LLC “Micro-credit company “Bailyk Finance”

The financial statements
for the year ended December 31, 2021
(in accordance with IFRS)

and independent auditor’s report

LLC “MICRO-CREDIT COMPANY “BAILYK FINANCE”

TABLE OF CONTENTS

LLC "MICRO-CREDIT COMPANY "BAILYK FINANCE"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

The following statement, which should be read in conjunction with the independent auditor's responsibilities is made with a view to distinguish the respective responsibilities of management and those of the independent auditor in relation to the financial statements of the LLC "Micro-credit company "Bailyk Finance" (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at December 31, 2021, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (the "IFRS").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal control, throughout the Company;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with legislation, accounting standards of the Kyrgyz Republic and requirements set by the National Bank of the Kyrgyz Republic;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2021 were prepared in Russian and English languages. In the event of any discrepancies between Russian and English versions, Russian version shall prevail.

The financial statements for the year ended December 31, 2021 were approved and authorized for issue on February 28, 2022 by the management of the Company.

On behalf of the Management:

Chinara Moldazhanova
General Director

February 28, 2022
Bishkek, the Kyrgyz Republic

Maya Dzhusupova
Chief Accountant

February 28, 2022
Bishkek, the Kyrgyz Republic

bakertilly

103, Ibraimov str.
BC "Victory", 7th floor
Bishkek, 720011
Kyrgyz Republic

T: +996 (312) 90 05 05
F: +996 (312) 91 05 05
contact@bakertilly.kg
www.bakertilly-ca.com

INDEPENDENT AUDITOR'S REPORT

To the Owners and Board of Directors of the LLC "MCC "Bailyk Finance":

Opinion

We have audited the financial statements of the LLC "MCC "Bailyk Finance" (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (the "IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (the "ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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.

Responsibilities of Management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 and regulations of the NBKR will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 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. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other matters

The Company prepared financial statements in accordance with regulations of the National Bank of the Kyrgyz Republic (the "NBKR") for the year ended December 31, 2020 for which we issued a separate audit report dated February 28, 2021 addressed to the Owners and Board of Directors of LLC "MCC "Bailyk Finance".

Kubat Alymkulov

Certified accountant, FCCA
Certificate of auditor of the Kyrgyz Republic No. A 0069
dated October 19, 2009
Audit Partner
Director, Baker Tilly Bishkek LLC

Daniyar Isanaev

Certificate of auditor of the Kyrgyz Republic
No. AD0028 dated December 23, 2021
Audit Director

Baker Tilly Bishkek LLC,
License Series A No. 0049 dated July 1, 2011 issued by the State committee on review and regulation of the financial market of the Kyrgyz Republic

February 28, 2022
Bishkek, the Kyrgyz Republic

February 28, 2022
Bishkek, the Kyrgyz Republic

LLC "MICRO-CREDIT COMPANY "BAILYK FINANCE"

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2021

(in thousands of Kyrgyz Soms)

	Notes	For the year ended December 31, 2021	For the year ended December 31, 2020
Interest income	4	760,616	573,158
Interest expense	4	(289,499)	(194,430)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS	4	471,117	378,728
Allowance for expected credit losses on interest bearing assets	6	(60,525)	(24,090)
NET INTEREST INCOME		410,592	354,638
Commission income	5	67,207	24,221
Commission expenses	5	(5,557)	(1,524)
Net (loss)/gain on operations with financial instruments at FVTPL	7	(41,293)	13,325
Net loss on foreign exchange operations	8	(13,817)	(28,372)
Allowance for expected credit losses on non-interest bearing assets	6	194	(1,873)
Other income	9	21,928	12,298
NET NON-INTEREST INCOME		28,662	18,075
Operating expenses	10	(337,937)	(233,314)
PROFIT BEFORE INCOME TAX		101,317	139,399
Income tax	11	(11,349)	(14,341)
NET PROFIT		89,968	125,058
TOTAL COMPREHENSIVE INCOME		89,968	125,058

On behalf of the Management:

Chinara Moldazhanova
General Director

February 28, 2022
Bishkek, the Kyrgyz Republic

Maya Dzhusupova
Chief Accountant

February 28, 2022
Bishkek, the Kyrgyz Republic

The notes on pages 10-58 form an integral part of the financial statements. The independent auditor's report is on pages 3-4.

LLC "MICRO-CREDIT COMPANY"BAILYK FINANCE"

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Kyrgyz soms)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Due from banks	12	151,652	237,666
Deposits and cash in banks	13	40,925	40,434
Loans to customers	14	2,518,424	1,686,237
Financial instruments at fair value through profit or loss	15	26,111	27,133
Property, equipment and intangible assets	16	30,712	19,987
Right-of-use assets	17	67,293	39,250
Deferred tax assets	11	2,291	-
Other assets	18	11,550	32,088
TOTAL ASSETS		2,848,958	2,082,795
LIABILITIES AND EQUITY			
LIABILITIES			
Borrowings	19	2,207,610	1,571,809
Lease liabilities	17	72,550	43,876
Deferred tax liability	11	-	1,630
Advances received from customers		34,443	31,473
Other liabilities	20	35,049	24,669
		2,349,652	1,673,457
EQUITY:			
Share capital	21	250,000	188,993
Retained earnings		249,306	220,345
		499,306	409,338
TOTAL LIABILITIES AND EQUITY		2,848,958	2,082,795

On behalf of the Management:

Chinara Moldazhanova
General Director

February 28, 2022
Bishkek, the Kyrgyz Republic

Maya Dzhusupova
Chief Accountant

February 28, 2022
Bishkek, the Kyrgyz Republic

The notes on pages 10-58 form an integral part of the financial statements. The independent auditor's report is on pages 3-4.

LLC "MICRO-CREDIT COMPANY "BAILYK FINANCE"

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Kyrgyz Soms)

	Note	Share capital	Retained earnings	Total equity
Balance at January 1, 2020	22	188,993	95,287	284,280
Comprehensive income				
Profit		-	125,058	125,058
Total comprehensive income		-	125,058	125,058
Balance at December 31, 2020	22	188,993	220,345	409,338
Comprehensive income				
Profit		-	89,968	89,968
Total comprehensive income		-	89,968	89,968
Increase in share capital	22	61,007	(61,007)	-
Total transactions with participants		61,007	(61,007)	-
Balance at December 31, 2021	22	250,000	249,306	499,306

On behalf of the Management:

Chinara Moldazhanova
General Director

February 28, 2022
Bishkek, the Kyrgyz Republic

Maya Dzhusupova
Chief Accountant

February 28, 2022
Bishkek, the Kyrgyz Republic

The notes on pages 10-58 form an integral part of the financial statements. The independent auditor's report is on pages 3-4.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Kyrgyz soms)

	Notes	For the year ended December 31, 2021	For the year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		746,272	557,530
Interest paid		(286,717)	(186,810)
Commission received		67,207	24,221
Commission paid		(5,557)	(1,524)
Other cash receipts		20,181	11,416
Loss on foreign currency transactions	8	(1,464)	(2,439)
Payments on operations with financial instruments	7	(53,835)	(11,434)
Operating expenses paid		(305,270)	(211,706)
Cash flow from operating activities before changes in operating assets and liabilities		180,817	179,254
Changes in operating assets and liabilities:			
Deposits and cash in financial institutions		(1,150)	(18,117)
Loans to customers		(877,709)	(435,952)
Financial instruments at fair value through profit or loss		13,564	4,781
Other assets		20,538	(25,602)
Borrowers' prepayments		2,970	15,353
Other liabilities		10,102	4,733
Cash outflow from operating activities before income tax paid		(650,868)	(275,550)
Income tax paid		(14,992)	(12,715)
Net cash outflow from operating activities:		(665,860)	(288,265)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, equipment and intangible assets		-	27
Purchase of property, equipment and intangible assets	16	(27,098)	(13,709)
Net cash outflow from investing activities		(27,098)	(13,682)

LLC “MICRO-CREDIT COMPANY“BAILYK FINANCE”

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021 (CONTINUED)
(in thousands of Kyrgyz soms)

	Note	For the year ended December 31, 2021	For the year ended December 31, 2020
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	19	1,716,009	922,190
Repayment of borrowings	19	(1,096,578)	(407,319)
Repayment of lease liabilities		(14,261)	(7,523)
Net cash inflow from financing activities:		605,170	507,348
NET INCREASE IN CASH AND CASH EQUIVALENTS		(87,788)	205,401
Effect of foreign exchange translation difference on cash and cash equivalents		1,580	1,659
CASH AND CASH EQUIVALENTS, at the beginning of the year	12	238,203	31,143
CASH AND CASH EQUIVALENTS, at the end of the year	12	151,995	238,203

On May 24, 2021 the increase of share capital of the Company from 188,993 thousand soms to 250,000 thousand soms through allocating part of the retained earnings of the Company for 2020 in the amount of 61,007 thousand soms was approved on the General Meeting of Participants of the LLC "Micro-credit Company "Bailyk Finance" held on May 24, 2021.

On behalf of the Management:

Chinara Moldazhanova
General Director

February 28, 2022
Bishkek, the Kyrgyz Republic

Maya Dzhusupova
Chief Accountant

February 28, 2022
Bishkek, the Kyrgyz Republic

The notes on pages 10-58 form an integral part of the financial statements. The independent auditor's report is on pages 3-4.

(in thousands of Kyrgyz soms)

1. BACKGROUND

LLC “Micro-credit company “Bailyk Finance” (the “Company”) was founded on October 24, 2010 in accordance with the legislation of the Kyrgyz Republic. On November 1, 2021 the Company was reregistered in connection with the increase in the Share capital and received a Certificate of state re-registration of the series ГПЮ No. 0047479 with register No.115177-3300-ООО. Activities of the Company are regulated by the National Bank of the Kyrgyz Republic (the “NBKR”). The Company conducts its operations under the certificate No. 173-7/1542 dated March 11, 2011 issued by the National Bank of the Kyrgyz Republic. Main activities of the Company are issuing microcredits to individuals and legal entities of the Kyrgyz Republic as well as the provision of consulting and information services related to the provision of microcredit services. On November 1, 2021, the Company's core operations included operations in accordance with Islamic financing principles within the Islamic Window, established to provide accessible microfinance services to help alleviate poverty, increase employment, promote entrepreneurship and social mobilization of the population.

Registered office of the Company is located at st.Fatyanova, house 170, Bishkek, the Kyrgyz Republic. As at December 31, 2021 and 2020 the Company had 42 and 35 offices, respectively, located in the Kyrgyz Republic.

Number of employees of the Company as at December 31, 2021 and 2020 amounted to 388 and 333 employees, respectively.

The shares of participants in the Share capital are distributed in the following order:

	December 31, 2021		December 31, 2020	
	Amount	**Share**	**Amount**	**Share**
Moldazhanova Chinara	87,575	35.03%	66,211	35.03%
MIKROKAPITAL SÀRL	57,450	22.98%	43,423	22.98%
Zhumgalbekova B.Zh.	55,375	22.15%	-	-
Kanimetova Saina	-	-	41,861	22.15%
Derbishaliev Arzymat	21,625	8.65%	16,350	8.65%
Zholdosheva Zhypariza	12,400	4.96%	9,375	4.96%
Abdiraimov Pardavai	11,550	4.62%	8,727	4.62%
Asakeeva Cholpon	4,025	1.61%	3,046	1.61%
	250,000	100.00%	188,993	100.00%

On May 24, 2021 Ms. Kanimetova S. transferred share in the capital of the Company in the share of 22.15% to Ms. Zhumgalbekova B.Zh. on the basis of a Gratuitous Transfer Agreement.

The financial statements were approved by management of the Company on February 28, 2022.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRS”) issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee.

Functional and reporting currency

Items included in the Company’s financial statements are estimated using the currency that best reflects the economic substance of the underlying events and circumstances related to the Company (the “functional currency”). The functional and reporting currency of the accompanying financial statements is Kyrgyz soms (the “KGS” or “som”).

These financial statements are presented in thousands of Kyrgyz soms, unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the evaluation of certain financial instruments carried at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Recognition and valuation of financial instruments

Financial assets and financial liabilities are recognised on the Company’s statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company reflects purchasing and sale of financial assets and liabilities, which have regular nature at the date of settlements.

Financial assets and liabilities are initially recognised at fair value. The acquisition cost of financial assets and liabilities that are not financial assets and liabilities at fair value through profit or loss, is adjusted for transaction costs, directly related to the acquisition of a financial asset or financial liability origination. The principles of subsequent valuation of financial assets and liabilities are disclosed in appropriate accounting policies set out below.

The Company classifies financial assets in the following main categories:

- Financial asset measured at amortised cost;
- Financial asset measured at fair value through other comprehensive income (FVOCI);
- Financial asset measured at fair value through profit or loss.

Debt instruments

The classification and subsequent accounting of debt instruments depend on:

a) Business model of the Company used to manage financial assets;
b) Characteristics of the financial asset and the contractual cash flows.

Business model

Business model used by the Company describes the way how the Company manages its financial assets in order to generate cash flows, i.e. business model of the Company determines whether the cash flows will result from the receipt of contractual cash flows, selling financial assets or both.

The Company can apply various financial asset management models in the course of its activities, but it is expected that most financial assets will be held till maturity within the framework of the contractual cash flow model in accordance with the Company’s development strategy and limited market tools in the Kyrgyz Republic.

SPPI criteria

In order to assess the compliance of contractual terms of a financial asset with SPPI criteria, the Company conducts an SPPI test (the “SPPI test”) for each debt financial asset. During this assessment the Company reviews whether the contractual cash flows are consistent with the basic lending arrangement, i.e. interest includes only the time value of money, credit risk, other major credit risks and profits in accordance with the basic lending arrangement.
If the contractual terms include any risk or volatility that does not correspond to the basic lending arrangement, the relevant financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Company classifies its debt instruments into the following three categories:

Financial assets measured at amortised cost:

a) The objective of the Company's business model is to hold the financial asset to collect the contractual cash flows.

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The carrying amount of these assets is adjusted by expected credit losses. Interest earned on these financial assets is included in “Interest income” using the effective interest method.

Financial assets measured at fair value through Other comprehensive income (FVOCI):

a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the carrying amount are recognised in other comprehensive income. The recognition of expected credit losses, interest income and changes in foreign currency occurs in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. Interest earned on these financial assets is recognised in “Interest income” using the effective interest method.

Financial assets measured at fair value through profit or loss (FVTPL):

The Company classifies financial assets at fair value through profit or loss if they do not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income. Gains or losses on debt instruments measured at fair value through profit or loss (that are not part of the hedging instruments) are recognised in the statement of profit or loss as part of the “Net Trade Income” in the period in which they arise. Interest earned on these financial assets is recognised in “Interest income” using the effective interest method.

Even if an instrument meets the two requirements to be measured at amortised cost or FVOCI, the Company has an option to designate, at initial recognition, a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

All other debt instruments that do not fit in any of the categories must be measured at fair value through profit or loss.

Derecognition of financial assets

The recognition of a financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) ceases when:

- the rights to receive cash flows from the asset have ceased;
- the Company transferred its rights to receive cash flows from the asset or reserved the right to receive cash flows from the asset, but became obliged to pay these cash flows without significant delay to a third party under the ‘transfer’ agreement; and
- the Company either (a) transferred almost all the risks and rewards related to the asset, or (b) did not transfer and did not retain almost all the risks and rewards related to the asset, but transferred a control over the asset.

Modification of contractual cash flows

In circumstances where the Company reviews or modifies the contractual cash flows for a financial asset, the Company assesses how significant is a change between the original conditions and the new ones.

If conditions differ significantly, the Company derecognizes the original financial asset and recognizes a new financial asset at fair value and recalculates the new effective interest rate for the asset. At the date of modification, the Company calculates revised expected credit losses and determines whether there is a significant increase in credit risk. However, the Company also evaluates whether a newly recognised financial asset is considered to be impaired upon initial recognition, especially in cases where the revision was due to the fact that the borrower was unable to make the originally agreed payments. The difference in the carrying value of financial assets is reflected in the statement of profit or loss.

If conditions do not differ significantly, then revision or change does not lead to derecognition. The Company recalculates the carrying amount using initial effective interest rate according to the changes in cashflows and the effect is recognised as profit or loss on modification within the Statement of profit or loss.

If a modification results in increase of significant risks according to the methodology for calculating of expected credit losses, then the contract modification affects the impairment calculation.

Classification and subsequent accounting of financial liabilities

The Company classifies all financial liabilities as subsequently measured at amortised cost, except for:

a) financial liabilities measured at fair value through profit or loss. Such liabilities, including liability derivatives, are subsequently measured at fair value;

b) financial liabilities that arise when the transfer of a financial asset does not meet the requirements for derecognition or when the principle of continuing participation accounting is applied;

c) financial guarantee contracts and loan commitments at an interest rate lower than the market. After initial recognition, such contracts should be subsequently evaluated on the basis of the largest of the following amounts:

i) the amount of the impairment allowance created by the Company; and
ii) the amount initially recognised less the total amount of income, if applicable;

d) contingent consideration recognised by the acquirer in a business combination. Such contingent consideration is subsequently measured at fair value through profit or loss.

Upon initial recognition of a financial liability, the Company may, in its own discretion, classify it, without the right of subsequent reclassification, as measured at fair value through profit or loss.

Offset of assets and liabilities

The Company's financial assets and liabilities are offset and the net amount reported in the 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 realize the asset and settle the liability simultaneously.

Derecognition of financial liabilities

A financial obligation (or part of it) is considered extinguished when the debtor:

(a) either fulfils this obligation (or part of it) by paying off the lender, generally in cash, other financial assets, goods or services,

(b) is either legally relieved of primary liability for that obligation (or part of it), as a result of the performance of the legal procedure or as a result of the creditor's decision.

Derecognition of financial liabilities occurs also in the case of significant changes in cash flows, i.e. if the present value of cash flows in accordance with the new conditions, including the payment of commission after deduction of commission received, discounted at the original effective interest rate, differs by at least 10% of the discounted present value of the remaining cash flows of the original financial liability.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short term.

Due from banks

In the course of ordinary activities, the Company allocates funds and deposits in banks for different periods. Due from banks are initially recognised at fair value. Due from banks are subsequently evaluated at amortised cost using the effective interest method. Due from credit institutions are taken into account after deduction of any allowance for expected credit losses.

Loans to customers

Loans to customers are financial assets that are not derivative financial instruments with fixed or determinable payments that do not have market quotations, except for assets which are classified in other categories of financial instruments.

Loans issued by the Company are initially recognised at fair value plus transaction costs directly attributable to the acquisition or establishment of such financial assets. If the fair value of the provided funds is not equal to the fair value of loans, for example, in the case of providing loans at rate below than market rates, difference between the fair value of provided funds and the fair value of loans is recognised as a loss on initial recognition of loans and is represented in the income statement in accordance with the nature of such damages. Subsequently, loans are taken into account at amortised cost using the effective interest rate. Loans to customers are taken into account after deduction of allowance for expected credit losses.

Advances received from customers

Advances received from customers represent prepayments for loans to customers. Advances received from customers are initially recognised at fair value. Subsequently, advances received from customers are written off against customers’ obligations in accordance with loan agreement schedule.

Write-off of loans

In the case of impossibility of recovery of loans, including through repossession of collateral, they are written-off against the allowance for expected credit losses. Loans and provided funds are written - off after taking by management of the Company measures to recover amounts owed to the Company and after selling by the Company all available collateral. Subsequent recoveries of previously written-off amounts are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Allowance for expected credit losses

The Company recognizes an estimated allowance for expected credit losses ("ECL") on loans issued. The Company recognizes such losses at each reporting date by assessing the existence of impairment evidences. The impairment assessment model of financial assets provides for the assessment of expected credit losses within 12 months and throughout the lifetime of the financial asset.

The Company's expected losses model is based on the following principles:

Stage 1: 12-month expected credit losses - expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date;
Stage 2: full lifetime expected credit losses - expected credit losses that result from all possible default events over the life of the financial instrument;

Stage 3: expected credit losses that result from all possible default events over the life of the financial instrument, but interest income is calculated based on the gross carrying amount of the financial asset (using effective interest rate) less impairment allowance.

Expected credit losses reflect an objective calculation of the probability-weighted value, which is determined by assessing a number of possible outcomes.

The Company estimates expected credit losses on a financial instrument using a model that reflects:

a) unbiased and probability-weighted amount determined by assessing the range of possible outcomes;
b) time value of money; and
c) reasonable and verifiable information on past events, current conditions and projected future economic conditions available at the reporting date without excessive cost or effort.

The Company creates an estimated allowance for expected credit losses on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- receivables from (financial) leases; and
- issued loan obligations.

Impairment losses on equity-based investments are not reflected in the financial statements.

Expected credit losses in a period of 12 months are part of the expected credit losses that arise as a result of defaults on the financial instrument, expected within 12 months after the reporting date.

Expected credit losses are calculated taking into account the probability-weighted credit losses. They are evaluated as follows:

- for financial assets that are not credit-impaired at the reporting date: the present value of all cash flows that has not been received (the difference between the cash flows under the contractual terms and expected cash flows to be received by the Company);
- for financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of the estimated future cash flows;
- for loan commitments: the present value of the difference between the contractual cash flows if the commitment is used and expected cash flows to be received by the Company.

Changes in expected credit losses are recognised in the profit using an allowance account. The assets reflected in the statement of financial position are reduced by the amount of expected credit losses.
The following indicators are considered by the Company when determining the existence of impairment evidence: the debtor's or issuer's liquidity, their solvency, business and financial risks, levels and trends of defaults on similar financial assets, national and local forecasts on economic trends and conditions, and the fair value of collateral and guarantees.

These and other factors, individually or collectively, provide an objective evidence for recognizing expected credit losses of a financial asset or group of financial assets.

More detailed information on calculation of expected credit losses is provided in Note 26.

Property, equipment and intangible assets

Depreciation is charged on the carrying value of fixed assets to write off assets over their useful lives. Accrual of depreciation and amortization is implemented on straight-line method, based on following useful life of assets:

Vehicles	5 years
Computer equipment	2 years
Furniture and equipment	3 years
Leasehold improvements	Lease term
Intangible assets	3 years

Depreciation of leasehold improvements is calculated over the useful life of the related leased assets. The cost of repair and overhaul are reflected in the statement of profit or loss and other comprehensive income within operating expenses as incurred unless they meet the requirements for capitalization.

Leases

The Company leases offices. Rental contracts are typically made for fixed periods but may have extension options. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, equipment and intangible assets were classified as operating leases in the Company's financial statement. Effective from January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Payments associated with short-term leases of offices, premises and equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less and probability to extend the lease contract is very low.

Income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial significant direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Taxation

Income tax expense represents sum of the current and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences, when the Company 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised. Deferred tax is reflected in Statement of profit or loss and other comprehensive income, except when they connected with items, which are directly related to equity, and in this case deferred tax is also reflected within equity.

The Company conducts netting of deferred tax assets and liabilities and reflects summary difference in the financial statement, if:

- The Company has a legally enforceable right for netting current tax assets against current tax liabilities; and
- Deferred tax assets and deferred tax liabilities relate to corporate taxes levied by the same taxation authority from the same taxable entity.

In addition to income tax there are requirements on accrual and payments of various taxes applicable to the Company’s activities in the Kyrgyz Republic where the Company performs its activities.

Borrowings

Borrowings are initially recognised at fair value. Subsequently received amounts are reflected at amortised cost and difference between the carrying and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method within interest expense.

Share capital

Share capital is recognised at initial cost.

Dividends are recorded as a reduction in the period in which they are declared. Dividends declared after the reporting date are treated as an event after the reporting date under IAS 10 “Events after the Reporting Period” and information about it is disclosed accordingly.

Pension liabilities

In accordance with the laws of the Kyrgyz Republic the Company withholds the amount of pension contributions from employee’s salaries and transfers them to the State pension fund. The existing pension system provides for the calculation of current payments by the employer as a percentage of current gross salary payments. Such expenses are recognised in the period, which includes appropriately payment for employees. At retirement, all pension payments are implemented by above mentioned pension fund. The Company does not have any pension arrangements separate from the State pension system of the Kyrgyz Republic. In addition, the Company has no benefits provided to employees upon retirement, or other significant compensated benefits requiring accrual.

Recognition of interest income and expense

Interest income on financial assets is recognised when there is a high probability that the Company will receive an economic benefit and the amount of income can be reliably determined. Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate by which future cash receipts are estimated to the net carrying amount on initial recognition of financial assets and liabilities. Discounting is made through the expected life of the debt instrument, or (where appropriate) a shorter period.

Interest earned on assets at fair value is classified within interest income.

Recognition of commission income and expenses

Commission for loan origination and related direct costs associated with the loans providing are reflected as an adjustment to the effective interest rate on loans.

If there is a possibility that due to the presence of a liability of providing a credit will be signed a contract for a loan, commitment fee on the loan included in deferred revenue (together with related direct costs) and subsequently recognised as an adjustment to actual income on the loan. If the probability of that the commitment to extend credit is estimated as low, the commitment fee on the loan is recognised in the income statement over the remaining period of the loan commitment. Upon expiration credit commitments, which are not completed by providing a loan, commitment fee on the loan is recognised in the income statement on the date of its expiration.

Foreign currency exchange

Monetary assets and liabilities denominated in foreign currencies are exchanged to Kyrgyz soms at the market rates prevailing at December 31. Transactions denominated in foreign currencies are reported at the rates of exchange prevailing at the date of the transaction. Any gains or losses arising from a change in exchange rates subsequent to the date of the transaction are included as an exchange gain or loss in the statement of profit or loss and other comprehensive income.

(in thousands of Kyrgyz soms)

Exchange rate

The official exchange rates at year-end used by the Company during preparation of the financial statements were:

	December 31, 2021	December 31, 2020
Kyrgyz som / US dollar	84.7586	82.6498
Kyrgyz som / Euro	95.7857	101.3204
Kyrgyz som / Russian ruble	1.1409	1.1188
Kyrgyz som / Kazakhstani tenge	0.1964	0.1966

Areas of significant use of estimates and assumptions of management

The preparation of financial statements requires from Management to make estimates and assumptions that have an influence on reported amounts of assets and liabilities of the Company, the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. The Company’s management conducts evaluations and judgments on an ongoing basis, based on previous experience and a number of other factors that are considered reasonable in the current environment. Actual results could differ from those estimates. The following estimates and assumptions are important to present financial position of the Company.

Allowance for expected credit losses

The Company regularly reviews its loans for impairment. Reserves of the Company’s loan impairment are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Company considers accounting estimates related to the allowance for expected credit loss of loans and receivables, a key source of uncertainty of estimation due to the fact that (i) they are highly susceptible to change from period to period as the assumptions on future non-compliance indicators and assessment of potential losses related to impaired loans and receivables, based on recent work, and (ii) any significant difference between the estimated losses and actual losses of the Company requires from the Company to create reserves, which could have a material impact on its financial statements in future periods.

The Company uses management judgment to estimate the amount of any impairment loss in cases where the borrower has financial difficulties and there is little historical data relating to similar borrowers. Analogously, the Company estimates changes in future cash flows based on past experience, the client’s behavior in the past, the available data, indicating an adverse change in the status of repayment by borrowers in the group, as well as national or local economic conditions that correlate with defaults on assets in this group. Management uses estimates based on historical experience of losses on assets with credit risk characteristics and objective evidence of impairment similar to those in this group of loans. The Company uses an assessment of Management for adjusting the available data on a group of loans to reflect current circumstances not reflected in historical data.

It should be taken into account that the assessment of expected credit losses includes a subjective factor. The Company's management believes that the amount of the recognised impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, taking into account forecast data, although it is possible that in certain periods the Company may incur losses greater than the created reserve for expected credit losses.

The allowances for expected credit losses of financial assets in the financial statements have been determined on the basis of existing economic conditions.

As at December 31, 2021 and 2020 the carrying amount of the allowance for expected credit losses on loans to customers amounted to 99,411 thousand soms and 43,133 thousand soms, respectively (Note 14).

(in thousands of Kyrgyz soms)

Leases

The two main areas of judgment with regards to quantification of the right-of-use asset and lease liability are the determination of lease term and the discount rate.

Determining lease term

The Company’s expectation of exercising the option to renew a lease will be determined by assessing if the Company is “reasonably certain” to exercise that option. The Company will be reasonably certain to exercise an option when factors create a significant economic incentive to do so. This assessment will require a significant level of judgement as it is based on current expectations of future decisions. The lease term will have an impact on the calculation of the ROU asset and the lease liability; the longer the lease term, the higher the right-of-use asset and the related lease liability. Changes in the economic environment may impact the Company’s assessment of lease term, and any changes in the estimate of lease terms may have a material impact on the Company’s right-of-use assets and lease liabilities.

Discount rate

At commencement date, the Company will measure the lease liability at the present value of the future lease payments, discounted using the Company’s incremental borrowing rate. The Company will consider a broad range of factors to determine the appropriate discount rate. These will include the Company’s credit risk, term of the lease, the economic environment and geographical location in which the lease is entered into.

Application of new and revised international financial reporting standards (IFRSs)

The following amendments and interpretations are effective for the Company effective January 1, 2020:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	" Basic Interest Rate Reform - Stage 2"
Amendments to IFRS 16	"Lease concessions related to the COVID-19 pandemic"

The Company also early adopted the amendment to IFRS 16 COVID-19 Related Rent Concessions. This amendment is effective for annual reporting periods beginning on or after July 1, 2020. Applied retrospectively in accordance with IAS 8, but does not require to revise prior periods.

The adoption of the new or revised standards did not have significant effect on the financial position or performance of the Company in the financial statements, except for the standards described below.

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

(in thousands of Kyrgyz soms)

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

1) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
2) Any reduction in lease payments affects only payments originally due on or before June 30, 2021 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
3) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Company has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

New and revised IFRSs in issue but not yet effective

A number of new Standards and Interpretations has been issued and not yet adopted as at December 31, 2021 and had not been applied in preparation of these financial statements. Following Standards and Interpretations are relevant to operations of the Company. The Company intends to adopt these Standards and Interpretations from their effective dates. The Company has not analysed potential effect of adoption of these standards on its financial statements.

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New Standards or Interpretations	Effective date - for annual periods beginning no earlier than
IFRS 17 “Insurance contracts”	January 1, 2023
Amendments to IFRS 17 “Insurance contracts”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current” (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles).	January 1, 2023
Amendments to IAS 8 – “Definition of Accounting Estimates”	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – “Disclosure of Accounting Policies”	January 1, 2023
Annual Improvements to IFRS Standards 2018-2020:	January 1, 2022
Amendments to IFRS 3 – “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IAS 16 “Property, Plant and Equipment” – Revenue Before Intended Use	January 1, 2022
Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – “Loss-making Contracts – Completion Value”	January 1, 2022
Amendments to IAS 12 Deferred Tax Relating to Assets and Liabilities Arising from a Single Transaction	January 1, 2022

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

IFRS 17 establishes principles for recognition, measurement, disclosure and presentation of insurance contracts, and supersedes IFRS 4 Insurance Contracts.

IFRS 17 establishes a general model, which is modified and defined with respect to insurance contracts with direct participation features as the variable fee approach. If certain criteria are met, the general model is simplified by measuring liability for the remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows, and it separately estimates the cost of such uncertainty. The model takes into account market interest rates and the impact of options and guarantees of policyholders.

Standard is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. It is applied retrospectively, if practicable, otherwise a modified retrospective approach or fair value accounting should be applied. The draft of Amendments to IFRS 17, issues and difficulties associated with the implementation, which were identified after the issuance of IFRS 17. In this regard, the official entry into force of the standard was postponed until January 1, 2023 (established – from January 1, 2021).

In order to meet transitional requirements, the date of initial application is the beginning of the annual reporting period in which the entity first applies this standard, and the date of transition is the beginning of the period immediately preceding the date of initial application.

The management of the Company does not expect that the application of this standard will have an impact on the condensed consolidated financial statements of the Company in the future.

Amendments to IFRS 17. ‘Amendments to IFRS 17’ were made to address concerns and implementation challenges that were identified after IFRS 17 ‘Insurance Contracts’ was published in 2017. The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted.

Amendments to IAS 1 “***Classification of Liabilities as Current or Non-current***” (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles). The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and has the authority to refinance the liability or postpone its repayment for at least 12 months after the reporting period under the existing credit line with the previous lender, on equivalent or similar terms.

The amendments to IAS 1 affect only the presentation of liabilities in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

The management of the Company does not expect that the application of this standard will have an impact on the condensed consolidated financial statements of the Company in the future.

Amendments to IAS 8 “Definition of Accounting Estimates”. The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates;
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty;
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error;
- A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods.

The amendments are effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. [if there is an expected effect from the transition, disclose it]

Amendments to IAS 1 and IFRS Practice Statement 2 – "Disclosure of Accounting Policies”. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- Several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- The amendments clarify that accounting policy information is material if users of an entity’s financial statements would need it to understand other material information in the financial statements; and
- The amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ to accounting policy information in order to support the amendments to IAS 1.

The amendments are applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2.

Annual Improvements to IFRS 2018-2021 Cycles. The list of amendments includes amendments to the three standards, as well as annual improvements to the Board, which are changes that clarify the wording or eliminate minor inconsistencies, omissions or contradictions between the requirements in the standards.

- The amendments to IFRS 3 Business Combinations update the reference in IFRS 3 to the Conceptual Framework for Financial Statements without changing the accounting requirements for a business combination.
- Amendments to IAS 16 Property, Plant and Equipment prohibit deducting from the value of property, plant and equipment the amounts received from the sale of manufactured goods while preparing the asset for its intended use. Instead, these sales revenue and related costs are recognized in profit or loss.
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” determine the costs to be included in assessing whether the contract is onerous.
- Annual improvements introduce minor amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, IAS 41 “Agriculture” and illustrative examples accompanying IFRS 16 “Leases”.

All amendments are effective on January 1, 2023, early application is permitted.

The management of the Company does not expect that the application of this standard will have an impact on the condensed consolidated financial statements of the Company in the future.

Amendments to IAS 12 “Deferred Tax Relating to Assets and Liabilities Arising from a Single Transaction”. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The Board also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset;

The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

(in thousands of Kyrgyz soms)

4. NET INTEREST INCOME

Interest income and expenses for the years ended December 31, 2021 and 2020 are as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Interest income includes:		
Interest income from financial assets measured at amortised cost:		
Interest income from loans to customers	757,492	570,364
Interest income from deposits in bank	3,124	2,794
Total interest income on financial assets measured at amortised cost	760,616	573,158
Interest expenses include:		
Interest expenses on financial liabilities measured at amortised cost:		
Interest expenses on borrowings	(281,179)	(188,917)
Interest expenses on lease liabilities	(8,320)	(5,513)
Total interest expenses on financial liabilities measured at amortised cost	(289,499)	(194,430)
Net interest income before accrual of allowance for expected credit losses on interest bearing assets	471,117	378,728

5. COMMISSION INCOME AND EXPENSES

Commission income and expenses for the years ended December 31, 2021 and 2020 are as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Commission income		
Commission income from cash service for loans to customers	58,048	24,109
Other commission income from loan to customers	9,159	112
	67,207	24,221
Commission expenses		
Other commission expenses	(5,557)	(1,524)
	(5,557)	(1,524)

Other commission expenses represent the commission expenses to agents (operators) for accepting payments received from the Company's clients on repayment of loans to customers, through payment terminals.

(in thousands of Kyrgyz soms)

6. ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES

The movement of the allowance for expected credit losses on interest bearing assets for the years ended December 31, 2021 and 2020 is presented as follows:

	Loans to customers (Note 14)	**Deposits and cash in banks (Note 13)**	**Total**
As at Janaury 1, 2020	32,577	-	32,577
Accrual	23,007	1,083	24,090
Write-offs	(12,601)	-	(12,601)
Repayment of written-off loans	150	-	150
As at December 31, 2020	43,133	1,083	44,216
Accrual	59,866	659	60,525
Write-offs	(4,493)	-	(4,493)
Repayment of written-off loans	905	-	905
As at December 31, 2021	99,411	1,742	101,153

The movement of the allowance for expected credit losses on non-interest bearing assets for the years ended December 31, 2021 and 2020 is presented as follows:

	Other assets (Note 18)	**Due from banks (Note 12)**	**Total**
As at Janaury 1, 2020	2,215	869	3,084
Accrual	2,205	(332)	1,873
Write-offs	(4,420)	-	(4,420)
As at December 31, 2020	-	537	537
Recovery	-	(194)	(194)
As at December 31, 2021	-	343	343

7. NET (LOSS)/GAIN ON OPERATIONS WITH FINANCIAL INSTRUMENTS MEASURED AT FVTPL

Net (loss)/gain on operations with financial instruments measured at FVTPL for the years ended December 31, 2021 and 2020, is presented as follows:

	For the year ended December 31, 2021	**For the year ended December 31, 2020**
Foreign exchange differences	12,542	24,759
Interest expense on SWAP operations	(53,835)	(11,434)
	(41,293)	13,325

(in thousands of Kyrgyz soms)

During 2021 and 2020 the Company entered into SWAP transactions with OJSC “Commercial Bank “Kyrgyzstan” and LLC “Micro-Credit Company “Frontiers” and CJSC “Kyrgyz-Swiss Bank” in order to manage currency risks.

8. NET LOSS ON FOREIGN EXCHANGE OPERATIONS

Net loss on foreign exchange operations for the years ended December 31, 2021 and 2020 comprises:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Translation difference, net	12,353	25,933
Dealing operations, net	1,464	2,439
	13,817	28,372

9. OTHER INCOME

Other income for the years ended December 31, 2021 and 2020 comprises:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Agency fee on health insurance of customers	19,393	9,907
Income from termination of lease agreements	1,721	346
Income under the grant agreement with BlueOrchard	638	
Income from lease concession	25	540
Income under grant agreement with IFC	-	872
Other	151	633
	21,928	12,298

The Company entered into an agreement with CJSC IC “Zdorovie” dated July 1, 2017 under which it acts as an agent of CJSC IC “Zdorovie” in the insurance of customers’ health in the issuance of loans and receives an agency fee.

The Company entered into a technical assistance grant agreement with Blue Orchard Ltd dated January 27, 2021 under which it co-finances the smart certification assessment – “Client Protection Certification”. The certification was provided by global rating agency MicroFinanza Rating (MFR).

(in thousands of Kyrgyz soms)

10. OPERATING EXPENSES

Operating expenses for the years ended December 31, 2021 and 2020 comprise:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Salary and bonuses	202,821	146,850
Social fund expenses	36,455	25,462
Depreciation and amortization of property, equipment and intangible assets	16,373	11,226
Depreciation of right-of-use assets	16,294	10,382
Transportation expense	15,760	9,839
Repairs and maintenance	5,627	2,985
Training expenses	3,879	749
Remuneration of Board of Directors	3,605	1,492
Professional services	3,275	3,341
Advertisement and marketing	3,157	1,916
Communication	3,122	2,604
Business trip	2,759	1,399
LVI expenses	2,454	1,898
Insurance	2,375	817
Stationery	1,997	2,397
Utility	1,965	1,394
Charity	1,911	1,500
Representation	1,793	825
Expense under the grant agreement with BlueOrchard	808	-
Taxes (other than income tax)	294	92
Other	11,213	6,146
	337,937	233,314

11. INCOME TAX

The Company measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Kyrgyz Republic, which may differ from IFRS. For the year ended December 31, 2021 and 2020 income tax rate for legal entities was equal to 10% on the territory of the Kyrgyz Republic.

The Company is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

(in thousands of Kyrgyz soms)

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 December 31, 2021 and 2020 relate mostly to different methods of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

	For the year ended December 31, 2021	For the year ended December 31, 2020
Current income tax expense	15,270	15,057
Deferred tax benefit	(3,921)	(716)
Income tax expense	11,349	14,341

Reconciliation of income tax and accounting profits for the years ended December 31, 2021 and 2020 is as follows:

	For the year ended December 31, 2021	Effective tax rate	For the year ended December 31, 2020	Effective tax rate
Income before income tax	101,317		139,399	
Tax at statutory rate	10,132	10.0%	13,940	10.0%
Tax effect on permanent differences	1,217	1.2%	401	0.3%
Income tax expense	11,349	11.2%	14,341	10.3%

Tax effect from temporary differences as at December 31, 2021 and 2020 is presented below:

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Lease liabilities	72,550	43,876
Depreciation and amortization of property, equipment and intangible assets	10,409	4,850
Allowance on employee bonuses	-	1,359
Allowance for expected credit losses on deposits and cash in banks	1,742	1,083
Allowance for expected credit losses on loans to customers	5,160	(28,756)
Allowance for expected credit losses on due from banks	343	537
Total deferred income tax assets	90,204	22,949
Deferred income tax liabilities:		
Right-of-use assets	67,293	39,250
Total deferred income tax liabilities	67,293	39,250
Net deferred income tax assets/(liabilities)	22,911	(16,301)
Net deferred income tax assets/(liabilities) at statutory tax rate (10%)	2,291	(1,630)

(in thousands of Kyrgyz soms)

Temporary differences between tax accounting and current financial statement lead to deferred tax assets as at December 31, 2021 and to deferred tax liabilities as at December 31, 2020 as a result of the following:

	December 31, 2020	Recognised in the statement of profit or loss	Recognised in capital	December 31, 2021
Temporary differences:				
Lease liabilities	4,388	2,867	-	7,255
Depreciation and amortization of property, equipment and intangible assets	485	556	-	1,041
Allowance on employee bonuses	136	(136)	-	-
Allowance for expected credit losses on deposits and cash in banks	109	65	-	174
Allowance for expected credit losses on due from banks	54	(20)	-	34
Allowance for expected credit losses on loans to customers	(2,876)	3,392	-	516
Right-of-use assets	(3,926)	(2,803)	-	(6,729)
	(1,630)	3,921	-	2,291

	December 31, 2019	Recognised in the statement of profit or loss	Recognised in capital	December 31, 2020
Temporary differences:				
Lease liabilities	3,449	939	-	4,388
Depreciation and amortization of property, equipment and intangible assets	158	327	-	485
Allowance on employee bonuses	107	29	-	136
Allowance for expected credit losses on deposits and cash in banks	-	109	-	109
Allowance for expected credit losses on due from banks	87	(33)	-	54
Allowance for doubtful accounts receivable	222	(222)	-	-
Lease prepayments	100	(100)	-	-
Unamortised portion of commission income on loans to customers	21	(21)	-	-
Allowance for expected credit losses on loans to customers	(3,139)	263	-	(2,876)
Right-of-use assets	(3,351)	(575)	-	(3,926)
	(2,346)	716	-	(1,630)

12. DUE FROM BANKS

Due from banks as at December 31, 2021 and 2020 consisted of the following:

	December 31, 2021	December 31, 2020
Correspondent accounts in banks	151,995	238,203
Allowance for expected credit losses (Note 6)	(343)	(537)
	151,652	237,666

(in thousands of Kyrgyz soms)

13. DEPOSITS AND CASH IN BANKS

Deposits and cash in banks as at December 31, 2021 and 2020 are presented as follows:

	December 31, 2021	December 31, 2020
Restricted deposits	25,000	25,000
Restricted cash in banks	15,600	15,600
Interest accrued on term deposits	2,067	917
Allowance for expected credit losses (Note 6)	(1,742)	(1,083)
	40,925	40,434

Restricted deposits and cash on bank include the following:

- Security deposit in the amount of 15,600 thousand soms for a period up to November 16, 2023 on a credit line opened at OJSC "Commercial Bank Kyrgyzstan";
- Term deposit in the amount of 15,000 thousand soms up to March 13, 2021, opened in "Bai-Tushum Bank" CJSC, which acts as collateral for a loan issued by the Russian-Kyrgyz Development Fund;
- Term deposit in the amount of 10,000 thousand soms up to March 13, 2022, opened in "Bakai Bank" OJSC, which acts as collateral for a loan issued by the Russian-Kyrgyz Development Fund.

14. LOANS TO CUSTOMERS

Loans to customers measured at amortised cost as at December 31, 2021 and 2020 consisted of the following:

	December 31, 2021	December 31, 2020
Loans to customers	2,561,667	1,691,626
Interest accrued	56,168	41,824
Unamortised portion of front-end commission	-	(4,080)
Allowance for expected credit losses (Note 6)	(99,411)	(43,133)
	2,518,424	1,686,237

(in thousands of Kyrgyz soms)

Breakdown of loans by sectors is presented below:

	December 31, 2021	December 31, 2020
Household	1,138,890	778,885
Livestock	864,849	511,383
Construction	316,713	218,017
Trade	147,125	111,915
Agriculture	121,305	75,772
Health	13,546	15,571
Production	9,838	8,145
Educatoion	5,067	7,857
Murabaha	307	-
Other	195	1,825
Allowance for expected credit losses	(99,411)	(43,133)
	2,518,424	1,686,237

Information on collateral for loans issued is as follows:

	December 31, 2021	December 31, 2020
Unsecured loans	1,953,053	1,308,672
Guarantor	596,421	371,840
Real estate	60,855	42,837
Land	6,944	4,612
Vehicle	562	1,409
Allowance for expected credit losses	(99,411)	(43,133)
	2,518,424	1,686,237

The movement of loans to customers for the year ended December 31, 2021 is presented below:

	12-month ECL	Lifetime ECL – unimpaired loans	Lifetime ECL– impaired loans	Total
January 1, 2021	1,652,762	14,493	24,371	1,691,626
Transfer to Stage 1	1,009	(1,009)	-	-
Transfer to Stage 2	(81,144)	81,756	(612)	-
Transfer to Stage 3	-	(66,559)	66,559	-
New financial assets originated	2,364,827	-	-	2,364,827
Financial assets that have been derecognised	(1,458,642)	(9,748)	(24,302)	(1,492,692)
Write-offs	-	-	(2,476)	(2,476)
Repayment of written-off loans and interest	-	-	382	382
December 31, 2021	2,478,812	18,933	63,922	2,561,667

(in thousands of Kyrgyz soms)

The movement of loans to customers for the year ended December 31, 2020 is presented below:

	12-month ECL	Lifetime ECL – unimpaired loans	Lifetime ECL– impaired loans	Total
January 1, 2020	1,273,801	-	10,183	1,283,984
Transfer to Stage 1	352	(352)	-	-
Transfer to Stage 2	(47,442)	47,442	-	-
Transfer to Stage 3	-	(30,771)	30,771	-
New financial assets originated	1,497,118	-	-	1,497,118
Financial assets that have been derecognised	(1,071,067)	(1,826)	(5,507)	(1,078,400)
Write-offs	-	-	(11,192)	(11,192)
Repayment of written-off loans and interest	-	-	116	116
December 31, 2020	1,652,762	14,493	24,371	1,691,626

The movement of allowance for expected credit losses on loans to customers for the year ended December 31, 2021 is presented below:

	12-month ECL	Lifetime ECL – unimpaired loans	Lifetime ECL– impaired loans	Total
January 1, 2020	15,729	5,104	22,300	43,133
Transfer to Stage 1	59	(59)	-	-
Transfer to Stage 2	(15,358)	15,703	(345)	-
Transfer to Stage 3	-	(9,574)	9,574	-
(Decreases)/increases due to change in credit risk	1,894	(2,331)	54,282	53,845
New financial assets originated	41,076	-	-	41,076
Financial assets that have been derecognised	(15,578)	(3,553)	(15,924)	(35,055)
Write-offs	-	-	(4,493)	(4,493)
Repayment of written-off loans and interest	-	-	905	905
December 31, 2020	27,822	5,290	66,299	99,411

(in thousands of Kyrgyz soms)

The movement of allowance for expected credit losses on loans to customers for the year ended December 31, 2020 is presented below:

	12-month ECL	**Lifetime ECL – unimpaired loans**	**Lifetime ECL– impaired loans**	**Total**
January 1, 2020	21,615	-	10,962	32,577
Transfer to Stage 1	341	(341)	-	-
Transfer to Stage 2	(10,780)	11,410	(630)	-
Transfer to Stage 3	-	(7,293)	7,293	-
(Decreases)/increases due to change in credit risk	(6,632)	1,328	19,940	14,636
New financial assets originated	24,794	-	-	24,794
Financial assets that have been derecognised	(13,609)	-	(2,814)	(16,423)
Write-offs	-	-	(12,601)	(12,601)
Repayment of written-off loans and interest	-	-	150	150
December 31, 2020	15,729	5,104	22,300	43,133

The movement in allowance for expected credit losses on loans to customers for the year ended December 31, 2021 is presented below:

	12-month ECL	**Lifetime ECL – unimpaired loans**	**Lifetime ECL– impaired loans**	**Total**
January 1, 2021	15,729	5,104	22,300	43,133
Transfer to Stage 1	59	(59)		-
Transfer to Stage 2	(957)	1,302	(345)	-
Transfer to Stage 3		(5,363)	(5,363)	-
(Decreases)/increases due to change in credit risk	(17,896)	4,748	49,389	36,241
New financial assets originated	41,076			41,076
Financial assets that have been derecognised	(10,189)	(442)	(6,820)	(17,451)
Write-offs			(4,410)	(4,410)
Repayment of written-off loans and interest			822	822
December 31, 2021	27,822	5,290	66,299	99,411

(in thousands of Kyrgyz soms)

The movement in allowance for expected credit losses on loans to customers for the year ended December 31, 2020 is presented below:

	12-month ECL	**Lifetime ECL – unimpaired loans**	**Lifetime ECL– impaired loans**	**Total**
January 1, 2020	21,615	-	10,962	32,577
				-
Transfer to Stage 1	341	(341)	-	-
Transfer to Stage 2	(10,780)	11,410	(630)	-
Transfer to Stage 3	-	(7,293)	7,293	-
(Decreases)/increases due to change in credit risk	(6,632)	1,328	19,940	14,636
New financial assets originated	24,794	-	-	24,794
Financial assets that have been derecognised	(13,609)	-	(2,814)	(16,423)
Write-offs	-	-	(12,601)	(12,601)
Repayment of written-off loans and interest	-	-	150	150
December 31, 2020	15,729	5,104	22,300	43,133

15. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial intruments at fair value through profit or loss as at December 31, 2021 and 2020 consisted of the following:

	December 31, 2021		**December 31, 2020**	
	Nominal value	**Net assets at fair value**	**Nominal value**	**Net assets at fair value**
Foreign currency contracts				
SWAP	360,388	26,111	354,089	27,133

As at December 31, 2021 and 2020, according to SWAP contracts, the Company had obligations in Kyrgyz soms and foreign currency in the amount of 360,388 thousand soms and 354,089 thousand soms, respectively. Interest rates on swap contracts as at December 31, 2021 and 2020 amounted to 9.63% and 7.38%, respectively.

As at December 31, 2021 and 2020, according to SWAP contracts, the Company had assets in Kyrgyz soms and foreign currency in the amount of 386,499 thousand soms and 381,222 thousand soms, respectively.

(in thousands of Kyrgyz soms)

16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets as at December 31, 2021 and 2020 consisted of the following:

	Leasehold improvements	Vehicles	Computer equipment	Furniture and equipment	Intangible assets	Total
At cost						
January 1, 2020	-	17,459	6,768	8,049	3,710	35,986
Additions	329	745	6,492	5,344	799	13,709
Disposals	-	-	(182)	(370)	-	(552)
December 31, 2020	329	18,204	13,078	13,023	4,509	49,143
Additions	2,760	-	13,570	6,971	3,797	27,098
Disposals	(389)	-	(130)	(523)		(1,042)
December 31, 2021	2,700	18,204	26,518	19,471	8,306	75,199
Accumulated depreciation						
January 1, 2020	-	8,819	4,149	3,822	1,662	18,452
Charge	100	3,004	3,767	2,985	1,370	11,226
Disposals	-	-	(174)	(348)	-	(522)
December 31, 2020	100	11,823	7,742	6,459	3,032	29,156
Charge	864	3,000	6,079	4,504	1,926	16,373
Disposals	(389)		(130)	(523)		(1,042)
December 31, 2021	575	14,823	13,691	10,440	4,958	44,487
Net book value						
December 31, 2020	229	6,381	5,336	6,564	1,477	19,987
December 31, 2021	2,125	3,381	12,827	9,031	3,348	30,712

(in thousands of Kyrgyz soms)

As at December 31, 2021 fixed assets were not pledged as a collateral for borrowings (as at December 31, 2020 vehicles in amount 5,110 thousand soms were pledged as a collateral for borrowings).

As at December 31, 2021 and 2020 fully depreciated property, equipment and intangible assets in use equaled to 28,128 thousand soms and 11,724 thousand soms, respectively.

17. LEASES

Lease assets and liabilities as at December 31, 2021 and 2020 consisted of the following:

	Right-of-use assets
At cost	
January 1, 2020	40,969
Additions	20,270
Disposals	(5,905)
December 31, 2020	55,334
Additions	50,267
Disposals	(11,631)
December 31, 2021	93,970
Accumulated amortisation	
January 1, 2020	7,460
Charge	10,382
Disposals	(1,758)
December 31, 2020	16,084
Charge	16,294
Disposals	(5,701)
December 31, 2021	26,677
Net book value	
December 31, 2020	39,250
December 31, 2021	67,293

The maturity analysis of lease liabilities is presented in Note 26.

	For the year ended December 31, 2021	**For the year ended December 31, 2020**
Amounts recognized in profit and loss		
Amortization expense on right-of-use assets	16,294	10,382
Interest expense on lease liabilities	8,320	5,513
Expense relating to short-term leases	-	555
Expense relating to leases of low value assets	-	244
Expense relating to variable lease payments not included in the measurement of the lease liability	(25)	(540)

(in thousands of Kyrgyz soms)

	December 31, 2021	December 31, 2020
Lease liabilities		
Current	17,412	10,749
Non-current	55,138	33,127
	72,550	43,876

	Right-of-use assets Buildings	Lease liabilities
January 1, 2020	33,509	34,496
Additions	20,270	20,270
Disposals	(4,147)	(4,493)
Amortization expense	(10,382)	-
Interest expense	-	5,513
Foreign exchange difference	-	1,420
Income from lease concessions	-	(540)
Payments	-	(12,790)
December 31, 2020	39,250	43,876
Additions	50,267	50,267
Disposals	(5,930)	(7,652)
Amortization expense	(16,294)	-
Interest expense	-	8,320
Foreign exchange difference	-	332
Payments (interest)	-	(8,307)
Payments (principal)	-	(14,261)
Income from lease concessions	-	(25)
December 31, 2021	67,293	72,550

18. OTHER ASSETS

Other assets as at December 31, 2021 and 2020 consisted of the following:

	December 31, 2021	December 31, 2020
Other financial assets		
Accounts receivable from Ministry of Finance of the Kyrgyz Republic	-	14,001
Accounts receivable	1,754	5,121
	1,754	19,122
Other non-financial assets		
Prepayment for upgrade and maintenance of MFSYS software	3,463	4,747
Prepayment for insurance services	1,983	1,848
Inventories	1,715	1,220
Rent prepayments	1,420	752
Prepayments for fuel	663	237
Prepayment for installation of video surveillance and fire fighting equipment	-	2,694
Other	552	1,468
	9,796	12,966
	11,550	32,088

(in thousands of Kyrgyz soms)

In accordance with the Resolution of the Government of the Kyrgyz Republic No.552 dated November 13, 2020 “On rendering state support to the borrowers who received loans in financial institutions of the Kyrgyz Republic” and Agreement No.19-04-01/279 dated December 14, 2020 on subsidizing of accrued interest/penalties. The Company submitted a register of borrowers subject to subsidies to the National Bank of the Kyrgyz Republic in the amount of 14,001 thousand soms. On January 19, 2021 the Company received reimbursement from the Ministry of Finance of the Kyrgyz Republic in the amount of 14,001 thousand soms. Actually directed to subsidize interest of borrowers in the amount of 13,871 thousand soms. In February 2021 the Company transferred the undisbursed subsidy amount of 130 thousand soms to Ministry of Finance of the Kyrgyz Republic .

19. BORROWINGS

Borrowings as at December 31, 2021 and 2020 consisted of the following:

	December 31, 2021	December 31, 2020
Loans received	2,156,312	1,553,360
Interest payable	61,903	25,217
Unamortised portion of front-end commission	(10,605)	(6,768)
	2,207,610	1,571,809

Borrowed funds comprise loans from the following financial institutions:

	Interest rate	December 31, 2021	December 31, 2020
Enabling Qapital Microfinance	18.96%	438,636	-
Microfinance Initiative for Asia Debt Fund SA, SICAV-SIF	8,5%-16.5%	281,809	195,276
Covid-19 Emerging and Frontier Markets MSME Supprot Fund	9.0%	172,535	81,976
1/IIV IMPACT INVESTING FUNDS – DKM	9.0%	170,607	164,885
Triodos	16.9%	111,145	-
Triodos Emerging Markets Renewable Energy	16.9%	111,145	-
Crowdcredit Estonia OU	16.0%	108,807	220,997
LUXEMBOURG MICROFINANCE AND DEVELOPMENT	8.00%	103,245	27,657
Commercial bank Kyrgyzstan OJSC	16.0%	95,767	155,096
Kyrgyz-Swiss Bank CJSC	16.0%	89,214	101,910
European Bank for Reconstruction and Development	15.4%	83,656	-
Kyrgyz Investment and Credit Bank	15.0%	79,168	37,537
Arbor FS Ltd	8.5%	74,745	31,345
MLC Frontiers LLC	16.0%	69,912	101,298
agRIF Cooperatief U.A	9.0%	63,587	123,418
Bank of Asia CJSC	8.0%	52,072	78,600
IC Zdorovie CJSC	17%-18%	45,356	69,844
Russian-Kyrgyz Development Fund	8.0%	40,151	29,259
Alterfin CVBA	8.5%	16,053	61,591
Capital Bank of Central Asia OJSC	20.0%	-	57,660
Bank Bai-Tushum CJSC	17.5%	-	20,980
FinanceCreditBank OJSC	17.0%	-	12,480
			-
		2,207,610	1,571,809

(in thousands of Kyrgyz soms)

The movement on loans received for the years ended December 31, 2021 and 2020 is presented as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
As at January 1	1,578,577	1,027,781
Cash flow changes:		
Receipt of other borrowed funds	1,716,009	922,190
Repayments of other borrowed funds	(1,097,098)	(407,319)
Total cash flow changes	618,911	514,871
Non-cash changes :		
Effect of foreign currency translation	14,121	25,718
Changes in interests payable	6,606	10,207
Total non-cash changes	20,727	35,925
As at December 31	2,218,215	1,578,577

The movement on the unamortised portion of commissions on loans received for the years ended December 31, 2021 and 2020 is presented as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
As of January 1	6,768	4,389
Additions	13,948	6,702
Amortization	(10,111)	(4,323)
As of December 31	10,605	6,768

20. OTHER LIABILITIES

Other liabilities as at December 31, 2021 and 2020 consisted of the following:

	December 31, 2021	December 31, 2020
Other financial liabilities		
Accounts payable	11,511	6,406
Accrued salary of employees	4,240	3,251
	15,751	9,657
Other non-financial liabilities		
Income tax payable	5,158	4,879
Employee bonuses provision	-	1,377
Other taxes payable	14,140	8,756
	19,298	15,012
	35,049	24,669

(in thousands of Kyrgyz soms)

	December 31, 2021	December 31, 2020
Other financial liabilities		
Accounts payable	11,511	6,406
Accrued salary of employees	4,240	3,251
	15,751	9,657
Other non-financial liabilities		
Income tax payable	5,158	4,879
Employee bonuses provision	-	1,377
Other taxes payable	14,140	8,756
	19,298	15,012
	35,049	24,669

21. SHARE CAPITAL

Ordinary capital as at December 31, 2021 and 2020 was equal to 250,000 thousand soms and 188,993 thousand soms.

On May 24, 2021 the Company’s participants decided to increase the capital by capitalizing retained earnings in the amount of 61,007 thousand soms. On November 1, 2021 the Company re-registered the authorized capital with the Ministry of Justice of the Kyrgyz Republic.

On May 24, 2021 Ms. Kanimetova S. transferred share in the capital of the Company in the amount of 22.15% to Ms. Zhumgalbekova B.Zh. on the basis of an Agreement on gratuitous transfer.

22. CONTINGENT FINANCIAL LIABILITIES

Capital expenditure commitments

As at December 31, 2021 and 2020 the Company had no capital expenditure commitments.

Legal proceedings

From time to time in the Company’s customers and counterparties claim against the Company and the Company claims against customers. As at the reporting date the Company was not involved in legal proceedings which could lead to changes in the financial statements.

Taxation

Tax legislation of the Kyrgyz Republic may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities.

Management of the Company believes that as of the reporting dates, the relevant legislative provisions have been interpreted correctly and the position of the Company in terms of tax legislation will remain stable.

Economic environment

The Company’s principal business activities are within the Kyrgyz Republic. Laws and regulations affecting the business environment in the Kyrgyz Republic are subject to rapid changes and the Company’s assets and operations could be at risk due to negative changes in the political and business environment.

Operating environment

Emerging market of the Kyrgyz Republic is subject to more risks than developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in countries and the countries’ economy in general.

Laws and regulations affecting businesses in the Kyrgyz Republic continue to change rapidly. Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal difficulties leading to the challenges faced by the Company. The future economic direction of the Kyrgyz Republic is largely dependent on economic, fiscal and monetary measures undertaken by the Government, together with legal, regulatory developments.

These financial statements do not include any adjustments that would have been required due resolution of the uncertainty in the future. Possible adjustments may be made to the statements in that period in which necessity of their reflection will become evident, and it will be possible to estimate their numerical values.

(in thousands of Kyrgyz soms)

Measures implemented for consequences of COVID-19

At the beginning of 2020, a new coronavirus (COVID-19) began to spread very rapidly in the world, which led to the fact that the World Health Organization announced the beginning of a pandemic in March 2020. The measures taken by many countries to contain the spread of COVID-19 led to significant operational difficulties for many companies and had a significant impact on global financial markets. Despite this, management assesses the insignificance of the impact of COVID-19 on the Company's operations, taking into account the nature of operating activities and the effect of the spread of COVID-19 on the territory of the Kyrgyz Republic in 2021.

23. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The list of related parties of the Company includes Participants, members of the Board of Directors and management of the Company, as well as their close relatives.

In the statement of financial position as of December 31, 2021 and 2020 the following amounts were represented which arose due to transactions with related parties:

		December 31, 2021		December 31, 2020	
		Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Other liabilities	Owner	-	-	(232)	(24,669)

In the statement of profit or loss and other comprehensive income for the years ended December 31, 2021 and 2020 the following amounts were represented which arose due to transactions with related parties:

		For the year ended December 31, 2021		For the year ended December 31, 2020	
		Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	Owner	-	760,616	10	573,158
Interest expense	Owner	(3,063)	(289,499)	(6,341)	(194,430)
Operating expenses:					
Compensation to key management personnel	Management of the Company	(18,621)	(337,937)	(19,084)	(233,314)
Other commission expenses	Affiliate	(1,344)	(5,557)	-	(1,524)

24. PRUDENTIAL REQUIREMENTS

As at December 31, 2021 and 2020 the Company fulfilled with the minimum Share capital requirement of 5,000 thousand soms set by the National Bank of the Kyrgyz Republic.

25. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue on a going concern while maximizing the return to Participants through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt and equity of Participants, which includes issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

The Management of the Company reviews the capital structure on a regular basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Company balances its overall capital structure through capitalization of retained earnings, attraction of additional debts or the redemption of existing debt.

26. RISK MANAGEMENT POLICIES

Management of risk is fundamental in Company’s business. The main risks inherent to the Company’s operations are those related to:

- Credit risk;
- Operational risk
- Liquidity risk;
- Market risk.

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its planned objectives. These principles are used by the Company to manage the following risks:

Credit Risk

The Company is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Company’s Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower’s limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Management. Daily risk management is performed by the risk management, assets and liabilities committee and economics department.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet obligations related to payment of interest and principal amount, and by changing these lending limits when such necessity is arisen. Exposure to credit risk is also regulated by obtaining collateral and guarantees. Such risks are monitored on a permanent basis and subject to quarterly or more frequent reviews.

Stratification

The determining parameter of the credit risk increase is the number of overdue days. When information that is more predictable than the status of overdue payments is not available without undue cost or effort, the Company can use the information on overdue payments to determine whether credit risk has increased significantly since the initial recognition.

Thus, the stratification is as follows:

- assets without delay of principal amount and interest are related to Stage 1;
- assets with payments overdue from 1 day to 30 are related to Stage 1;
- assets with payments overdue from 31 days to 60 are related to Stage 2;
- assets with payments overdue from 61 days to 90 belong to Stage 2; and
- assets, payments for which are overdue by more than 90 days, or are default due to other reasons are related to Stage 3.

The time horizon for calculating the expected credit losses is determined by the stratum, namely:

- Expected credit losses for 12 months are calculated for assets classified as Stage 1;
- Expected credit losses for the life of the asset are calculated on assets attributed to Stage 2 and Stage 3.

Definition of default

Default is the recognition by the Company the fact that the counterparty has fully or partially failed to fulfill its financial obligations to the Company.

A default occurs no later than the moment when a financial asset is delayed by 90 days, unless the Company has reasonable and corroborated information demonstrating that the use of the default criterion with longer delay days is more appropriate. The definition of default used for this purpose is applied consistently to all financial instruments, except when information becomes available that demonstrates a different definition of default is more appropriate for a particular financial instrument.

The value of the loan at risk of default for a period of 12 months (for Stratum 1) is the gross book value of the asset, i.e. the amount of principal and interest accrued at the date of the calculation of the ECL.

For Stage 2 and 3, the value subject to default is calculated over the entire life of the asset. It is assumed that the loan is repaid evenly by the borrower and the gross book value decreases for each time period.

To correctly determine the value subject to default, the following information is taken into account:

- The term of the loan;
- Variety of payment schedule for the types of loans issued;
- Delay in payment days.

The probability of default is calculated based on the Markov chains method which is a sequence of random events with a finite or countable number of outcomes, 46ecognized46ed by the property that for a fixed present, the future is independent of the past or probabilistic (stochastic) loan transition matrix by the number of overdue days.

When finding a predictable probability of default, the Company takes into account the future macroeconomic situation using the Merton single-factor model.

For regression purposes, macroeconomic indicators were selected based on scientific studies of the probability of defaults in developing and developed countries. The most significant macroeconomic indicators are real GDP, production growth rate, consumer price index and the exchange rate of the US dollar to the som.

The indicators were selected from 2003 to 2017 for the study. Sources of macroeconomic data are data from the international research centers Bloomberg, Global Insight, Trading Economics, Asian Development Bank (ADB), International Monetary Fund (IMF) and World Bank.

The Company recognizes the default of the counterparty if either of the following criteria is met or both:

Qualitative criteria – the Company has reasonable basis to believe that the counterparty is unlikely to fulfill its obligations to the Company in full amount without use of such measures as sale of collateral (if available).

Quantitative criteria – the counterparty has overdue obligations to the Company with a delay of more than 90 calendar days.

Qualitative criteria for recognition of default

Qualitative criteria for default recognition include an analysis of indicators of financial stability, liquidity and profitability, as well as liquidity of collateral, which is used to determine the creditworthiness of the counterparty.

The most significant criteria characterizing the financial condition of the counterparty are indicators of the stability of financial flows, the sufficiency of own funds and the level of debt or liabilities.

Qualitative assessment should be supplemented with the monitoring of credit operations, as well as control over the issuance of loans.

The following events can be a basis for recognizing default:

13. Failure to comply with the terms of the contract.

The counterparty did not fulfill the terms of the contract (for example, covenants), as a result of which the Company acknowledged the counterparty’s default on the contract (according to the terms of the contract) and demanded early repayment of the debt.

This criterion is applied if the counterparty did not fulfill the Company’s requirement for early repayment of the debt in full and in a timely manner.

The date of default in this case is the date of first overdue day on the debt requested for early repayment.

2. Restructuring of the claim

The Company decided to restructure its claims due to the financial difficulties of the counterparty, including a significant reduction in the volume of payments on principal amount, interest or commissions and / or a significant delay in their payment.

The date of default is the date of the restructuring decision (the first restructuring, if there were several cases).

3. Bankruptcy of the counterparty

- The counterparty or the Company has filed a lawsuit to declare the counterparty bankrupt; or
- The counterparty is declared bankrupt; or
- Bankruptcy procedures were introduced with respect to the counterparty, or the counterparty received a similar protection, which allows to avoid or delay the repayment of the Company’s claims.

4. Other events

In the case of revealing direct or indirect evidence of a high probability of negative events, recognition of default can be based on appropriate professional judgment.

In forming a professional judgment, the following facts should be taken into account:

- Payments of debts to the Company or other creditors are delayed (delay of principal, interest, commissions and other payments);
- The Company has accrued an allowance or performed a negative revaluation on its claims due to the expected significant decrease in credit quality;
- Loans and/or other financial assets were sold (transferred) by the Company with an economic loss;
- Loans and/or other financial assets were restructured on unfavorable conditions for the Company;
- There were significant negative changes in the financial and economic activities of the counterparty;
- The fact of fraud on the part of the counterparty (in relation to the Company or third parties) was detected and confirmed.

The date of default in this case is the date of the formation of the relevant professional judgment.

Quantitative criteria for the recognition of default

The counterparty has overdue payments to the Company with a delay of more than 90 calendar days (unless the Company has reasonable and corroborated information demonstrating that the use of a longer than 90 days period is more appropriate).

Significant increase in credit risk

The management of the Company applies judgment to estimate a significant increase in credit risk, which is a critical element in estimating expected credit losses. The following factors are taken into account by the Company when assessing a possible significant increase in credit risk:

- Continuous delays on payments by counterparty more than 30 calendar days;
- Loan restructuring due to the inability to maintain loans and/or other financial assets on current terms;
- The use of significant interventions by the Company to reduce credit risks, such as direct control (management) of operating activities of the counterparty;
- The Company projects that over the next 12 months the counterparty will have substantially insufficient cash for repayment the loan on current terms;
- Actual or expected significant negative change in the external credit rating of a financial instrument;
- Existing or projected adverse changes in commercial, financial or economic conditions that are expected to significantly alter the borrower's ability to meet its debt obligations;
- Significant increase in credit risk on other financial instruments of the same borrower;
- Granting a grace period for the loan payment;
- Availability of information on the involvement of the counterparty in litigation, which may worsen its financial condition.

Credit risk is low for financial instruments if:

1. The risk of a default on a financial asset / liability is low;

2. The borrower has a substantial margin of safety in order to fulfill his/her obligations to pay the contractual payments in the near future; and

3. Adverse changes in the economic conditions for conducting business in the longer term may lead, but not necessarily will lead to a decrease in the borrower's ability to meet its obligations.

As part of its activities, the Company excludes an increase in credit risk on government bonds denominated in national currency, as well as balances in financial institutions with a high credit rating.

Default value (EAD) on correspondent accounts

The amount subject to default is the balance on the Company's correspondent account.
The probability of default (PD) for correspondent accounts cannot be determined using the credit rating of an individual bank / company or Altman's Z-score. Thus, to determine the probability of default on correspondent accounts, the Company's management decided to use an external assessment of the international rating agency Moody's, which assigns ratings to short-term and long-term deposits. To determine the probability of default at a specific point in time, Moody's data is used, which calculates the probability taking into account the influence of macroeconomic factors.

Based on the fact that in the case of correspondent accounts there is no any collateral, losses in the event of a default (LGD) take a value equal to 100%.

(in thousands of Kyrgyz soms)

Operational risk

The Company is exposed to operational risk, which is a risk of loss arising from any system failures or interruptions of internal processes, systems, mechanical error of personnel or the influence of external negative factors.

The Company’s risk management policy is designed to identify and analyze risks and set appropriate risk limits and controls.

Maximum Exposure

The Company’s maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk off-balance sheet and off-balance sheet financial assets. For financial assets in the statement of financial statements, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off-balance sheet assets, the maximum exposure to credit risk is the maximum amount the Company would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

Collateral pledged is determined based on its estimated fair value on the reporting date and limited to the outstanding balance of each loan as at reporting date.

	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral pledged**	**2021 Net exposure after offset and collateral**
Due from banks	151,652	-	151,652	-	151,652
Deposits and cash in banks	40,925	-	40,925	-	40,925
Loans to customers	2,518,424	-	2,518,424	633,411	1,885,013
Financial instruments at fair value through profit or loss	26,111	-	26,111	-	26,111
Other assets	1,754	-	1,754	-	1,754

	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral pledged**	**2020 Net exposure after offset and collateral**
Due from banks	237,666	-	237,666	-	237,666
Deposits and cash in bank	40,434	-	40,434	-	40,434
Loans to customers	1,686,237	-	1,686,237	404,554	1,281,683
Financial instruments at fair value through profit or loss	27,133	-	27,133	-	27,133
Other assets	19,122	-	19,122	-	19,122

In instances where one party to a financial instrument fails to fully or partially discharge a credit obligation, the Company has the right to ensure fulfillment of these obligations through the:

1. joint sale of the pledged assets;
2. transfer of ownership rights on pledged assets in accordance with the established law; and
3. exercising of the charge on pledged assets through judicial procedures.

(in thousands of Kyrgyz soms)

Where there is a joint sale of the pledged assets, the Company normally uses a tripartite agreement with the borrower and acquirer of the pledged assets. Under this agreement the acquirer of the pledged assets has an obligation to repay the full amount of the outstanding debt; the borrower has an obligation to transfer the right of ownership of the assets to the acquirer, and the Company releases the obligation from the borrower and removes the pledge over the assets.

The Company exercises the charge on pledged assets through judicial procedures if it is impossible or inefficient to use alternative methods or where the seizure of assets pledged is required in order to protect the rights on the Company.

Financial assets are graded according to the current credit rating they have been issued by internationally regarded agencies, such as Standard and Poor's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following tables provide classification of financial assets of the Company by credit ratings:

	A	**B**	**BBB**	**<BBB**	**Credit rating not assigned**	**December 31, 2021 Total**
Due from banks	-	-	-	-	151,652	151,652
Deposits and cash in bank	-	-	-	-	40,925	40,925
Loans to customers	-	-	-	-	2,518,424	2,518,424
Financial instruments at fair value through profit or loss	-	-	-	-	26,111	26,111
Other assets	-	-	-	-	1,754	1,754

	A	**B**	**BBB**	**<BBB**	**Credit rating not assigned**	**December 31, 2020 Total**
Due from banks	-	-	-	-	237,666	237,666
Deposits and cash in bank	-	-	-	-	40,434	40,434
Loans to customers	-	-	-	-	1,686,237	1,686,237
Financial instruments at fair value through profit or loss	-	-	-	-	27,133	27,133
Other assets	-	-	-	-	19,122	19,122

Since not all counterparties of the Company are rated by international rating agencies, the Company uses an internal rating and scoring models to determine the rating of the counterparty, comparable to ratings of international rating agencies. Such tools include a rating model for corporate clients, and scoring models for retail and small business customers.

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. Main credit risk exposure of the Company is concentrated within the Kyrgyz Republic. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Company's risk management policy are not breached.

Geographical concentration

Risk management department exercise control over the risk associated with changes in the norms of the legislation and assesses its impact on the Company. This approach allows the Company to minimize potential losses from the investment climate in the Kyrgyz Republic.

(in thousands of Kyrgyz soms)

The geographical concentration of assets and liabilities is set out below:

	Kyrgyzstan	OECD countries	Other	December 31, 2021 Total
FINANCIAL ASSETS:				
Due from banks	151,652	-	-	151,652
Deposits and cash in bank	40,925	-	-	40,925
Loans to customers	2,518,424	-	-	2,518,424
Financial instruments at fair value through profit or loss	26,111	-	-	26,111
Other assets	1,754	-	-	1,754
		-	-	
	2,738,866	-	-	2,738,866
FINANCIAL LIABILITIES:				
Borrowings	471,640	1,297,333	438,637	2,207,610
Lease liability	72,550	-	-	72,550
Other liabilities	15,532	219	-	15,751
	559,722	1,297,552	438,637	2,295,911
NET POSITION	2,179,144	(1,297,552)	(438,637)	442,955

	Kyrgyzstan	OECD countries	Other	December 31, 2020 Total
FINANCIAL ASSETS:				
Due from banks	237,666	-	-	237,666
Deposits and cash in bank	40,434	-	-	40,434
Loans to customers	1,686,237	-	-	1,686,237
Financial instruments at fair value through profit or loss	27,133	-	-	27,133
Other assets	19,122	-	-	19,122
	2,010,592	-	-	2,010,592
FINANCIAL LIABILITIES:				
Borrowings	664,665	686,148	220,996	1,571,809
Lease liability	43,876	-	-	43,876
Other liabilities	11,034		-	11,034
	719,575	686,148	220,996	1,626,719
NET POSITION	1,291,017	(686,148)	(220,996)	383,873

Liquidity risk

Liquidity risk is the risk of difficulties in obtaining funds for the payment of obligations upon the occurrence of the actual date of payment and to meet cash requirements in the process of lending to clients.

Management controls this risk by maturity analysis, determining the Company’s strategy for the next fiscal period. Current liquidity is managed by the finance department, which supports the current level of liquidity sufficient to minimize liquidity risk.

(in thousands of Kyrgyz soms)

The following table presents an analysis of balance sheet interest rate risk and liquidity risk:

	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	December 31, 2021
FINANCIAL ASSETS:						
Restricted deposits in banks	10.90%	2,067	9,887	-	14,270	26,224
Loans to customers	34.49%	318,267	451,288	1,392,075	356,794	2,518,424
Financial instruments at fair value through profit or loss	9.63%	-	7,642	18,469	-	26,111
Total financial assets, interest bearing		320,334	468,817	1,410,544	371,064	2,570,759
Due from banks		151,652	-	-	-	151,652
Restricted cash in banks		-	-	-	14,901	14,901
Other assets		1,754	-	-	-	1,754
		473,740	468,817	1,410,544	385,965	2,739,066
FINANCIAL LIABILITIES:						
Borrowings	15.07%	111,231	175,784	820,118	1,100,477	2,207,610
Lease liabilities	15.07%	1,275	2,600	13,537	55,138	72,550
Total financial liabilities, interest bearing		112,506	178,384	833,655	1,155,615	2,280,160
Other liabilities		15,751	-	-	-	15,751
		128,257	178,384	833,655	1,155,615	2,295,911
Difference between financial assets and liabilities		345,483	290,433	576,889	(769,650)	443,155
Difference between interest bearing financial assets and liabilities		207,828	290,433	576,889	(784,551)	290,599

LLC “MICRO-CREDIT COMPANY“BAILYK FINANCE”

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Kyrgyz soms)

	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	December 31, 2020 Total
FINANCIAL ASSETS:						
Restricted deposits in banks	10.90%	917	14,921	-	9,695	25,533
Loans to customers	35.43%	261,189	293,936	920,624	210,488	1,686,237
Financial instruments at fair value through profit or loss	7.38%	-	8,150	18,983	-	27,133
Total financial assets, interest bearing		262,106	317,007	939,607	220,183	1,738,903
Due from banks		237,666	-	-	-	237,666
Restricted deposits in banks		-	-	-	14,901	14,901
Other assets		19,122	-	-	-	19,122
		518,894	317,007	939,607	235,084	2,010,592
FINANCIAL LIABILITIES:						
Borrowings	13.54%	75,149	180,193	741,703	574,764	1,571,809
Lease liabilities	13.55%	782	2,601	7,366	33,127	43,876
Total financial liabilities, interest bearing		75,931	182,794	749,069	607,891	1,615,685
Other liabilities		11,034	-	-	-	11,034
		86,965	182,794	749,069	607,891	1,626,719
Difference between financial assets and liabilities		431,929	134,213	190,538	(372,807)	383,873
Difference between interest bearing financial assets and liabilities		186,175	134,213	190,538	(387,708)	123,218

Periods of maturity of assets and liabilities and the ability to replace interest liabilities in acceptable costs (at the time of redemption) are the most important conditions in determining the liquidity of the Company and its sensitivity to fluctuations in interest rates and exchange rates.

(in thousands of Kyrgyz soms)

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not 54ecognized in the statement of financial position under the effective interest rate method.

Undiscounted liabilities analysis

The table below presents distribution of Company’s liabilities as at December 31, 2021 and 2020 for contractual undiscounted cash outflows:

	Weighted average rate	Less than 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	December 31, 2021
Borrowings	15.07%	142,704	225,504	1,016,181	1,329,389	2,713,778
Lease liabilities	12.31%	2,223	4,446	20,934	69,103	96,706
Other liabilities		15,751	-	-	-	15,751
		160,678	229,950	1,037,115	1,398,492	2,826,235

	Weighted average rate	Less than 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	December 31, 2020
Borrowings	13.54%	87,471	212,482	865,102	632,588	1,797,643
Lease liabilities	13.55%	2,000	4,078	10,826	39,693	56,597
Other liabilities		11,034	-	-	-	11,034
		100,505	216,560	875,928	672,281	1,865,274

(in thousands of Kyrgyz soms)

Market risk

Market risk includes risk of changes in interest rates, currency risk and other price risks faced by the Company. In 2021 there was no change in the composition of these risks and methods for assessing and managing risks in the Company.

In case of attracting funds with a floating interest rate, the risks will be managed by the Company by maintaining the necessary ratio between loans at a fixed and floating rate.

Interest rate sensitivity

The Company manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Company conducts monitoring of the Company’s current financial performance, estimates the Company’s sensitivity to changes in fair value interest rates and its influence on the Company’s profitability.

Currency risk

Currency risk is the risk that the value of a financial instrument due to changes in exchange rates. Financial position and cash flows of the Company are exposed to impact of fluctuations in foreign currency exchange rates. Management exercises currency risk management by determining open currency position on the basis of the alleged impairment of Kyrgyz som, and other macroeconomic indicators, which enables the Company to minimize losses from significant fluctuations in national and foreign currency.

The Company concludes agreements on various derivative financial instruments including foreign exchange swaps and mortgage loans to commercial banks to secure itself against currency risk. As a result, for the year ended December 31, 2021 in the statement of profit or loss and other comprehensive loss on foreign exchange operations and such transactions in the amount of 24,895 thousand soms (2020: loss in the amount of 50,692 thousand soms) was recognized.

Level of currency risk of the Company is presented below:

	KGS	US Dollars	Euro	December 31, 2021
FINANCIAL ASSETS:				
Due from banks	84,458	67,194	-	151,652
Deposits and cash in banks	40,925	-	-	40,925
Loans to customers	2,518,424	-	-	2,518,424
Other assets	1,754	-	-	1,754
	2,645,561	67,194	-	2,712,755
FINANCIAL LIABILITIES:				
Borrowings	1,705,732	501,878	-	2,207,610
Lease liabilities	72,550	-	-	72,550
Other liabilities	14,811	721	219	15,751
	1,793,093	502,599	219	2,295,911
Net position	852,468	(435,405)	(219)	416,844
Financial instruments at fair value through profit or loss	(360,388)	386,499	-	26,111
NET POSITION	492,080	(48,906)	(219)	442,955

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Kyrgyz soms)

	KGS	US Dollars	Euro	December 31, 2020
FINANCIAL ASSETS:				
Due from banks	74,458	163,208	-	237,666
Deposits and cash in banks	40,434	-	-	40,434
Loans to customers	1,686,237	-	-	1,686,237
Other assets	19,122	-	-	19,122
	1,820,251	163,208	-	1,983,459
FINANCIAL LIABILITIES:				
Borrowings	1,023,648	548,161	-	1,571,809
Lease liabilities	36,021	7,855	-	43,876
Other liabilities	5,115	-	5,919	11,034
	1,064,784	556,016	5,919	1,626,719
Net position	755,467	(392,808)	(5,919)	356,740
Financial instruments at fair value through profit or loss	(354,089)	381,222	-	27,133
NET POSITION	401,378	(11,586)	(5,919)	383,873

Accounting classification and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2021:

	Valued at amortised cost	Valued at fair value through profit and loss	Valued at fair value through OCI	Total carrying amount	Fair value
Due from banks	151,662	-	-	151,662	151,662
Deposits and cash in banks	40,925			40,925	40,925
Loans to customers	2,518,424	-	-	2,518,424	2,518,424
Financial instruments at fair value through profit or loss	-	26,111	-	26,111	26,111
Other assets	1,754	-	-	1,754	1,754
	2,712,765	26,111	-	2,738,876	2,738,876
Borrowings	2,207,610	-	-	2,207,610	2,207,610
Lease liabilities	72,550	-	-	72,550	72,550
Other liabilities	15,751	-	-	15,751	15,751
	2,295,911	-	-	2,295,911	2,295,911

(in thousands of Kyrgyz soms)

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2020:

	Valued at amortised cost	Valued at fair value through profit and loss	Valued at fair value through OCI	Total carrying amount	Fair value
Due from banks	237,666	-	-	237,666	237,666
Deposits and cash in banks	40,434			40,434	40,434
Loans to customers	1,686,237	-	-	1,686,237	1,686,237
Financial instruments at fair value through profit or loss	-	27,133	-	27,133	27,133
Other assets	19,122	-	-	19,122	19,122
	1,983,459	27,133	-	2,010,592	2,010,592
Borrowings	1,571,809	-	-	1,571,809	1,571,809
Lease liabilities	43,876	-	-	43,876	43,876
Other liabilities	11,034	-	-	11,034	11,034
	1,626,719	-	-	1,626,719	1,626,719

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties in such a transaction, independent of each other parties, other than in a forced or liquidation sale. The estimates may not reflect the amounts that the Company would be able to get at the actual implementation of its existing holdings of various financial instruments.

The carrying value of cash approximately equals to fair value due to the short-term nature of such financial instruments.

IFRS 13 defines fair value as the amount that would be received after selling an asset or paid after transferring a liability in an orderly transaction on the main (or most advantageous) market at the measurement date under current market conditions. Since there are no markets for most of the Company's financial instruments, under the current economic conditions and specific risks that characterize the tool, judgment should be applied to determine the fair value.

As at December 31, 2021 and 2020, the following methods and assumptions were used by the Company to assess the fair value of financial instruments for which it was practical to determine the value:

Cash and cash equivalents - current value of cash and cash equivalents corresponds to fair value.

Accounts receivable and other accounts receivable - current value approximates the fair value of these financial instruments, as the provision for doubtful debts is valid estimation of the required discount to reflect the credit risk.

Accounts receivable and other accounts receivable - current value approximates the fair value of these financial instruments, as the provision for doubtful debts is valid estimation of the required discount to reflect the credit risk.

(in thousands of Kyrgyz soms)

Accounts payable and other liabilities - current value approximates the fair value of these financial instruments due to the short-term nature of the instrument.

Long-term liabilities - current value approximates fair value as the interest rate of long-term debt approximates market rate, with reference to loans with similar credit risk and maturity at the reporting date.

Fair values are primarily determined using quoted market prices or standard pricing models using observable market inputs where available and are presented to reflect the expected gross future cash in/outflows. The Company classifies the fair values of its financial instruments into a three-level hierarchy based on the degree of the source and observability of the inputs that are used to derive the fair value of the financial asset or liability as follows:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the measurement date; or

Level 2 Inputs other than quoted inputs included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; or

Level 3 Unobservable inputs for the assets or liabilities, requiring the Company to make market-based assumptions.

Level 1 classifications primarily include financial assets and financial liabilities that are exchange traded, whereas Level 2 classifications primarily include financial assets and financial liabilities which derive their fair value primarily from exchange quotes and readily observable quotes. Level 3 classifications primarily include financial assets and financial liabilities which derive their fair value predominately from models that use applicable market-based estimates surrounding location, quality and credit differentials. In circumstances where the Company cannot verify fair value with observable market inputs (Level 3 fair values), it is possible that a different valuation model could produce a materially different estimate of fair value.

It is the Company's policy that transactions and activities in trade related financial instruments be concluded under master netting agreements or long form confirmations to enable balances due to/from a common counterparty to be offset in the event of default, insolvency or bankruptcy by the counterparty.

The following tables show the fair values of financial assets and financial liabilities as at December 31, 2021 and 2020. Other assets and liabilities which are measured at fair value on a recurring basis are cash and cash equivalents. There are no nonrecurring fair value measurements.

	Level 1	Level 2	Level 3	December 31, 2021 Total
FINANCIAL ASSETS:				
Due from banks	151,652	-	-	151,652
Deposits and cash in banks	-	40,925	-	40,925
Loans to customers	-	2,518,424	-	2,518,424
Financial instruments at fair value through profit or loss	26,111	-	-	26,111
Other assets	-	-	1,754	1,754
	177,763	2,559,349	1,754	2,738,866
FINANCIAL LIABILITIES:				
Borrowings	-	2,207,610	-	2,207,610
Lease liabilities	-	-	72,550	72,550
Other liabilities	-	-	15,751	15,751
	-	2,207,610	88,301	2,295,911

(in thousands of Kyrgyz soms)

	Level 1	Level 2	Level 3	December 31, 2020 Total
FINANCIAL ASSETS:				
Due from banks	237,666	-	-	237,666
Deposits and cash in banks	-	40,434	-	40,434
Loans to customers	-	1,686,237	-	1,686,237
Financial instruments at fair value through profit or loss	27,133	-	-	27,133
Other assets	-	-	19,122	19,122
	264,799	1,726,671	19,122	2,010,592
FINANCIAL LIABILITIES:				
Borrowings	-	1,571,809	-	1,571,809
Lease liabilities	-	-	43,876	43,876
Other liabilities	-	-	11,034	11,034
	-	1,571,809	54,910	1,626,719

Currency rate sensitivity

Following table presents a sensitivity analysis of the Company to 20% increase and decrease of the US Dollars to Kyrgyz soms in 2021 and 2020. Based on the current economic environment in the Kyrgyz Republic management of the Company believes that 20% increase of US Dollar to Kyrgyz soms exchange rate is a realistic change. 20% - a level of sensitivity, which is used internally by banks when reporting foreign currency risk internally to key management personnel of the Bank and is an estimate by management of the Company. Sensitivity analysis applies only to outstanding foreign currency balances available at the end of the period for conversion of which actual end-of-the-period exchange rate changed by 20% is used.

Following table presents a sensitivity analysis of the Company to 20% increase and decrease of the US Dollars to Kyrgyz soms in December 31, 2021 and 2020.

	For the year ended December 31, 2021		**For the year ended December 31, 2020**	
	Official exchange rate, +20%	Official exchange rate, -20%	Official exchange rate, +20%	Official exchange rate, -20%
Effect on profit or loss	(9,781)	9,781	(2,317)	2,317

Limitations of sensitivity analysis

The above tables demonstrate the effect of changes based on the main clause while other assumptions remain unchanged. In fact, there is a connection between the assumptions and other factors. It should also be noted that the sensitivity has nonlinear character so should not be interpolated or extrapolated from these results.

Sensitivity analysis does not take into account that the Company actively manages the assets and liabilities. In addition, the Company’s financial position may be subject to change depending on changes in the market. For example, the strategy of the Company’s financial risk management aims to manage exposure to market fluctuations. In the case of sudden adverse price fluctuations in the securities market leadership can refer to such methods as selling investments, changing investment portfolio, as well as other methods of protection. Consequently, changes in assumptions may not have influence on the commitment and significant impact on the assets recorded on the balance sheet at market price. In this situation, different methods of valuation of assets and liabilities may lead to volatility in equity.

(in thousands of Kyrgyz soms)

Other limitations in the above sensitivity analysis include the use of hypothetical market movements with a view to the disclosure of potential risks, which represent only the Company’s forecast of the upcoming changes in the market that cannot be predicted with any certainty.

27. EVENTS AFTER THE REPORTING DATE

For the period from December 31, 2021 to the date of issue the financial statements the Company received loans, which are presented as follows:

	Currency	Interest rate	Maturity	Loan amount
Alterfin	Kyrgyz soms	15.30%	February 10, 2025	127,187
Crowd Credit	Kyrgyz soms	16%	February 21, 2024	20,684
Crowd Credit	Kyrgyz soms	16%	January 24, 2024	17,523

Since January 1, 2022, the new Tax Code of the Kyrgyz Republic has been put into effect, which provides for changes in the applicable tax regimes, the definition of the tax base for basic tax obligations, as well as new rules in the field of international indirect taxation. At the date of issue of the financial statements, the Company's Management did not assess the possible effect of these changes on the Company's financial results and indicators.