	-	-	1 096 484	1 096 484
Total gross carrying amount	**770 281**	**511 360**	**-**	**1 096 484**	**2 378 125**
Impairment allowance	(1 088)	-	-	-	(1 088)
Carrying amount	**769 193**	**511 360**	**-**	**1 096 484**	**2 377 037**

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Investments at fair value through other comprehensive income					
Credit rating 1-3: Low or moderate risk	33 561 367	282 255	-	-	33 843 622
Total gross carrying amount	**33 561 367**	**282 255**	**-**	**-**	**33 843 622**
Impairment allowance	(28)	(222)	-	-	(250)
Carrying amount	**33 561 339**	**282 033**	**-**		**33 843 372**

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

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Other financial assets					
Credit rating 1-3: Low or moderate risk	319 872	-	-	-	319 872
Credit rating 10: Impaired	-	-	18 834	79 250	98 084
Total gross carrying amount	**319 872**	**-**	**18 834**	**79 250**	**417 956**
Impairment allowance	(675)	-	(18 834)	(79 250)	(98 759)
Carrying amount	**319 197**	**-**	**-**	**-**	**319 197**

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

	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Cash on hand, due from banks and other financial institutions					
Gross carrying amount as at 1 January 2018	**85 975 712**	**806 977**	**266 027**	**-**	**87 048 716**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Change due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	618 413 306	19 974 082	-	-	638 387 388
Financial assets that have been derecognised	(619 958 444)	(19 585 092)	-	-	(639 543 536)
Other changes	(700 789)	(269 027)	3 905	52 745	(913 166)
Gross carrying amount as at 31 December 2018	**83 729 785**	**926 940**	**269 932**	**52 745**	**84 979 402**
Impairment allowance as at 31 December 2018	**(6 073)**	**(2 170)**	**(269 932)**	**(52 745)**	**(330 920)**

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Loans to banks and international organisations					
Gross carrying amount as at 1 January 2018	**6 795 889**	**724 008**	**125 572**	**-**	**7 645 469**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	(538 321)	538 321	-	-
- Change due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	3 326 244	-	454 288	-	3 780 532
Financial assets that have been derecognised	(984 663)	-	-	-	(984 663)
Write-off	-	(185 687)	(990 766)	-	(1 176 453)
Gross carrying amount as at 31 December 2018	**9 137 470**	**-**	**127 415**	**-**	**9 264 885**
Impairment allowance as at 31 December 2018	**(548)**	**-**	**(127 415)**	**-**	**(127 963)**

	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Loans to customers and financial-credit organisations					
Gross carrying amount as at 1 January 2018	**-**	**-**	**-**	**-**	**-**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Change due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	770 281	511 360	-	1 096 484	2 378 125
Financial assets that have been derecognised	-	-	-	-	-
Write-off	-	-	-	-	-
Gross carrying amount as at 31 December 2018	**770 281**	**511 360**	**-**	**1 096 484**	**2 378 125**
Impairment allowance as at 31 December 2018	**(1 088)**	**-**	**-**	**-**	**(1 088)**

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Investments at fair value through other comprehensive income					
Gross carrying amount as at 1 January 2018	**42 939 313**	**70 571**	**-**	**-**	**43 009 884**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Change due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	174 642 941	211 378	-	-	174 854 319
Financial assets that have been derecognised	(183 671 251)	(600)	-	-	(183 671 851)
Other changes	(349 636)	906	-	-	(348 730)
Gross carrying amount as at 31 December 2018	**33 561 367**	**282 255**	**-**	**-**	**33 843 622**
Impairment allowance as at 31 December 2018	**(28)**	**(222)**	**-**	**-**	**(250)**

	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Investments at amortised cost					
Gross carrying amount as at 1 January 2018	**251 313**	**-**	**-**	**-**	**251 313**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Change due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognised	(61 828)	-	-	-	(61 828)
Other changes	-	-	-	-	-
Gross carrying amount as at 31 December 2018	**189 485**	**-**	**-**	**-**	**189 485**
Impairment allowance as at 31 December 2018	**(3 061)**	**-**	**-**	**-**	**(3 061)**

31 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Other financial assets					
Gross carrying amount as at 1 January 2018	**278 187**	**-**	**24 253**	**-**	**302 440**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Change due to modifications that did not result in derecognition	-	-	(478)	-	(478)
New financial assets originated or purchased	21 579	-	-	79 250	100 829
Financial assets that have been derecognised	-	-	-	-	-
Write-off	-	-	(4 884)	-	(4 884)
Other changes	20 106	-	(57)	-	20 049
Gross carrying amount as at 31 December 2018	**319 872**	**-**	**18 834**	**79 250**	**417 956**
Impairment allowance as at 31 December 2018	**(675)**	**-**	**(18 834)**	**(79 250)**	**(98 759)**

(d) Geographical concentrations

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

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

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2018 Total
Financial assets					
Gold in deposits	-	7 423 265	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	1 476 592	49 256 606	19 071 441	14 843 843	84 648 482
Loans to banks and international organisations	9 136 922	-	-	-	9 136 922
Loans to customers and financial-credit organisations	2 360 803	-	16 234	-	2 377 037
Financial assets at fair value through profit or loss	1 125	-	129	-	1 254
Investments at fair value through other comprehensive income	211 378	11 014 857	70 654	22 546 483	33 843 372
Investments at amortised cost	186 424	-	-	-	186 424
Other financial assets	313 766	-	5 431	-	319 197
Total financial assets	**13 687 010**	**67 694 728**	**19 163 889**	**37 390 326**	**137 935 953**

CONTENT

31 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations, continued

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2018 Total
Financial liabilities					
Banknotes and coins in circulation	93 502 438	-	-	-	93 502 438
Financial liabilities at fair value through profit or loss	13 322	-	-	-	13 322
Due to banks and other financial institutions	18 300 209	-	294 612	134 065	18 728 886
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	12 468 565
Customer accounts	2 444 648	161 678	343 958	-	2 950 284
Debt securities issued	7 942 309	-	-	-	7 942 309
Loans received	10 654	-	-	161 268	171 922
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 222 162	8 222 162
Other financial liabilities	92 669	3 240	16 439	-	112 348
Total financial liabilities	**134 774 814**	**164 918**	**655 009**	**8 517 495**	**144 112 236**
Net balance sheet position	**(121 087 804)**	**67 529 810**	**18 508 880**	**28 872 831**	**(6 176 283)**

CONTENT

31 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations, continued

The following table shows the geographical concentration of assets and liabilities at 31 December 2017:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2017 Total
Financial assets					
Gold in deposits	-	7 415 975	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	1 011 175	46 272 397	9 782 780	29 716 337	86 782 689
Loans to banks and international organisations	7 519 897	-	-	-	7 519 897
Investments available-for-sale	-	26 601 316	70 571	16 337 997	43 009 884
Investments held-to-maturity	251 313	-	-	-	251 313
Other financial assets	278 187	-	-	-	278 187
Total financial assets	**9 060 572**	**80 289 688**	**9 853 351**	**46 054 334**	**145 257 945**
Financial liabilities					
Banknotes and coins in circulation	91 104 265	-	-	-	91 104 265
Due to banks and other financial institutions	20 405 881	-	128 290	74 879	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	9 235 231
Debt securities issued	5 212 268	-	-	-	5 212 268
Loans received	10 500	-	-	914 999	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 311 236	8 311 236
Other financial liabilities	70 314	648	16 087	-	87 049
Total financial liabilities	**126 038 459**	**648**	**144 377**	**9 301 114**	**135 484 598**
Net balance sheet position	**(116 977 887)**	**80 289 040**	**9 708 974**	**36 753 220**	**9 773 347**

31 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

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

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

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

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

The liquidity management policy requires:

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

CONTENT

31 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	Carrying amount 31 December 2018
Non-derivative financial liabilities							
Due to banks and other financial institutions	18 728 886	-	-	-	-	18 728 886	18 728 886
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	-	12 468 565	12 468 565
Customer accounts	1 176 475	177 994	359 235	63 240	1 462 419	3 239 363	2 950 284
Debt securities issued	3 044 037	3 833 800	1 120 250	-	-	7 998 087	7 942 309
Loans received	10 654	-	161 268	174	-	172 096	171 922
Liabilities to the IMF in respect of SDR allocations	8 207 439	14 723	-	-	-	8 222 162	8 222 162
Other financial liabilities	61 865	3 679	152	30 327	16 325	112 348	112 348
Total financial liabilities	**43 697 921**	**4 030 196**	**1 640 905**	**93 741**	**1 478 744**	**50 941 507**	**50 596 476**

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	Carrying amount 31 December 2017
Non-derivative financial liabilities							
Due to banks and other financial institutions	20 609 050	-	-	-	-	20 609 050	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	-	9 235 231	9 235 231
Debt securities issued	3 840 000	1 390 000	-	-	-	5 230 000	5 212 268
Loans received	10 500	-	425 661	326 225	163 288	925 674	925 499
Liabilities to the IMF in respect of SDR allocations	8 301 310	9 926	-	-	-	8 311 236	8 311 236
Other financial liabilities	41 934	1 737	1 123	24 677	17 578	87 049	87 049
Total financial liabilities	**42 038 025**	**1 401 663**	**426 784**	**350 902**	**180 866**	**44 398 240**	**44 380 333**

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

31 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2018
FINANCIAL ASSETS							
Gold in deposits	4 020 298	3 402 967	-	-	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	50 244 140	15 275 681	19 128 661	-	-	-	84 648 482
Loans to banks and international organisations	305 915	2 772 427	6 057 628	452	500	-	9 136 922
Loans to customers and financial-credit organisations	381 878	53 917	270 556	1 539 660	131 026	-	2 377 037
Financial assets at fair value through profit or loss	1 254	-	-	-	-	-	1 254
Investments at fair value through other comprehensive income	19 012 079	10 508 453	4 122 202	111 258	89 380	-	33 843 372
Investments at amortised cost	-	-	60 008	126 416	-	-	186 424
Other financial assets	48 255	3 985	18 168	97 457	151 332	-	319 197
	74 013 819	**32 017 430**	**29 657 223**	**1 875 243**	**372 238**	**-**	**137 935 953**

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2018
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	93 502 438	93 502 438
Financial liabilities at fair value through profit or loss	2 539	5 188	5 595	-	-	-	13 322
Due to banks and other financial institutions	18 728 886	-	-	-	-	-	18 728 886
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	-	-	12 468 565
Customer accounts	1 250 657	168 262	359 490	1 171 875	-	-	2 950 284
Debt securities issued	3 038 940	3 804 945	1 098 424	-	-	-	7 942 309
Loans received	10 654	-	161 268	-	-	-	171 922
Liabilities to the IMF in respect of SDR allocations	8 207 439	14 723	-	-	-	-	8 222 162
Other financial liabilities	61 865	3 679	30 479	16 325	-	-	112 348
	43 769 545	**3 996 797**	**1 655 256**	**1 188 200**	**-**	**93 502 438**	**144 112 236**
Net position	**30 244 274**	**28 020 633**	**28 001 967**	**687 043**	**372 238**	**(93 502 438)**	**(6 176 283)**

CONTENT

31 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2017
FINANCIAL ASSETS							
Gold in deposits	4 292 129	3 123 846	-	-	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	56 067 441	10 998 023	19 717 225	-	-	-	86 782 689
Loans to banks and international organisations	212 393	2 594 221	4 711 336	1 947	-	-	7 519 897
Investments available-for-sale	26 748 341	10 188 573	6 002 399	70 571	-	-	43 009 884
Investments held-to-maturity	-	-	62 720	188 593	-	-	251 313
Other financial assets	24 989	4 488	15 714	86 235	146 761	-	278 187
	87 345 293	**26 909 151**	**30 509 394**	**347 346**	**146 761**	**-**	**145 257 945**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	91 104 265	91 104 265
Due to banks and other financial institutions	20 609 050	-	-	-	-	-	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	-	-	9 235 231
Debt securities issued	3 835 831	1 376 437	-	-	-	-	5 212 268
Loans received	10 500	-	751 886	163 113	-	-	925 499
Liabilities to the IMF in respect of SDR allocations	8 301 310	9 926	-	-	-	-	8 311 236
Other financial liabilities	41 934	1 737	25 800	17 578	-	-	87 049
	42 033 856	**1 388 100**	**777 686**	**180 691**	**-**	**91 104 265**	**135 484 598**
Net position	**45 311 437**	**25 521 051**	**29 731 708**	**166 655**	**146 761**	**(91 104 265)**	**9 773 347**

32 AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992 the Kyrgyz Republic joined the International Monetary Fund ("the IMF"). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2018 and 2017 the quota of the Kyrgyz Republic amounted to SDR 177 600 thousand.

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

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

	31 December 2018	31 December 2017
IMF membership quota	**17 253 271**	**17 487 372**
Securities for benefit of the IMF	(17 201 127)	(17 434 520)
Current accounts of the IMF	(41 638)	(46 510)
	(17 242 765)	**(17 481 030)**

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

On 27 December 2017 IMF provided a loan amounting to SDR 19 028 thousand for supporting the state budget. This loan is not accounted in the statement of financial position of the National Bank as a liability to the IMF as there is an agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank under which the Ministry of Finance of the Kyrgyz Republic is liable for rendering obligations under this loan agreement. As at 31 December 2018 the outstanding balance of this loan amounted to KGS 11 457 600 thousand (2017: KGS 12 862 400 thousand).

33 RELATED PARTY TRANSACTIONS

(a) Control relationships

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

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

(b) Transactions with the members of the Management Board

The remuneration to the members of the National Bank’s Management Board for the years ended 31 December 2018 and 2017 comprised KGS 21 472 thousand and KGS 21 100 thousand, respectively. The remuneration consists of salary and other payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2018 and 2017 comprised KGS 27 295 and KGS 24 948 thousand, respectively. The loans are in KGS and repayable by 2032. Interest income from loans to the Management Board for the years ended 31 December 2018 and 2017 comprised KGS 388 thousand and KGS 489 thousand respectively.

The total remuneration of the members of the Management Board and the Board of Directors of OJSC Russian Investment Bank for the period from 2 October to 31 December 2018 is KGS 5 200 thousand. The remuneration includes salary and all payments. The balance on deposits of members of the Management Board and Board of Directors of OJSC Russian Investment Bank as at 31 December 2018 amounted to KGS 467 thousand.

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

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with other related parties

Below is a table with balances on transactions with related parties as of 31 December 2018:

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

The corresponding profit and loss on transactions with other related parties for the year ended 31 December 2018 was

	Unconsolidated subsidiaries	Associates	Year ended 31 December 2018 Total
Consolidated statement of profit or loss			
Other income	1 048	8 459	9 507
Other expenses	689	-	689

Below is a table with balances on operations with related as at 31 December 2017:

	Subsidiaries	Associates	31 December 2017 Total
Consolidated statement of financial position			
Investments in subsidiaries and associates	62 000	123 079	185 079

The corresponding income from transactions with other related parties for the year ended 31 December 2017 was:

	Subsidiaries	Associates	Year ended 31 December 2017 Total
Consolidated statement of profit or loss			
Other income	1 515	336	1 851

34 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(a) Accounting classifications and fair values

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

	Measured at amortised cost	At fair value through other comprehensive income	Other, measured fair value through profit or loss	31 December 2018 Total carrying amount	31 December 2018 Fair value
Gold deposits	7 423 265	-	-	7 423 265	7 423 265
Cash on hand, due from banks and other financial institutions	41 154 966	43 493 516	-	84 648 482	84 648 482
Loans to banks and international organisations	9 136 922	-	-	9 136 922	9 136 922
Loans to customers and financial-credit organisations	2 377 037	-	-	2 377 037	2 452 715
Financial assets at fair value through profit or loss	-	-	1 254	1 254	1 254
Investments at fair value through other comprehensive income	-	33 843 372	-	33 843 372	33 843 372
Investments at amortised cost	186 424	-	-	186 424	186 424
Other financial assets	319 197	-	-	319 197	319 197
	60 597 811	**77 336 888**	**1 254**	**137 935 953**	**138 011 631**
Banknotes and coins in circulation	93 502 438	-	-	93 502 438	93 502 438
Financial liabilities at fair value through profit or loss	-	-	13 322	13 322	13 322
Due to banks and other financial institutions	18 728 886	-	-	18 728 886	18 728 886
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	12 468 565	12 468 565
Customer accounts	2 950 284	-	-	2 950 284	2 940 949
Debt securities issued	7 942 309	-	-	7 942 309	7 942 309
Loans received	171 922	-	-	171 922	171 922
Liabilities to the IMF in respect of SDR allocations	8 222 162	-	-	8 222 162	8 222 162
Other financial liabilities	112 348	-	-	112 348	112 348
	144 098 914	**-**	**13 322**	**144 112 236**	**144 102 901**

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

(a) Accounting classifications and fair values, continued

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

	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortied cost	Total carrying amount 31 December 2017	Fair value 31 December 2017
Gold deposits	-	7 415 975	-	-	7 415 975	7 415 975
Cash on hand, due from banks and other financial institutions	-	86 782 689	-	-	86 782 689	86 782 689
Loans to banks and international organisations	-	7 519 897	-	-	7 519 897	7 519 897
Investments available-for-sale	-	-	43 009 884	-	43 009 884	43 009 884
Investments held-to-maturity	251 313	-	-	-	251 313	251 313
Other financial assets	-	278 187	-	-	278 187	278 187
	251 313	**101 996 748**	**43 009 884**	**-**	**145 257 945**	**145 257 945**
Banknotes and coins in circulation	-	-	-	91 104 265	91 104 265	91 104 265
Due to banks and other financial institutions	-	-	-	20 609 050	20 609 050	20 609 050
Due to the Government of the Kyrgyz Republic	-	-	-	9 235 231	9 235 231	9 235 231
Debt securities issued	-	-	-	5 212 268	5 212 268	5 212 268
Loans received	-	-	-	925 499	925 499	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 311 236	8 311 236	8 311 236
Other financial liabilities	-	-	-	87 049	87 049	87 049
	-	**-**	**-**	**135 484 598**	**135 484 598**	**135 484 598**

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

(a) Accounting classifications and fair values, continued

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

(b) Fair value hierarchy

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

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

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

	Level 1	Level 2	Level 3	31 December 2018 Total
Investments at fair value through other comprehensive income	33 631 994	211 378	-	33 843 372
Financial assets at fair value through profit or loss	-	1 254	-	1 254
Financial liabilities at fair value through profit or loss	-	13 322	-	13 322

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

(b) Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2017 Total
Investments available-for-sale	43 009 884	-	-	43 009 884

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

	Level 1	Level 2	Level 3	31 December 2018 Total
Gold deposits	7 423 265	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	-	84 648 482	-	84 648 482
Loans to banks and international organisations	-	9 136 922	-	9 136 922
Loans to customers and financial-credit organisations	-	-	2 377 037	2 377 037
Investments at amortised cost	-	186 424	-	186 424
Other financial assets	-	319 197	-	319 197
Banknotes and coins in circulation	-	93 502 438	-	93 502 438
Due to banks and other financial institutions	-	18 728 886	-	18 728 886
Due to the Government of the Kyrgyz Republic	-	12 468 565	-	12 468 565
Customer accounts	-	-	2 950 284	2 950 284
Debt securities issued	-	7 942 309	-	7 942 309
Loans received	-	171 922	-	171 922
Liabilities to the IMF in respect of SDR allocations	-	8 222 162	-	8 222 162
Other financial liabilities	-	112 348	-	112 348

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

(b) Fair value hierarchy, continued

The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2017 Total
Gold deposits	7 415 975	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	-	86 782 689	-	86 782 689
Loans to banks and international organisations	-	7 519 897	-	7 519 897
Investments held-to-maturity	-	251 313	-	251 313
Other financial assets	-	278 187	-	278 187
Banknotes and coins in circulation	-	91 104 265	-	91 104 265
Due to banks and other financial institutions	-	20 609 050	-	20 609 050
Due to the Government of the Kyrgyz Republic	-	9 235 231	-	9 235 231
Debt securities issued	-	5 212 268	-	5 212 268
Loans received	-	925 499	-	925 499
Liabilities to the IMF in respect of SDR allocations	-	8 311 236	-	8 311 236
Other financial liabilities	-	87 049	-	87 049

35 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2018 and 2017 the Group did not have financial assets and financial liabilities in the statement of financial position which were presented in net amount or would have been offset due to presence of the master netting arrangements or similar agreements.

36 SUBSEQUENT EVENTS

On 17 January 2019 the National Bank made a payment in the amount of KGS 216 574 thousand for the additional issue of 2 165 744 shares of OJSC Russian Investment Bank. Thus, taking into account the cash paid in 2018, participation in the additionally issued capital comprised of KGS 716 574 thousand, increasing the share of ownership of the National Bank to 85,21%. The deal was registered in the trading system of CSJC Kyrgyz Stock Exchange on 18 January 2019.чемпионат испании

CHAPTER 8. SEPARATE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the separate financial statements of the National Bank of the Kyrgyz Republic ("the National Bank"), which comprise the separate statement of financial position as at 31 December 2018, separate statement of profit or loss, separate statement of other comprehensive income, separate statement of cash flows and separate statement of changes in equity for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the National Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with financial reporting principles disclosed in Note 2 of the separate financial statements.

Basis for Opinion

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

Emphasis of matter

As discussed in Note 1 to the separate financial statements, the National Bank obtained a controlling interest in a commercial bank as a result of Compensation Agreement with its shareholders. The National Bank's accounting policy requires investments in subsidiaries to be accounted at cost less impairment loss, if any. Management have assessed the cost less impairment based on available information, including unobservable data, which is subject to inherent uncertainty. Our opinion is not qualified in respect of this matter.

We draw your attention to the Note 2 to the separate financial statements, which describes that the National Bank also prepares consolidated financial statements of the National Bank and its subsidiaries in accordance with financial reporting principles disclosed in Note 2 of the separate financial statements. The separate financial statements should be read in conjunction with the consolidated financial statements, which were authorised for issue by the National Bank's management on
2 April 2019. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of the National Bank for the year of 2018, but does not include the separate financial statements and our auditor's report thereon.

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

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

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

Other Matter

The financial statements of the National Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 14 March 2018.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of the National Bank.
- 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 ex-

ists related to events or conditions that may cast significant doubt on the National Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report provided that future events or conditions will not cause the National Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Kanyshai Sadyrbekova

Managing Director
LLC Deloitte & Touche

State license on auditing
in the Kyrgyz Republic
№0001, type GK
given by the Ministry of Justice
of the Kyrgyz Republic
dated 4 July 2002

Nurlan Bekenov

Engagement Partner

2 April 2019
Bishkek, the Kyrgyz Republic

Separate statement of financial position as at 31 december 2018

(in thousands of Soms)

	Notes	31 December 2018	31 December 2017
ASSETS			
Gold	6	32 151 881	19 936 798
Cash on hand, due from banks and other financial institutions	7	84 603 175	86 782 689
Loans to banks and international organisations	8	9 879 434	7 519 897
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	9	33 631 994	43 009 884
Investments at amortised cost (2017: Investments held-to-maturity)	10	186 424	251 313
Property and equipment	11	1 707 324	1 741 359
Intangible assets		130 970	148 836
Other assets	12	2 124 696	1 718 734
Total assets		**164 415 898**	**161 109 510**
LIABILITIES			
Banknotes and coins in circulation	13	93 566 134	91 104 265
Due to banks and other financial institutions	14	18 701 777	20 609 050
Due to the Government of the Kyrgyz Republic	15	12 468 565	9 235 231
Debt securities issued	16	7 992 272	5 212 268
Loans received	17	171 922	925 499
Liabilities to the IMF in respect of SDR allocations	18	8 222 162	8 311 236
Other liabilities		79 800	97 086
Total liabilities		**141 202 632**	**135 494 635**
EQUITY			
Charter capital	19	2 000 000	2 000 000
Obligatory reserve		7 266 168	7 036 083
Revaluation reserve for foreign currency and gold		11 838 087	14 284 368
Revaluation reserve for investments at fair value through other comprehensive income (2017: Revaluation reserve for investments available-for-sale)		5 075	(6 425)
Retained earnings		2 103 936	2 300 849
Total equity		**23 213 266**	**25 614 875**
Total liabilities and equity		**164 415 898**	**161 109 510**

Abdygulov T.S.
Chairman of the National Bank

2 April 2019

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

2 April 2019

Bishkek,
Kyrgyz Republic

Separate statement of profit or loss for the year ended 31 december 2018

(in thousands of Soms)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	20	2 545 768	1 808 795
Interest expense	20	(496 840)	(220 564)
Net interest income	20	**2 048 928**	**1 588 231**
Commission income		66 845	62 494
Commission expense		(9 575)	(7 175)
Net commission income		**57 270**	**55 319**
Impairment losses	21	(324 215)	(15 724)
Net realised gain on foreign currencies and gold operations	22	1 594 233	1 860 747
Other income		134 717	270 344
Net non-interest income		**1 404 735**	**2 115 367**
Operating income		**3 510 933**	**3 758 917**
Expenses on production of banknotes and coins, issued into circulation		(232 173)	(308 008)
Administrative expenses	23	(1 021 552)	(947 598)
Other expenses		(121 418)	(202 462)
Operating expenses		**(1 375 143)**	**(1 458 068)**
Profit for the year		**2 135 790**	**2 300 849**

Abdygulov T.S.
Chairman of the National Bank

2 April 2019

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

2 April 2019

Bishkek,
Kyrgyz Republic

Separate statement of other comprehensive income for the year ended 31 december 2018

(in thousands of Soms)

	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the year	**2 135 790**	**2 300 849**
Items that may be reclassified subsequently to statement of profit or loss		
Revaluation reserve for foreign currency and gold:		
- net (loss)/gain on revaluation of assets and liabilities in foreign currency and gold	(985 120)	3 476 149
- net gain on foreign currency and gold transferred to profit or loss	(1 461 161)	(1 694 160)
Net gain/(loss) on investments at fair value through other comprehensive income (2017: Investments available-for-sale)	11 500	(2 418)
Other comprehensive (loss)/income for the year	**(2 434 781)**	**1 779 571**
Total comprehensive (loss)/income for the year	**(298 991)**	**4 080 420**

Abdygulov T.S.
Chairman of the National Bank

2 April 2019

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

2 April 2019

Bishkek,
Kyrgyz Republic

Separate statement of cash flows for the year ended 31 december 2018

(in thousands of Soms)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission received		2 648 918	1 289 552
Interest and fee and commission paid		(425 270)	(175 630)
Realised gain on foreign exchange operations		95 555	62 218
Other income		94 065	269 244
Payroll expenses		(552 440)	(528 708)
Expenses on production of banknotes and coins, issued into circulation		(165 022)	(324 094)
Administrative expenses, excluding payroll expenses		(337 820)	(459 702)
Cash flows from operating activities before changes in operating assets and liabilities		**1 357 986**	**132 880**
(Increase)/decrease in operating assets			
Gold		(11 843 852)	(6 051 933)
Due from banks and other financial institutions		(7 672 637)	9 232 838
Loans to banks and international organisations		(2 814 825)	(7 364 977)
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)		8 956 291	(106 821)
Other assets		70 337	(253 978)
Increase/(decrease) in operating liabilities			
Banknotes and coins in circulation		2 461 868	16 265 465
Due to banks and other financial institutions		(1 969 045)	(5 084 688)
Due to the Government of the Kyrgyz Republic		1 116 630	(1 722 130)
Debt securities issued		2 754 330	(31 180)
Other liabilities		956	(17 727)
Net cash (outflow)/inflow from operating activities		**(7 581 961)**	**4 997 749**

Separate statement of cash flows (continued) for the year ended 31 december 2018

(in thousands of Soms)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of shares in subsidiary		(500 000)	-
Purchase of property, equipment and intangible assets		(161 408)	(185 788)
Proceeds on disposal of property, equipment		1 000	-
Proceeds on redemption of investments at amortised cost (2017: Investments held-to-maturity)		64 353	64 352
Interest received on investments at amortised cost (2017: Investments held-to-maturity)		12 870	16 140
Dividends received		8 807	1 184
Net cash used in investing activities		**(574 378)**	**(104 112)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans received		(742 956)	(875 082)
Net cash used in financing activities		**(742 956)**	**(875 082)**
Net increase in cash and cash equivalents		**(8 899 295)**	**4 018 555**
Effect of changes in exchange rates on cash and cash equivalents		(619 429)	1 319 383
Cash and cash equivalents as at the beginning of the year		54 481 945	49 144 007
Cash and cash equivalents as at the end of the year (Note 7)		**44 963 221**	**54 481 945**

Abdygulov T.S.
Chairman of the National Bank

2 April 2019

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

2 April 2019

Bishkek,
Kyrgyz Republic

Separate statement of changes in equity for the year ended 31 december 2018

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments available-for-sale	Retained earnings	Total
Balance as at 1 January 2017	1 000 000	6 902 942	12 502 379	(4 007)	3 777 137	24 178 451
Profit for the year	-	-	-	-	2 300 849	2 300 849
Other comprehensive income						
Net loss on investments available-for-sale	-	-	-	(2 418)	-	(2 418)
Gain on revaluation of assets and liabilities in foreign currencies and gold	-	-	3 476 149	-	-	3 476 149
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 694 160)	-	-	(1 694 160)
Total other comprehensive financial result	-	-	1 781 989	(2 418)	-	1 779 571
Total comprehensive financial result for the year	**-**	**-**	**1 781 989**	**(2 418)**	**2 300 849**	**4 080 420**
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget	-	-	-	-	(2 643 996)	(2 643 996)
Transfer to charter capital	1 000 000	(1 000 000)	-	-	-	-
Transfer to obligatory reserve	-	1 133 141	-	-	(1 133 141)	-
Total amount of transactions recorded directly to equity	**1 000 000**	**133 141**	**-**	**-**	**(3 777 137)**	**(2 643 996)**
Balance as at 31 December 2017	2 000 000	**7 036 083**	**14 284 368**	**(6 425)**	**2 300 849**	**25 614 875**

Separate statement of changes in equity (continued) for the year ended 31 december 2018

(in thousands of Soms)

	Charter capital	Obligatory reserve	Revaluation reserve for foreign currency and gold	Revaluation reserve for investments at fair value through other comprehensive income	Retained earnings	Total
Balance as at 1 January 2018	2 000 000	7 036 083	14 284 368	(6 425)	2 300 849	25 614 875
Impact of adopting IFRS 9	-	-	-	-	(31 854)	(31 854)
As restated	**2 000 000**	**7 036 083**	**14 284 368**	**(6 425)**	**2 268 995**	**25 583 021**
Total comprehensive income						
Profit for the year	-	-	-	-	2 135 790	2 135 790
Other comprehensive income						
Net gain on investments at fair value through other comprehensive income	-	-	-	11 500	-	11 500
Loss on revaluation of assets and liabilities in foreign currencies and gold	-	-	(985 120)	-	-	(985 120)
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 461 161)	-	-	(1 461 161)
Total other comprehensive financial result	-	-	(2 446 281)	11 500	-	(2 434 781)
Total comprehensive financial result for the year	**-**	**-**	**(2 446 281)**	**11 500**	**2 135 790**	**(298 991)**
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget	-	-	-	-	(2 070 764)	(2 070 764)
Transfer to obligatory reserve	-	230 085	-	-	(230 085)	-
Total amounts of transactions recorded directly to equity	**-**	**230 085**	**-**	**-**	**(2 300 849)**	**(2 070 764)**
Balance as at 31 December 2018	**2 000 000**	**7 266 168**	**11 838 087**	**5 075**	**2 103 936**	**23 213 266**

Abdygulov T.S.
Chairman of the National Bank

2 April 2019

Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

2 April 2019

Bishkek,
Kyrgyz Republic

CONTENT

Notes to the separate financial statements for the year ended 31 december 2018
(in thousands of Soms)

1 GENERAL INFORMATION

(a) Organisation and operations

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

The primary role of the National Bank is ensuring price stability in Kyrgyz Republic. To accomplish the main goal, the functions of the National Bank are the following: determine and carry out monetary policy of the country; promote effective development of the settlement and interbank payment system; issue banknotes and coins for circulation; manage international foreign currency reserves; regulate and supervise commercial banks; license banking and activities of some financial institutions according to the legislation; and act as an agent of the Government of the Kyrgyz Republic.

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

As at 31 December 2018 and 2017 the National Bank has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2018 and 2017 the total number of the National Bank's employees is 657 and 664, respectively.

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

	Percentage of voting shares (%)		
Title	**31 December 2018**	**31 December 2017**	**Type of activity**
OJSC Russian Investment Bank	71,66	-	Banking services
CJSC Kyrgyz Cash Collection	100	100	Transportation of valuables

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

Also, the National Bank has an investment in associated company CJSC Interbank Processing Center.

These separate financial statements were authorised for issue by the Management Board of the National Bank on 2 April 2019.

1 GENERAL INFORMATION (CONTINUED)

(b) Business environment

In recent years, the Kyrgyz Republic has undergone significant political, economic and social changes. As an emergency market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. In addition, the economy of the Kyrgyz Republic is subject to influence of the still unstable situation on capital markets. These separate financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the National Bank's separate financial statements in the period when or if they become known and estimable.

2 MAIN FINANCIAL REPORTING PRINCIPLES

(a) Statement of compliance with IFRS

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

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

These separate financial statements are separate financial statements of the National Bank - the parent company of the Group. Subsidiaries are not consolidated in these separate financial statements. Investments in subsidiaries are carried at cost less any impairment.

The National Bank also prepares consolidated financial statements of the National Bank and its subsidiaries. These separate financial statements should be read in conjunction with the consolidated financial statements, which were approved for issue by the Management Board of the National Bank on 2 April 2019.

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

2 MAIN FINANCIAL REPORTING PRINCIPLES (CONTINUED)

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

In these separate financial statements for the year ended 31 December 2018, the same accounting policies, presentation and calculation methods were used as in the preparation of the National Bank's financial statements for the year ended 31 December 2017, except for the accounting policies and the impact of the application of the following new and revised standards and interpretations:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)
Amendments to IAS 40	Transfers of Investment Property
Amendments to other IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle
IFRIC 22	Foreign Currency Transactions and Advance Consideration

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

Impact of initial application of IFRS 9 Financial Instruments. In the current year, the National Bank has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow National Bank not to restate comparatives. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to be accounted for in the opening retained earnings at the beginning of the period. Additionally, the National Bank adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The table below represents the impact of adopting IFRS 9 standard on the impairment allowance and reconciliation of the amount of opening balances of the estimated amounts of the impairment allowances of financial assets, accrued in accordance with IAS 39 with the impairment allowance in accordance with IFRS 9.

	IAS 39 as at 31 December 2017	Additional allowance for expected credit losses	IFRS 9 as at 1 January 2018
Impairment allowance			
Nostro accounts with foreign banks	-	(5 689)	(5 689)
Term deposits in foreign banks	(266 027)	(3 311)	(269 338)
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	-	(265)	(265)
Loans to banks and international organisations	(125 572)	(18 283)	(143 855)
Investments at amortised cost (2017: Investments held-to-maturity)	-	(3 965)	(3 965)
Other financial assets	(24 253)	(341)	(24 594)
Total	**(415 852)**	**(31 854)**	**(447 706)**

The following table shows the classification and assessment of the impact of the application of IFRS 9 on the separate statement of financial position and retained earnings, including the effect of replacing the incurred credit loss model in accordance with IAS 39 with expected credit losses in accordance with IFRS 9. Additional allowance for expected credit losses is the change in the carrying value of financial assets and liabilities due to changes in their valuation. The reconciliation of the carrying amount between IAS 39 and IFRS 9 as at 1 January 2018 is as follows:

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#	Financial assets	Initial classification category in accordance with IAS 39	New classification category in accordance with IFRS 9	Initial carrying amount in accordance with IAS 39 as at 31 December 2017	Additional allowance for expected credit losses	New carrying amount in accordance with IFRS 9
1	Nostro accounts with foreign banks, the International Monetary Fund and the Bank for International Settlements	Loans and receivables	Fair value through other comprehensive income	53 470 770	(5 689)	53 465 081
2	Term deposits in foreign banks and in the Bank for International Settlements	Loans and receivables	Amortised cost	32 300 744	(3 311)	32 297 433
3	Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	Investments available-for-sale	Fair value through other comprehensive income	43 009 884	(265)	43 009 619
4	Loans to banks and international organisations	Loans and receivables	Amortised cost	7 519 897	(18 283)	7 501 614
5	Investments at amortised cost (2017: Investments held-to-maturity)	Held-to-maturity investments	Amortised cost	251 313	(3 965)	247 348
6	Other financial assets	Loans and receivables	Amortised cost	278 187	(341)	277 846
	Total			**136 830 795**	**(31 854)**	**136 798 941**

IFRS 15 Revenue from Contracts with Customers. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The application of IFRS 15 has not had a significant impact on the separate financial statements of the National Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IAS 40 Transfers of Investment Property. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The application of the amendments to IAS 40 did not have a significant impact on the separate financial statements of the National Bank.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The application of IFRIC 22 did not have a significant impact on the separate financial statements of the National Bank.

(a) Gold

Gold comprises gold on deposits with foreign banks and gold bullions with a good delivery status. Gold in the separate financial statements is measured at market price which is determined by reference to the London Bullion Market Association fixings at the day preceding the reporting date. Gain on revaluation of gold is recognised in other comprehensive income in equity. Loss resulting from revaluation is recognised in the statement of profit or loss in the amount exceeding any previously accumulated gains on accounts of other comprehensive income in equity. Realised gain and loss on gold is recognised in the separate statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency transactions

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

Exchange rates

The exchange rates used by the National Bank in the preparation of the separate financial statements as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
- Som/US Dollar	69,8500	68,8395
- Som/Euro	80,0446	82,5936
- Som/Special drawing rights	96,8578	97,9656
- Som/Canadian Dollar	51,3226	55,0152
- Som/Australian Dollar	49,2512	53,8477
- Som/Great British Pound Sterling	88,3742	93,1320
- Som/Chinese Renminbi	10,1489	10,5900
- Som/Norwegian Krone	7,9915	8,3854
- Som/troy ounce of gold	89 338,15	89 250,41

(c) Cash and cash equivalents

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments

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

(i) Classification and measurement of financial instruments before 1 January 2018

Financial assets were classified into the following categories: measured at fair value through profit or loss; held-to-maturity; available-for-sale; as well as loans and receivables. The assignment of financial assets to a particular class depended on their characteristics and acquisition objectives and occurred at the time of their recognition.

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

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

The National Bank might designate financial assets and liabilities at fair value through profit or loss where either:

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

Financial assets at fair value through profit or loss category were recorded at fair value with a revaluation in profit or loss. The National Bank continues to record these instruments at fair value through profit or loss upon application of IFRS 9.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments, continued

(i) Classification and measurement of financial instruments before 1 January 2018

Loans to banks and international organisations, other receivables with fixed or determinable payments that were not quoted in an active market, due from banks and other financial assets were classified as Loans and receivables. Loans and receivables were carried at amortised cost using the effective interest method, less any impairment. Interest income was recognised by applying the effective interest rate, except for short-term receivables, for which interest income was negligible. The National Bank continues to record these instruments at amortised cost upon application of IFRS 9.

Investments held-to-maturity were non-derivative financial assets with fixed or determinable payments and fixed maturity that the National Bank had positive intention and ability to hold to maturity, other than those that:

- the National Bank upon initial recognition designated as at fair value through profit or loss;
- the National Bank designated as available-for-sale or,
- met the definition of loans and receivables.

Financial assets in the category of investments held-to-maturity were accounted at amortized cost using the effective interest method, less impairment. Interest income is recognized by applying an effective interest rate. The National Bank continues to record these instruments at amortized cost after applying IFRS 9.

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

All financial liabilities, with the exception of financial liabilities of the category of fair value through profit or loss and financial liabilities arising when the transfer of a financial asset at fair value did not meet the criteria for derecognition, were measured at amortised cost.

(ii) Classification and measurement of financial instruments after 1 January 2018

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities;

2. Impairment of financial assets; and

3. General hedge accounting.

Details of these new requirements as well as their impact on the separate financial statements of the National Bank are described in respective sections below.

CONTENT

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments, continued

(ii) Classification and measurement of financial instruments after 1 January 2018, continued

After 1 January 2018, upon application of IFRS 9, all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

In particular:

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

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

Financial assets measured at amortised cost include the following assets:

- Gold in deposits with foreign banks (Note 6);
- Term deposits in foreign banks, term deposits in international financial institutions and cash on hand in foreign currencies (Note 7);
- Loans to banks and international organisations (Note 8);
- Securities of the Government of the Kyrgyz Republic, including Government Treasury Bills and Bonds (Note 10); and
- Accounts receivable (Note 12).

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments, continued

(ii) Classification and measurement of financial instruments after 1 January 2018, continued

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

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

All other debt instruments (for example, debt instruments measured at fair value or held for sale) and investments in equity instruments, after initial recognition, are measured at fair value through profit or loss.

However, the National Bank makes the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

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

Debt instruments that, after initial recognition, are measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

After initial measurement, amortised cost financial assets are measured using the effective interest rate method, less any impairment losses. The fair value of FVTOCI and FVTPL financial assets is determined under IFRS 13, Fair Value Measurement (“IFRS 13”). The fair value gains or losses for FVTPL are recognised in the statement of profit or loss and for FVTOCI are recognised in the other comprehensive income, until these instruments are disposed of, when accumulated profits or losses previously reflected in equity are transferred to profit or loss.

Interest income on an available-for-sale financial asset is recognised when it accrues in profit or loss using the effective interest method.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments, continued

(iii) Derecognition

The National Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the National Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the National Bank is recognised as a separate asset or liability in the separate statement of financial position. The National Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the National Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them, the transferred assets are not derecognised. In transactions where the National Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the National Bank 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 assets.

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

The National Bank writes off assets deemed to be uncollectible.

The National Bank derecognises financial liabilities only if they are repaid, canceled, or expired. The difference between the carrying amount of a financial liability, the recognition of which is terminated, and compensation paid or payable is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments, continued

(iii) Derecognition, continued

The exchange of debt instruments with significantly different conditions between the National Bank and the borrower is taken into account as the repayment of the initial financial liability and the recognition of a new financial liability. The National Bank takes into account a significant change in the conditions of an existing financial liability or part of it as repayment of the original financial liability and recognition of a new financial liability. The National Bank assumes that the terms of liabilities differ significantly if the discounted present value of cash flows in accordance with the new conditions, including payments of commissions minus received commissions, discounted at the original effective interest rate, differs by at least 10% from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not material, then the difference between: (1) the carrying amount of the obligation prior to the modification; and (2) the present value of the cash flows after the modification should be recognised in profit or loss as income or expense from the modification as part of other income and expenses.

(e) Impairment

(i) Impairment of financial assets before 1 January 2018

<u>Financial assets carried at amortised cost</u> consist principally of loans and receivables and financial assets held-to-maturity. The National Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that a financial asset or a group of assets is impaired include observable information on following events that result in loss: significant financial difficulties of the issuer or borrower, breach of conditions of agreement such as default or delinquency of principal or accrued interest, restructuring of a loan or advance on terms that the National Bank would not otherwise consider, indications that it is probable that the borrower will enter bankruptcy or other form of reorganisation, other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment, continued

(i) Impairment of financial assets before 1 January 2018, continued

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018

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

- Gold in deposits with foreign banks (Note 6);
- Cash on hand, due from banks and other financial institutions (Note 7);
- Loans to banks and international organisations (Note 8);
- Investments at fair value through other comprehensive income (Note 9);
- Investments at amortised cost (Note 10);
- Other financial assets (Note 12).

No impairment loss is recognised on equity instruments.

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

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

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

Significant increase in credit risk. If there are facts of a significant increase in credit risk since the initial recognition, the National Bank monitors all financial assets, loan commitments and financial guarantee contracts that are subject to impairment requirements. In the event of a significant increase in credit risk, the National Bank will assess the amount of the estimated reserve based on the amount of credit losses expected during the entire loan period, and not just the next 12 months. In relation to financial assets with a significant increase in credit risk, the term “Stage 2 assets” is used.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

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

Following formula is used to calculate ECL:

ECL = EAD * LGD * PD, where

ECL – expected credit loss;

EAD – exposure at default;

LGD – loss given default;

PD – probability of default

Impairment of gold in deposits with foreign banks, cash on hand, due from banks and other financial institutions and investments in government (sovereign), municipal and agency debt

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

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

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

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

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

LGD vary from nil to 100% and are calculated based on market prices for non-default instruments using the following formula:

LGD =100% - RR

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

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

Impairment of securities of the Government of the Kyrgyz Republic

Indicator of significant increase in credit risk for securities of the Government of the Kyrgyz Republic is a decrease in the sovereign rating of the Kyrgyz Republic by 3 (three) or more levels in accordance with scale of an international rating agency within one year (in the last 12 months).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

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

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

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

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

Impairment of loans to banks and international organisations

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

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

Indicator of credit impairment of a loan issued at credit auctions for the purpose of refinancing and maintaining liquidity is the failure to fulfill contractual obligations for a period of more than 30 days without taking into account the officially granted period of deferment of payments.

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

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

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

EAD – exposure at default;

$\mathrm{Collateral}_i$ – value of a certain type of collateral;

$\mathrm{Disc\_factor}_i$ – discount rate corresponding to a specific type of collateral.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment, continued

(ii) Impairment of financial assets after 1 January 2018, continued

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

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

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

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

(iv) Impairment of non-financial assets

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

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

(f) Property and equipment

(i) Owned assets

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

CONTENT

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property and equipment, continued

(ii) Depreciation

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

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

(g) Intangible assets

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

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

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

(h) Banknotes and coins in circulation

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

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

(i) Charter capital and reserves

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Charter capital and reserves, continued

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

(j) Taxation

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

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

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

(k) Income and expense recognition

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

(i) Recognition of interest income and expenses before 1 January 2018

Interest income and expense are recognised in the statement of profit or loss as they accrue, using the effective interest method. The effective interest method is a method of calculating of the amortised cost of a financial asset or a financial liability and allocating of the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Income and expense recognition, continued

(ii) Recognition of interest income and expenses after 1 January 2018

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

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

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

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

(l) Fiduciary assets

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

(m) Offsetting

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Investments in subsidiaries and associates

Investments in subsidiaries are carried at cost less impairment losses.

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

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

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

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

4 Adoption of new and revised IFRSs

When preparing the separate financial statements the National Bank adopted all new and revised IFRSs applicable to its operations and effective for annual periods beginning from 1 January 2018.

New and revised standards in issue but not yet effective

New and revised standards, amendments, and interpretations that are not yet effective as at 31 December 2018 have not been applied when preparing the given separate financial statements.

- IFRS 16	Leases
- IFRS 17	Insurance contracts
- Amendments to IFRS 9	Prepayment Features with Negative Compensation
- Amendments to IAS 28	Long-term interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
- Amendments to IAS 19	Plan Amendment Curtailment or Settlement
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or joint Venture
- Amendments to IFRS 3	Definition of business
- Amendments to IAS 1 and IAS 8	Definition of materiality
- IFRIC 23	Uncertainty over Income Tax Treatments

4 ADOPTION OF NEW AND REVISED IFRSS (CONTINUED)

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

5 SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ESTIMATES

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

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

Significant assumptions

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

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

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

CONTENT

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

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

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

Sources of uncertainty in the estimates

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

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

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

Fair value measurement. In estimating the fair value of a financial asset or a liability, the National Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available (Note 28), the National Bank uses valuation models to determine the fair value of its financial instruments.

6 GOLD

	31 December 2018	31 December 2017
Gold		
Gold in deposits with foreign banks and bullions	32 151 881	19 936 798
	32 151 881	**19 936 798**

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

Concentration of gold in accounts with foreign banks

As at 31 December 2018 the National Bank placed gold in deposits with foreign banks with credit ratings of AA- and A + (31 December 2017: Gold in deposits with foreign banks with credit ratings of AA- and A +).

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

	31 December 2018	31 December 2017
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	23 790 991	19 483 569
- rated from A- to AA +	6 597 621	6 756 189
- rated from B- to BBB+	793 277	777 609
Total nostro accounts with foreign banks	**31 181 889**	**27 017 367**
Impairment allowance	(5 510)	-
	31 176 379	**27 017 367**
Term deposits with foreign banks		
- rated from AA- to AA+	21 583 658	15 180 417
- rated from A- to A+	15 537 795	13 857 394
- not rated	269 932	266 027
Total term deposits with foreign banks	**37 391 385**	**29 303 838**
Impairment allowance	(272 624)	(266 027)
	37 118 761	**29 037 811**
Account with the International Monetary Fund (IMF)	9 551 340	11 657 336
Accounts with the Bank for International Settlements (BIS)		
- Nostro accounts with BIS	2 765 800	14 796 067
- Term deposit with BIS	2 526 706	3 262 933
Total accounts in the BIS and the IMF	**14 843 846**	**29 716 336**
Impairment allowance	(3)	-
	14 843 843	**29 716 336**
Cash on hand in foreign currencies	1 464 192	1 011 175
Total cash on hand, due from banks and other financial institutions	**84 603 175**	**86 782 689**

As at 31 December 2018 and 2017 the National Bank created an allowance for an impaired term deposit with the foreign bank with no credit rating in the amount of KGS 269 932 thousand and KGS 266 027 thousand, respectively.

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

Concentration of due from banks and other financial institutions

As at 31 December 2018 the National Bank has balances with ten banks and other financial institutions rated from AAA to A- (2017: eight banks and other financial institutions rated from AAA to AA-) whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KGS 74 674 626 thousand (2017: KGS 44 973 079 thousand).

Movement in the allowance for impairment losses is disclosed in Note 21.

Cash and cash equivalents

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

	31 December 2018	31 December 2017
Nostro accounts with international banks	31 181 889	27 017 367
Accounts with the IMF	9 551 340	11 657 336
Nostro accounts with the BIS	2 765 800	14 796 067
Cash on hand in foreign currencies	1 464 192	1 011 175
Cash and cash equivalents in the statement of cash flows	**44 963 221**	**54 481 945**

None of cash and cash equivalents are past due.

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS

	31 December 2018	31 December 2017
Loans issued to resident commercial banks	7 921 549	5 694 787
Loans issued to international organisations	2 250 704	1 950 682
	10 172 253	**7 645 469**
Impairment allowance	(292 819)	(125 572)
Loans issued net of impairment allowance	**9 879 434**	**7 519 897**

Movement in the allowance for impairment losses is disclosed in Note 21.

8 LOANS TO BANKS AND INTERNATIONAL ORGANISATIONS (CONTINUED)

Analysis of collateral

The following table provides information on collateral securing loans issued to resident commercial banks and international organisations by types of collateral as at 31 December 2018 and 2017, excluding the effect of overcollateralisation.

	31 December 2018	% of unimpaired loan portfolio	31 December 2017	% of unimpaired loan portfolio
Loans to customers	4 369 958	44	2 800 707	37
Deposits in foreign currencies	3 116 180	32	3 041 444	40
State securities	1 901 102	19	1 677 746	23
Real estate	492 194	5	-	-
	9 879 434	**100**	**7 519 897**	**100**

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

Concentration of loans extended

As at 31 December 2018 and 2017 the National Bank does not have loans issued to commercial banks whose balances exceed 10% of its own equity.

9 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (2017: INVESTMENTS AVAILABLE-FOR-SALE)

	31 December 2018	31 December 2017
Debt instruments		
Government securities		
Government of Canada Treasury bills	3 031 230	4 939 440
Government of Australia Treasury bills	2 705 764	8 825 030
Government of Great Britain Treasury bills	2 115 546	512 134
Government of the Republic of Korea Treasury bills	1 069 153	-
Government of the United States of America Treasury bills	348 651	3 444 476
Government of the Russian Federation Treasury bills	70 654	70 571
Total government securities	**9 340 998**	**17 791 651**
Debt securities of international financial institutions	22 546 483	16 337 997
Debt instruments of agencies with credit ratings from AA to AAA	1 744 513	8 880 236
Total debt instruments	**33 631 994**	**43 009 884**

As at 31 December 2018 and 2017 investments measured at fair through other comprehensive income (2017: investments available-for-sale) are not past due.

10 INVESTMENTS AT AMORTISED COST (2017: INVESTMENTS HELD-TO-MATURITY)

	31 December 2018	31 December 2017
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	189 485	251 313
Impairment allowance	(3 061)	-
	186 424	**251 313**

11 PROPERTY AND EQUIPMENT

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Total
Cost						
Balance at 1 January 2018	**632 585**	**312 215**	**868 576**	**75 045**	**349 398**	**2 237 819**
Additions	69 653	16 783	32 385	-	30 152	148 973
Disposals	(487)	(4 677)	(1 333)	-	(9)	(6 506)
Transfers	12 236	10 859	-	-	(23 451)	(356)
Balance at 31 December 2018	**713 987**	**335 180**	**899 628**	**75 045**	**356 090**	**2 379 930**
Depreciation						
Balance at 1 January 2018	**(110 768)**	**(126 896)**	**(231 171)**	**(27 625)**	**-**	**(496 460)**
Depreciation for the year	(11 691)	(41 564)	(118 661)	(10 315)	-	(182 231)
Disposals	201	4 554	1 330	-	-	6 085
Balance at 31 December 2018	**(122 258)**	**(163 906)**	**(348 502)**	**(37 940)**	**-**	**(672 606)**
Carrying amount						
At 31 December 2018	**591 729**	**171 274**	**551 126**	**37 105**	**356 090**	**1 707 324**

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

During 2018 and 2017 there were no capitalised borrowing costs associated with the acquisition or construction of property and equipment.

CONTENT

11 PROPERTY AND EQUIPMENT (CONTINUED)

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equipment not yet installed	Total
Cost						
Balance at 1 January 2017	**613 359**	**268 715**	**365 032**	**74 078**	**861 754**	**2 182 938**
Additions	6 766	27 891	30 361	10 208	97 404	172 630
Disposals	(3 704)	(1 177)	(6)	(9 241)	-	(14 128)
Transfers	16 164	16 786	473 189	-	(609 760)	(103 621)
Balance at 31 December 2017	**632 585**	**312 215**	**868 576**	**75 045**	**349 398**	**2 237 819**
Depreciation						
Balance at 1 January 2017	**(103 431)**	**(92 632)**	**(151 650)**	**(26 182)**	**-**	**(373 895)**
Depreciation for the year	(10 851)	(35 421)	(79 526)	(9 263)	-	(135 061)
Disposals	3 514	1 157	5	7 820	-	12 496
Balance at 31 December 2017	**(110 768)**	**(126 896)**	**(231 171)**	**(27 625)**	**-**	**(496 460)**
Carrying amount						
At 31 December 2017	**521 817**	**185 319**	**637 405**	**47 420**	**349 398**	**1 741 359**

During 2017 property and equipment in the amount of KGS 103 621 thousand were transferred to intangible assets.

12 OTHER ASSETS

	31 December 2018	31 December 2017
Accounts receivable	318 600	302 440
Impairment allowance	(19 161)	(24 253)
Total other financial assets	**299 439**	**278 187**
Investments in subsidiaries and associates	805 684	185 079
Inventories	613 446	603 632
Non-monetary gold	320 943	446 658
Numismatic values	100 605	97 247
Prepayments	20 131	98 609
Other	7 053	9 322
	1 867 862	**1 440 547**
Impairment allowance	(42 605)	-
Total other non-financial assets	**1 825 257**	**1 440 547**
	2 124 696	**1 718 734**

Movements in impairment allowance on other assets are disclosed in Note 21.

Non-monetary gold is comprised of gold bullions that are not in compliance with standards of London Bullion Market Association. Non-monetary gold is recognised as inventory and measured at the lower of cost and net realisable value.

Investments in subsidiaries and associates

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

	Carrying amount
31 December 2016	185 079
Acquisitions	-
31 December 2017	**185 079**
Acquisitions	578 000
31 December 2018	**763 079**

Investments in subsidiaries and associates	**Ownership share, %**	**31 December 2018**	**Ownership share, %**	**31 December 2017**
OJSC Russian Investment Bank	71,66	578 000	-	-
CJSC Interbank Processing Center	46,70	123 079	46,70	123 079
CJSC Kyrgyz Cash Collection	100,00	62 000	100,00	62 000
		763 079		**185 079**

13 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2018 and 2017 banknotes and coins in circulation comprise:

	31 December 2018	31 December 2017
Banknotes and coins in circulation	95 499 154	93 429 341
Less banknotes and coins on hand and in cash desk	(1 933 020)	(2 325 076)
	93 566 134	**91 104 265**

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

14 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Current accounts of commercial banks	15 860 434	18 089 870
Current accounts of other financial institutions	2 841 343	2 519 180
	18 701 777	**20 609 050**

As at 31 December 2018 three commercial banks and one financial institution have balances at the National Bank that exceed 10 percent of equity (in 2017: one bank). The total amount of these balances as at 31 December 2018 is KGS 10 561 757 thousand (in 2017: KGS 4 318 753 thousand).

15 DUE TO THE GOVERNMENT OF THE KYRGYZ REPUBLIC

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

	31 December 2018	31 December 2017
In national currency	11 296 232	8 120 502
In foreign currency	1 172 333	1 114 729
	12 468 565	**9 235 231**

16 DEBT SECURITIES ISSUED

As at 31 December 2018 and 2017 debt securities issued include securities with the following maturities and carrying amounts:

	31 December 2018	31 December 2017
Notes of the National Bank with a term of 91 days	5 359 690	2 233 637
Notes of the National Bank with a term of 182 days	1 555 746	-
Notes of the National Bank with a term of 28 days	765 098	949 883
Notes of the National Bank with a term of 14 days	311 738	1 253 928
Notes of the National Bank with a term of 7 days	-	774 820
	7 992 272	**5 212 268**

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

17 LOANS RECEIVED

As at 31 December 2018 and 2017 terms and conditions of loans received are as follows:

Issuer	CCY	Interest rate	Issue date	Maturity date	31 December 2018	31 December 2017
IMF, ESF (Exogenous Shocks Facility)	SDR	0%	24 December 2008	7 June 2019	161 268	815 564
IMF, PRGF (Poverty Reduction and Growth Facility)	SDR	0%	19 December 2001	31 May 2018	-	99 435
Accrued interest	USD				10 654	10 500
					171 922	**925 499**

Loan in relation to the Exogenous Shocks Facility (the "ESF") is denominated in SDR and is given to support the Kyrgyz Republic authorities in addressing several exogenous shocks. The loan bears zero interest rate. As at 3 October 2016 IMF prolonged zero interest rate till the end of 2018. This condition was declared for all recipients of ESF.

Loan in relation to the Poverty Reduction and Growth Facility (the "PRGF") are denominated in SDR and are given to support fiscal reforms and national currency. PRGF borrowings carry a zero interest rate and have a maturity of 10 years from the beginning of the facility. On 31 May 2018 the PRGF loan was fully repaid.

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

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

17 LOANS RECEIVED (CONTINUED)

			Non-cash changes		
	1 January 2017	Cash flow from financing activities (i)	Foreign currency exchange rate adjustment	Other changes (ii)	31 December 2017
Loans received	1 718 629	(875 082)	82 012	(60)	925 499
	1 718 629	**(875 082)**	**82 012**	**(60)**	**925 499**

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

(ii) Other changes include accruals and interest payments.

18 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS

	31 December 2018	31 December 2017
Liabilities to the IMF in respect of SDR allocations	**8 222 162**	**8 311 236**

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by the provision of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 26). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes Kyrgyz Republic, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84 737 thousand. In 2018 and 2017 this right has not yet been utilised. Interest is accrued on the amount that a country uses. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

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

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

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

			Non-cash changes		
	1 January 2017	**Cash flow from financing activities (i)**	**Foreign currency exchange rate adjustment**	**Other changes (ii)**	**31 December 2017**
Liabilities to the IMF in respect of SDR allocations	7 863 988	-	439 886	7 362	8 311 236
	7 863 988	**-**	**439 886**	**7 362**	**8 311 236**

(i) Cash flows from Liabilities to the IMF in respect of SDR allocations constitute the net amount of proceeds from borrowing and repayment of borrowings in the statement of cash flows.

(ii) Other changes include accruals and interest payments.

19 CHARTER CAPITAL

Paid-in capital

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

19 CHARTER CAPITAL (CONTINUED)

Distribution to the state budget and obligatory reserve

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

- if the amount of the National Bank’s charter capital and obligatory reserve is less than 10% of the monetary liabilities of the National Bank, then 90% of profit shall be distributed to the state budget of the Kyrgyz Republic. The remaining profit, after distributions to the state budget, shall be transferred to the National Bank’s obligatory reserve;
- if the amount of the National Bank’s charter capital and obligatory reserve equals or exceeds 10% of the monetary liabilities of the National Bank, then 100% of profit shall be distributed to the state budget of the Kyrgyz Republic as well as one third of the excess amount, which shall be paid out of the obligatory reserve but within the balance of the obligatory reserve.

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

On 14 March 2018 the net profit earned for 2017 in the amount of KGS 2 300 849 thousand and distributable to the state budget of the Kyrgyz Republic in the amount of KGS 2 070 764 (2017: KGS 2 643 996 thousand) thousand was approved. These amounts are excluded from the cash flow statement due to the fact that these amounts were recorded as an increase in funds of the Government of the Kyrgyz Republic. KGS 230 085 thousand (2017: KGS 1 133 141 thousand) was transferred to the obligatory reserve.

Capital management

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

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

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

20 NET INTEREST INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income		
Term deposits in foreign banks and international financial institutions	783 810	554 703
Nostro accounts with foreign banks and international financial institutions	618 851	384 452
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	663 249	413 587
Loans to banks and international organisations	459 023	431 776
Investments at amortised cost (2017: Investments held-to-maturity)	15 395	19 269
Other	5 440	5 008
	2 545 768	**1 808 795**
Interest expense		
Debt securities issued	(351 558)	(109 966)
Liabilities to the IMF in respect of SDR allocations	(76 870)	(42 954)
Other assets discount recognition	(49 319)	(44 734)
Due to banks and other financial institutions	(10 611)	(16 642)
Other	(8 482)	(6 268)
	(496 840)	**(220 564)**
	2 048 928	**1 588 231**

During the year 2018 the total interest income calculated using the EIR method for financial assets at FVTOCI is KGS 1 282 100 thousand (in 2017 for financial assets available-for-sale: KGS 798 039 thousand) and for financial assets at amortised cost is KGS 1 263 668 thousand (in 2017 for financial assets held-to-maturity: KGS 1 010 756 thousand). During the year 2018 the total interest expense calculated using the EIR method for financial liabilities at amortised cost is KGS 496 840 thousand (in 2017: KGS 220 564 thousand).

21 ALLOWANCES FOR IMPAIRMENT

	Cash on hand, due from banks and other financial institutions (Notes 3, 7)			Loans to banks and international organisations (Notes 3, 8)			Investments at fair value through other comprehensive income (2017: Investments available-for-sale) (Note 3)		Investments at amortised cost (2017: Investments held-to-maturity) (Notes 3, 10)	Other assets (Notes 3, 12)		Other assets (Notes 3, 12)
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 1	Stage 1	Stage 3	Total
Impairment allowance as at 1 January 2018	**6 809**	**2 191**	**266 027**	**-**	**18 283**	**125 572**	**35**	**230**	**3 965**	**341**	**24 253**	**447 706**
Changes in the impairment allowance												
- Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	(18 283)	18 283	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	(736)	(59)	-	548	-	92 423	(7)	(8)	(904)	(14)	(478)	90 765
Write-off of assets through impairment allowance	-	-	-	-	-	(179 300)	-	-	-	-	(4 884)	(184 184)
New financial assets originated or purchased	-	-	-	-	-	233 450	-	-	-	-	-	233 450
Derecognised financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Changes in exchange rates and other changes	-	-	3 905	-	-	1 843	-	-	-	-	(57)	5 691
Impairment allowance as at 31 December 2018	**6 073**	**2 132**	**269 932**	**548**	**-**	**292 271**	**28**	**222**	**3 061**	**327**	**18 834**	**593 428**

21 ALLOWANCES FOR IMPAIRMENT (CONTINUED)

	Cash on hand, due from banks and other financial institutions (Note 7)	Loans to banks and international organisations (Note 8)	Investments available-for-sale	Investments held-to-maturity (Note 10)	Other assets (Note 12)	Total
31 December 2016	**267 536**	**284 498**	**-**	**-**	**8 443**	**560 477**
Provision charge/ (recovery) of provision	-	(71)	-	-	15 795	15 724
Write-off of assets through impairment allowance	-	(158 443)	-	-	-	(158 443)
Effect of exchange rate differences	(1 509)	(412)	-	-	15	(1 906)
31 December 2017	**266 027**	**125 572**	**-**	**-**	**24 253**	**415 852**

22 NET REALISED GAIN ON FOREIGN CURRENCIES AND GOLD OPERATIONS

	Year ended 31 December 2018	Year ended 31 December 2017
Realised gain from operations with foreign currencies and gold	1 461 161	1 694 160
Income from spot transactions	133 072	166 587
	1 594 233	**1 860 747**

23 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Personnel expenses		
Employee compensation	444 753	442 498
Payments to the Social fund	77 432	76 947
	522 185	**519 445**
Depreciation and amortisation	220 020	161 539
Repairs and maintenance	138 213	134 727
Security	39 096	36 574
Communications and information services	23 471	23 570
Business trip expenses	12 483	10 233
Publication and subscription	12 431	9 584
Professional services	11 239	15 512
Expenses for social events	10 939	9 466
Staff training	8 433	7 781
Office supplies and stationery	3 559	3 526
Other	19 483	15 641
	1 021 552	**947 598**

24 RISK MANAGEMENT

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

(a) Risk management policies and procedures

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

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

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

24 RISK MANAGEMENT (CONTINUED)

(a) Risk management policies and procedures, continued

In accordance with Investment Strategy on International Reserve Management of the National Bank ("the Investment Strategy") approved by the Board on 21 December 2016, the main goals of risk management are safety and liquidity of the assets and profitability growth of the National Bank. Operations are conducted within the limitations imposed by this strategy.

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

(b) Market risk

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

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

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

(i) Interest rate risk

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

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

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

	Weighted average effective interest rate, % 31 December 2018	**Weighted average effective interest rate, % 31 December 2017**
Interest bearing assets		
Gold	0,07	0,10
Gold in accounts with foreign banks		
Due from banks and other financial institutions		
Nostro accounts		
- USD	2,45	1,44
- EUR	(0,41)	(0,40)
- CAD	1,47	0,60
- AUD	0,25	0,25
- GBP	0,34	0,10
- CNH	0,35	0,35
- NOK	0,63	0,10
- SDR	1,10	0,74
Term deposits		
- USD	2,84	1,61
- CAD	1,91	1,10
- GBP	1,03	0,48
- AUD	2,20	1,61
- RUB	4,75	5,90
- CNH	3,62	3,67
- NOK	0,97	0,52
- SGD	1,44	0,58
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)		
- USD	2,46	1,49
- AUD	1,81	1,84
- CAD	1,91	1,04
- GBP	0,63	0,24
- KRW	1,72	-
Loans to banks and international organisations		
- KGS	4,84	4,97
Investments at amortised cost (2017: Investments held-to-maturity)		
- KGS	6,35	6,35
Interest bearing liabilities		
Debt securities issued		
- KGS	4,38	4,35
Liabilities to the IMF in respect of SDR allocations	1,10	0,74

CONTENT

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2018		31 December 2017	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
20 bp parallel rise	-	(8 444)	-	(16 451)
20 bp parallel fall	-	11 059	-	6 743

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

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

(ii) Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies.

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

CONTENT

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

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

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2018
Financial assets												
Gold in deposits	-	7 423 265	-	-	-	-	-	-	-	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	-	-	48 278 808	3 528 427	4 681 352	2 280 177	9 551 338	2 110 904	726 892	9 423 271	4 022 006	84 603 175
Loans to banks and international organisations	9 879 434	-	-	-	-	-	-	-	-	-	-	9 879 434
Investments at fair value through other comprehensive income	-	-	23 576 315	-	3 031 230	3 839 750	-	-	2 115 546	-	1 069 153	33 631 994
Investments at amortised cost	186 424	-	-	-	-	-	-	-	-	-	-	186 424
Other financial assets	299 439	-	-	-	-	-	-	-	-	-	-	299 439
Total financial assets	**10 365 297**	**7 423 265**	**71 855 123**	**3 528 427**	**7 712 582**	**6 119 927**	**9 551 338**	**2 110 904**	**2 842 438**	**9 423 271**	**5 091 159**	**136 023 731**

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2018
Financial liabilities												
Banknotes and coins in circulation	93 566 134	-	-	-	-	-	-	-	-	-	-	93 566 134
Due to banks and other financial institutions	14 024 829	-	4 666 942	10 006	-	-	-	-	-	-	-	18 701 777
Due to the Government of the Kyrgyz Republic	11 296 232	-	50 521	949 941	-	-	-	-	-	-	171 871	12 468 565
Debt securities issued	7 992 272	-	-	-	-	-	-	-	-	-	-	7 992 272
Loans received	-	-	10 654	-	-	-	161 268	-	-	-	-	171 922
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 222 162	-	-	-	-	8 222 162
Other financial liabilities	52 607	-	16 072	1 100	-	-	-	-	-	-	-	69 779
Total financial liabilities	**126 932 074**	**-**	**4 744 189**	**961 047**	**-**	**-**	**8 383 430**	**-**	**-**	**-**	**171 871**	**141 192 611**
Net balance sheet position	**(116 566 777)**	**7 423 265**	**67 110 934**	**2 567 380**	**7 712 582**	**6 119 927**	**1 167 908**	**2 110 904**	**2 842 438**	**9 423 271**	**4 919 288**	**(5 168 880)**

CONTENT

CONTENT

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2017 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2017
Financial assets												
Gold in deposits	-	7 415 975	-	-	-	-	-	-	-	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	-	-	52 705 932	2 239 213	1 581 391	1 733 339	11 657 336	2 195 964	2 162 941	9 659 657	2 846 916	86 782 689
Loans to banks and international organisations	7 519 897	-	-	-	-	-	-	-	-	-	-	7 519 897
Investments available-for-sale	-	-	28 361 123	-	4 939 440	8 825 030	-	-	884 291	-	-	43 009 884
Investments held-to-maturity	251 313	-	-	-	-	-	-	-	-	-	-	251 313
Other financial assets	278 187											278 187
Total financial assets	**8 049 397**	**7 415 975**	**81 067 055**	**2 239 213**	**6 520 831**	**10 558 369**	**11 657 336**	**2 195 964**	**3 047 232**	**9 659 657**	**2 846 916**	**145 257 945**

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other currencies	Total 31 December 2017
Financial liabilities												
Banknotes and coins in circulation	91 104 265	-	-	-	-	-	-	-	-	-	-	91 104 265
Due to banks and other financial institutions	14 416 114	-	6 182 612	10 324	-	-	-	-	-	-	-	20 609 050
Due to the Government of the Kyrgyz Republic	8 120 502	-	109 197	930 899	-	-	-	-	-	-	74 633	9 235 231
Debt securities issued	5 212 268	-	-	-	-	-	-	-	-	-	-	5 212 268
Loans received	-	-	10 500	-	-	-	914 999	-	-	-	-	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 311 236	-	-	-	-	8 311 236
Other financial liabilities	70 777	-	15 843	429	-	-	-	-	-	-	-	87 049
Total financial liabilities	**118 923 926**	**-**	**6 318 152**	**941 652**	**-**	**-**	**9 226 235**	**-**	**-**	**-**	**74 633**	**135 484 598**
Net balance sheet position	**(110 874 529)**	**7 415 975**	**74 748 903**	**1 297 561**	**6 520 831**	**10 558 369**	**2 431 101**	**2 195 964**	**3 047 232**	**9 659 657**	**2 772 283**	**9 773 347**

CONTENT

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(ii) Currency risk, continued

Depreciation of KGS, as indicated in the table below, against following currencies as at 31 December 2018 and 2017 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	31 December 2018		31 December 2017	
	Profit or loss	**Comprehensive income and equity**	**Profit or loss**	**Comprehensive income and equity**
10% appreciation of USD against KGS	-	6 711 093	-	7 474 890
10% appreciation of CNH against KGS	-	942 327	-	965 966
10% appreciation of CAD against KGS	-	771 258	-	652 083
10% appreciation of AUD against KGS	-	611 993	-	1 055 837
10% appreciation of GBP against KGS	-	284 244	-	304 723
10% appreciation of EUR against KGS	-	256 738	-	129 756
10% appreciation of NOK against KGS	-	211 090	-	219 596

Appreciation of the KGS against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Limitations of sensitivity analysis

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

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

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk, continued

(iii) Other price risk

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

As at 31 December 2018 and 2017 the National Bank was exposed to price risk of gold in deposits with foreign banks.

An increase or decrease in prices in KGS equivalent of gold, as indicated below, at 31 December 2018 and 2017 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on gold price movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

	31 December 2018		31 December 2017	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
10% appreciation of gold prices in KGS equivalent	-	742 327	-	741 598
10% depreciation of gold prices in KGS equivalent	-	(742 327)	-	(741 598)

(c) Credit risk

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

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

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

Category A

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

Category B

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

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

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

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

24 Risk management (continued)

(c) Credit risk, continued

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

	31 December 2018	31 December 2017
ASSETS		
Gold in deposits	7 423 265	7 415 975
Cash on hand, due from banks and other financial institutions*	83 138 983	85 771 514
Loans to banks and international organisations	9 879 434	7 519 897
Investments at fair value through other comprehensive income (2017: Investments available-for-sale)	33 631 994	43 009 884
Investments at amortised cost (2017: Investments held-to-maturity)	186 424	251 313
Other financial assets	299 439	278 187
Total maximum exposure	**134 559 539**	**144 246 770**

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

Internal credit risk ratings

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

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

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

CONTENT

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Cash on hand, due from banks and other financial institutions					
Credit rating 1-3: Low or moderate risk	83 715 220	-	-	-	83 715 220
Credit rating 4-6: Watch	-	896 160	-	-	896 160
Credit rating 10: Impaired	-	-	269 932	-	269 932
Total gross carrying amount	**83 715 220**	**896 160**	**269 932**	**-**	**84 881 312**
Impairment allowance	(6 073)	(2 132)	(269 932)	-	(278 137)
Carrying amount	**83 709 147**	**894 028**	**-**	**-**	**84 603 175**

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Loans to banks and international organisations					
Credit rating 1-3: Low or moderate risk	9 137 470	-	-	-	9 137 470
Credit rating 4-6: Watch	-	94 059	-	-	94 059
Credit rating 7-8: Substandard	-	-	813 309	-	813 309
Credit rating 10: Impaired	-	-	127 415	-	127 415
Total gross carrying amount	**9 137 470**	**94 059**	**940 724**	**-**	**10 172 253**
Impairment allowance	(548)	-	(292 271)	-	(292 819)
Carrying amount	**9 136 922**	**94 059**	**648 453**	**-**	**9 879 434**

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Investments at fair value through other comprehensive income					
Credit rating 1-3: Low or moderate risk	33 561 367	-	-	-	33 561 367
Credit rating 4-6: Watch	-	70 877	-	-	70 877
Total gross carrying amount	**33 561 367**	**70 877**	**-**	**-**	**33 632 244**
Impairment allowance	(28)	(222)	-	-	(250)
Carrying amount	**33 561 339**	**70 655**	**-**		**33 631 994**

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Other financial assets					
Credit rating 1-3: Low or moderate risk	299 766	-	-	-	299 766
Credit rating 10: Impaired	-	-	18 834	-	18 834
Total gross carrying amount	**299 766**	**-**	**18 834**	**-**	**318 600**
Impairment allowance	(327)	-	(18 834)	-	(19 161)
Carrying amount	**299 439**	**-**	**-**		**299 439**

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

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

	2018				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**
Cash on hand, due from banks and other financial institutions					
Gross carrying amount as at 1 January 2018	**85 975 712**	**806 977**	**266 027**	**-**	**87 048 716**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Changes due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	618 398 741	19 943 302	-	-	638 342 043
Financial assets that have been derecognised	(619 958 444)	(19 585 092)	-	-	(639 543 536)
Other changes	(700 789)	(269 027)	3 905	-	(965 911)
Gross carrying amount as at 31 December 2018	**83 715 220**	**896 160**	**269 932**	**-**	**84 881 312**
Impairment allowance as at 31 December 2018	**(6 073)**	**(2 132)**	**(269 932)**	**-**	**(278 137)**

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	POCI	Total
Loans to banks and international organisations					
Gross carrying amount as at 1 January 2018	**6 795 889**	**724 008**	**125 572**	**-**	**7 645 469**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	(538 321)	538 321	-	-
- Changes due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	3 326 244	386	454 288	-	3 780 918
Financial assets that have been derecognised	(984 663)	(92 014)	-	-	(1 076 677)
Write-off	-	-	(179 300)	-	(179 300)
Other changes	-	-	1 843	-	1 843
Gross carrying amount as at 31 December 2018	**9 137 470**	**94 059**	**940 724**	**-**	**10 172 253**
Impairment allowance as at 31 December 2018	**(548)**	**-**	**(292 271)**	**-**	**(292 819)**

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**
Investments at fair value through other comprehensive income					
Gross carrying amount as at 1 January 2018	**42 939 313**	**70 571**	**-**	**-**	**43 009 884**
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Changes due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	174 642 941	-	-	-	174 642 941
Financial assets that have been derecognised	(183 671 251)	(600)	-	-	(183 671 851)
Write-off	-	-	-	-	-
Other changes	(349 636)	906	-	-	(348 730)
Gross carrying amount as at 31 December 2018	**33 561 367**	**70 877**	**-**	**-**	**33 632 244**
Impairment allowance as at 31 December 2018	**(28)**	**(222)**	**-**	**-**	**(250)**

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**
Investments at amortised cost					
Gross carrying amount as at 1 January 2018	**251 313**	**-**	**-**	**-**	**251 313**
		-	**-**	**-**	
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Changes due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognised	(61 828)	-	-	-	(61 828)
Write-off	-	-	-	-	-
Other changes	-	-	-	-	-
Gross carrying amount as at 31 December 2018	**189 485**	**-**	**-**	**-**	**189 485**
Impairment allowance as at 31 December 2018	**(3 061)**	**-**	**-**	**-**	**(3 061)**

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk, continued

	2018				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**
Other financial assets					
Gross carrying amount as at 1 January 2018	**278 187**	**-**	**24 253**	**-**	**302 440**
		-	-	-	
Changes in gross carrying amount					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Changes due to modifications that did not result in derecognition	-	-	(478)	-	(478)
New financial assets originated or purchased	21 579	-	-	-	21 579
Financial assets that have been derecognised	-	-	-	-	-
Write-off	-	-	(4 884)	-	(4 884)
Other changes	-	-	(57)	-	(57)
Gross carrying amount as at 31 December 2018	**299 766**	**-**	**18 834**	**-**	**318 600**
Impairment allowance as at 31 December 2018	**(327)**	**-**	**(18 834)**	**-**	**(19 161)**

24 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations

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

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

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2018 Total
Financials assets					
Gold in deposits	-	7 423 265	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	1 464 192	49 256 606	19 038 534	14 843 843	84 603 175
Loans to banks and international organisations	9 879 434	-	-	-	9 879 434
Investments at fair value through other comprehensive income (2017: Investments available for sale)	-	11 014 857	70 654	22 546 483	33 631 994
Investments at amortised cost	186 424	-	-	-	186 424
Other financial assets	299 439	-	-	-	299 439
Total financial assets	**11 829 489**	**67 694 728**	**19 109 188**	**37 390 326**	**136 023 731**
Financial liabilities					
Banknotes and coins in circulation	93 566 134	-	-	-	93 566 134
Due to banks and other financial institutions	18 276 284	-	291 428	134 065	18 701 777
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	12 468 565
Debt securities issued	7 992 272	-	-	-	7 992 272
Loans received	10 654	-	-	161 268	171 922
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 222 162	8 222 162
Other financial liabilities	50 100	3 240	16 439	-	69 779
Total financial liabilities	**132 364 009**	**3 240**	**307 867**	**8 517 495**	**141 192 611**
Net balance sheet position	**(120 534 520)**	**67 691 488**	**18 801 321**	**28 872 831**	**(5 168 880)**

CONTENT

24 RISK MANAGEMENT (CONTINUED)

(d) Geographical concentrations

The following table shows the geographical concentration of assets and liabilities at 31 December 2017:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2017 Total
Financial assets					
Gold in deposits	-	7 415 975	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	1 011 175	46 272 397	9 782 780	29 716 337	86 782 689
Loans to banks and international organisations	7 519 897	-	-	-	7 519 897
Investments available-for-sale	-	26 601 316	70 571	16 337 997	43 009 884
Investments held-to-maturity	251 313	-	-	-	251 313
Other financial assets	278 187	-	-	-	278 187
Total financial assets	**9 060 572**	**80 289 688**	**9 853 351**	**46 054 334**	**145 257 945**
Financial liabilities					
Banknotes and coins in circulation	91 104 265	-	-	-	91 104 265
Due to banks and other financial institutions	20 405 881	-	128 290	74 879	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	9 235 231
Debt securities issued	5 212 268	-	-	-	5 212 268
Loans received	10 500	-	-	914 999	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 311 236	8 311 236
Other financial liabilities	70 314	648	16 087	-	87 049
Total financial liabilities	**126 038 459**	**648**	**144 377**	**9 301 114**	**135 484 598**
Net balance sheet position	**(116 977 887)**	**80 289 040**	**9 708 974**	**36 753 220**	**9 773 347**

24 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

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

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

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

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

The liquidity management policy requires:

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

24 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	Carrying amount 31 December 2018
Non-derivative financial liabilities							
Due to banks and other financial institutions	18 701 777	-	-	-	-	18 701 777	18 701 777
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	-	12 468 565	12 468 565
Debt securities issued	3 094 000	3 833 800	1 120 250	-	-	8 048 050	7 992 272
Loans received	10 654	-	161 268	174	-	172 096	171 922
Liabilities to the IMF in respect of SDR allocations	8 207 439	14 723	-	-	-	8 222 162	8 222 162
Other financial liabilities	19 296	3 679	152	30 327	16 325	69 779	69 779
Total financial liabilities	**42 501 731**	**3 852 202**	**1 281 670**	**30 501**	**16 325**	**47 682 429**	**47 626 477**

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total cash outflow of financial liabilities	Carrying amount 31 December 2017
Non-derivative financial liabilities							
Due to banks and other financial institutions	20 609 050	-	-	-	-	20 609 050	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	-	9 235 231	9 235 231
Debt securities issued	3 840 000	1 390 000	-	-	-	5 230 000	5 212 268
Loans received	10 500	-	425 661	326 225	163 288	925 674	925 499
Liabilities to the IMF in respect of SDR allocations	8 301 310	9 926	-	-	-	8 311 236	8 311 236
Other financial liabilities	41 934	1 737	1 123	24 677	17 578	87 049	87 049
Total financial liabilities	**42 038 025**	**1 401 663**	**426 784**	**350 902**	**180 866**	**44 398 240**	**44 380 333**

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

24 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2018
FINANCIAL ASSETS							
Gold in deposits	4 020 298	3 402 967	-	-	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	50 198 833	15 275 681	19 128 661	-	-	-	84 603 175
Loans to banks and international organisations	309 620	3 201 184	6 367 678	452	500	-	9 879 434
Investments at fair value through other comprehensive income	19 012 079	10 501 043	4 118 872	-	-	-	33 631 994
Investments at amortised cost	-	-	60 008	126 416	-	-	186 424
Other financial assets	28 497	3 985	18 168	97 457	151 332	-	299 439
	73 569 327	**32 384 860**	**29 693 387**	**224 325**	**151 832**	**-**	**136 023 731**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	93 566 134	93 566 134
Due to banks and other financial institutions	18 701 777	-	-	-	-	-	18 701 777
Due to the Government of the Kyrgyz Republic	12 468 565	-	-	-	-	-	12 468 565
Debt securities issued	3 088 903	3 804 945	1 098 424	-	-	-	7 992 272
Loans received	10 654	-	161 268	-	-	-	171 922
Liabilities to the IMF in respect of SDR allocations	8 207 439	14 723	-	-	-	-	8 222 162
Other financial liabilities	19 296	3 679	30 479	16 325	-	-	69 779
	42 496 634	**3 823 347**	**1 290 171**	**16 325**	**-**	**93 566 134**	**141 192 611**
Net position	**31 072 693**	**28 561 513**	**28 403 216**	**208 000**	**151 832**	**(93 566 134)**	**(5 168 880)**

CONTENT

24 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk, continued

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total 31 December 2017
FINANCIAL ASSETS							
Gold in deposits	4 292 129	3 123 846	-	-	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	56 067 441	10 998 023	19 717 225	-	-	-	86 782 689
Loans to banks and international organisations	212 393	2 594 221	4 711 336	1 947	-	-	7 519 897
Investments available-for-sale	26 748 341	10 188 573	6 002 399	70 571	-	-	43 009 884
Investments held-to-maturity	-	-	62 720	188 593	-	-	251 313
Other financial assets	24 989	4 488	15 714	86 235	146 761	-	278 187
	87 345 293	**26 909 151**	**30 509 394**	**347 346**	**146 761**	**-**	**145 257 945**
FINANCIAL LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	91 104 265	91 104 265
Due to banks and other financial institutions	20 609 050	-	-	-	-	-	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	-	-	9 235 231
Debt securities issued	3 835 831	1 376 437	-	-	-	-	5 212 268
Loans received	10 500	-	751 886	163 113	-	-	925 499
Liabilities to the IMF in respect of SDR allocations	8 301 310	9 926	-	-	-	-	8 311 236
Other financial liabilities	41 934	1 737	25 800	17 578	-	-	87 049
	42 033 856	**1 388 100**	**777 686**	**180 691**	**-**	**91 104 265**	**135 484 598**
Net position	**45 311 437**	**25 521 051**	**29 731 708**	**166 655**	**146 761**	**(91 104 265)**	**9 773 347**

25 COMMITMENTS

(a) Insurance

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

(b) Litigation

In the ordinary course of business, the National Bank is subject to legal actions and complaints. Management of the National Bank believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions or the results of future operations of the National Bank.

(c) Taxation contingencies

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

Taking into consideration that the National Bank has exemption from income tax and several other taxes, tax liabilities origination is not obvious and their influence on the financial statements of the National Bank is not significant.

26 AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992 the Kyrgyz Republic joined the International Monetary Fund ("the IMF"). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2018 and 2017 the quota of the Kyrgyz Republic amounted to SDR 177 600 thousand.

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

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

	31 December 2018	31 December 2017
IMF membership quota	**17 253 271**	**17 487 372**
Securities for benefit of the IMF	(17 201 127)	(17 434 520)
Current accounts of the IMF	(41 638)	(46 510)
	(17 242 765)	**(17 481 030)**

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

On 27 December 2017 IMF provided a loan amounting to SDR 19 028 thousand for supporting the state budget. This loan is not accounted in the statement of financial position of the National Bank as a liability to the IMF as there is an agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank under which the Ministry of Finance of the Kyrgyz Republic is liable for rendering obligations under this loan agreement. As at 31 December 2018 the outstanding balance of this loan amounted to KGS 11 457 600 thousand (2017: KGS 12 862 400 thousand).

27 RELATED PARTY TRANSACTIONS

(a) Control relationships

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

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

(b) Transactions with the members of the Management Board

The total remuneration to the members of the National Bank's Management Board for the years ended 31 December 2018 and 2017 comprised KGS 21 472 thousand and KGS 21 100 thousand, respectively. The remuneration consists of salary and all payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2018 and 2017 comprised KGS 27 295 and KGS 24 948 thousand, respectively. The loans are in KGS and repayable by 2032. Interest income from loans to the Management Board for the years ended 31 December 2018 and 2017 comprised KGS 388 thousand and KGS 489 thousand, respectively.

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

27 RELATED PARTY TRANSACTIONS (CONTINUED)

(*c*) Transactions with other related parties

Below is a table with balances on transactions with related parties as of 31 December 2018:

	Subsidiaries	Associates	31 December 2018 Total
Separate statement of financial position			
Loans to banks and international organisations	907 368	-	907 368
Impairment allowance on loans	(164 856)	-	(164 856)
Other assets	682 605	123 079	805 684
Impairment allowance on other assets	(42 605)	-	(42 605)
Due to banks and other financial institutions	21 472	-	21 472
Debt securities issued	49 963	-	49 963

The corresponding profit and loss on transactions with other related parties for the year ended 31 December 2018 was:

	Subsidiaries	Associates	Year ended 31 December 2018 Total
Statement of profit or loss			
Other income	12 715	8 459	21 174
Other expenses	1 101	-	1 101

Below is a table with balances on operations with related parties as at 31 December 2017:

	Subsidiaries	Associates	31 December 2017 Total
Statement of financial position			
Other assets	62 000	123 079	185 079

The corresponding income from transactions with other related parties for the year ended 31 December 2017 was:

	Subsidiaries	Associates	Year ended 31 December 2017 Total
Separate statement of profit or loss			
Other income	1 515	336	1 851

28 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(a) Accounting classifications and fair values

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

	At amortised cost	At fair value through other comprehensive income	31 December 2018 Total carrying amount	31 December 2018 Fair value
Gold in deposits	7 423 265	-	7 423 265	7 423 265
Cash on hand, due from banks and other financial institutions	41 109 659	43 493 516	84 603 175	84 603 175
Loans to banks and international organisations	9 879 434	-	9 879 434	9 879 434
Investments at fair value through other comprehensive income	-	33 631 994	33 631 994	33 631 994
Investments at amortised cost	186 424	-	186 424	186 424
Other financial assets	299 439	-	299 439	299 439
	58 898 221	**77 125 510**	**136 023 731**	**136 023 731**
Banknotes and coins in circulation	93 566 134	-	93 566 134	93 566 134
Due to banks and other financial institutions	18 701 777	-	18 701 777	18 701 777
Due to the Government of the Kyrgyz Republic	12 468 565	-	12 468 565	12 468 565
Debt securities issued	7 992 272	-	7 992 272	7 992 272
Loans received	171 922	-	171 922	171 922
Liabilities to the IMF in respect of SDR allocations	8 222 162	-	8 222 162	8 222 162
Other financial liabilities	69 779	-	69 779	69 779
	141 192 611	**-**	**141 192 611**	**141 192 611**

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

(a) Accounting classifications and fair values, continued

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

	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	31 December 2017 Total carrying amount	31 December 2017 Fair value
Gold deposits	-	7 415 975	-	-	7 415 975	7 415 975
Cash on hand, due from banks and other financial institutions	-	86 782 689	-	-	86 782 689	86 782 689
Loans to banks and international organisations	-	7 519 897	-	-	7 519 897	7 519 897
Investments available-for-sale	-	-	43 009 884	-	43 009 884	43 009 884
Investments held-to-maturity	251 313	-	-	-	251 313	251 313
Other financial assets	-	278 187	-	-	278 187	278 187
	251 313	**101 996 748**	**43 009 884**	**-**	**145 257 945**	**145 257 945**
Banknotes and coins in circulation	-	-	-	91 104 265	91 104 265	91 104 265
Due to banks and other financial institutions	-	-	-	20 609 050	20 609 050	20 609 050
Due to the Government of the Kyrgyz Republic	-	-	-	9 235 231	9 235 231	9 235 231
Debt securities issued	-	-	-	5 212 268	5 212 268	5 212 268
Loans received	-	-	-	925 499	925 499	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 311 236	8 311 236	8 311 236
Other financial liabilities	-	-	-	87 049	87 049	87 049
	-	**-**	**-**	**135 484 598**	**135 484 598**	**135 484 598**

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

(a) Accounting classifications and fair values, continued

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

(b) Fair value hierarchy

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

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

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

	Level 1	Level 2	Level 3	31 December 2018 Total
Cash on hand, due from banks and other financial institutions	-	43 493 516	-	43 493 516
Investments at fair value through other comprehensive income	33 631 994	-	-	33 631 994

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

(b) Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2017 Total
Investments available-for-sale	43 009 884	-	-	43 009 884

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

	Level 1	Level 2	Level 3	31 December 2018 Total
Gold in deposits	7 423 265	-	-	7 423 265
Cash on hand, due from banks and other financial institutions	-	41 109 659		41 109 659
Loans to banks and international organisations	-	9 879 434	-	9 879 434
Investments at amortised cost	-	186 424	-	186 424
Other financial assets	-	299 439	-	299 439
Banknotes and coins in circulation	-	93 566 134	-	93 566 134
Due to banks and other financial institutions	-	18 701 777	-	18 701 777
Due to the Government of the Kyrgyz Republic	-	12 468 565	-	12 468 565
Debt securities issued	-	7 992 272	-	7 992 272
Loans received	-	171 922	-	171 922
Liabilities to the IMF in respect of SDR allocations	-	8 222 162	-	8 222 162
Other financial liabilities	-	69 779	-	69 779

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

(b) Fair value hierarchy, continued

The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2017 Total
Gold in deposits	7 415 975	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	-	86 782 689		86 782 689
Loans to banks and international organisations	-	7 519 897	-	7 519 897
Investments held-to-maturity	-	251 313	-	251 313
Other financial assets	-	278 187	-	278 187
Banknotes and coins in circulation	-	91 104 265	-	91 104 265
Due to banks and other financial institutions	-	20 609 050	-	20 609 050
Due to the Government of the Kyrgyz Republic	-	9 235 231	-	9 235 231
Debt securities issued	-	5 212 268	-	5 212 268
Loans received	-	925 499	-	925 499
Liabilities to the IMF in respect of SDR allocations	-	8 311 236	-	8 311 236
Other financial liabilities	-	87 049	-	87 049

29 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2018 and 2017 the National Bank did not have financial assets and financial liabilities in the statement of financial position which were presented in net amount or would have been offset due to presence of the master netting arrangements or similar agreements.

30 SUBSEQUENT EVENTS

On 17 January 2019 the National Bank made a payment in the amount of KGS 216 574 thousand for the additional issue of 2 165 744 shares of OJSC Russian Investment Bank. Thus, taking into account the cash paid in 2018, participation in the additionally issued capital comprised of KGS 716 574 thousand, increasing the share of ownership of the National Bank to 85,21%. The deal was registered in the trading system of CSJC Kyrgyz Stock Exchange on 18 January 2019.

The maturity of loans issued by the National Bank to OJSC Russian Investment Bank under the loan agreement #2017-Д-091/833-0-1-6 in the amount of KGS 538 321 thousand, expired on 29 March 2019. The National Bank extended the loan for 6 months, and the new maturity was determined as 30 September 2019.