



**RUSSIAN-KYRGYZ  
DEVELOPMENT FUND**



# **Annual report 2019**



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# Message of the Chairman of the Management Board

The results of the Fund's activities in 2019 demonstrated a significant increase in the qualitative and quantitative indicators



At the same time, there is a certain concentration of existing projects in the Chui and Osh regions, due to the greater economic activity of business entities in these regions. In this regard, we have actively worked to expand the Fund's portfolio in the regions of the country by diversifying the range of financial products.

One of the most important measures in 2019 was the lowering of the direct lending limit to \$200,000 for the regions of the country, and the reduction of the direct lending rate to 8 percent. Because of the low valuation of collateral in the regions and insufficient loan security, the Fund allocated 200 mln KGS to the Guarantee Fund to provide regional entrepreneurs with guarantees by increasing the total amount of finance to 400 mln KGS.

The broadening of training in lending procedures among potential customers in the regions was a priority activity in 2019. The expansion of the range of financial products, including the launch of a pilot program for financing start-ups, the active work of our Regional Consultation Centers, the widening of lending to small and medium business through commercial banks, and the implementation of major projects have been constantly in the focus of our attention.

Dear customers and partners,

Today, it is already possible to summarize the results of the Fund's activities for a five-year period. The Russian-Kyrgyz Development Fund has approved itself as a reliable and stable financial international development institution, with its strategic goal to promote economic development of the Kyrgyz Republic.

**The activities of the Fund on financing business entities of the Kyrgyz Republic covered all regions of the country.**

The results of the Fund's activities in 2019 demonstrated a significant increase in the qualitative and quantitative indicators. We managed to almost double the amount of financing from the Fund's resources compared to the previous year (\$77.5 mln in 2019 compared to \$42.9 mln in 2018). The revenue of enterprises and private entrepreneurs financed by the Fund has increased by 9,167,900 KGS at the end of 2019 (by \$131.6 mln at NBKR exchange rate at the end of 2019). 3,400 new jobs were created in 2019, and here it is worth noting that among those employed within the framework of the Fund's projects, 748 are women, which makes a very important gender component (22 percent of the newly created jobs).

The Russian-Kyrgyz Development Fund will not stop there. Focusing on the best Russian and international practices, the Fund will continue improving its work for further progressive development in 2020.

Taking into account the difficult situation in the economy of Kyrgyzstan caused by the COVID-19 epidemic, and by the volatility in the foreign exchange market, the Fund was among the first to take a number of anti-crisis measures, which included granting loan repayment delay and extension of loan terms, easing collateral requirements for its direct clients and small and medium business that obtained access to the Fund's resources through commercial banks. We hope that this will

allow our borrowers to withstand and arrive at positive dynamics. We intend to continue developing a further package of anti-crisis measures necessary for stabilization this year.

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**In 2020, the Fund will continue financing business entities of the Kyrgyz Republic on concessional terms.**

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We have started an active introduction of the fundamentally new cluster financing of the most important priority areas aimed at ensuring food security, expanding export potential and agriculture development. We are planning to actively develop cooperation with international donors and partners, raising capital for the implementation of projects in the Kyrgyz Republic.

The effectiveness of the Russian-Kyrgyz Development Fund directly depends on the potential of each team member and effective cooperation. The Fund's team consists of highly professional and creative employees. With such a potential, the Fund will be able to achieve the implementation of the Fund's priority tasks. The Fund's commitment to openness, transparency and reliability of information remains unchanged.

I am grateful to our partners, customers and employees who contribute to the activity of the Fund. We share a common desire to achieve continuous development. We can change the country and be proud that we are part of a positive transition.

## AZIZ AALIEV

### CHAIRMAN OF THE MANAGEMENT BOARD

Taking into account the difficult situation in the economy of Kyrgyzstan caused by the COVID-19 epidemic, and by the volatility in the foreign exchange market, the Fund was among the first to take a number of anti-crisis measures



# About the Russian-Kyrgyz Development Fund

The Fund is intended to become a consolidating element of the financial infrastructure, a catalyst for the development of the economy of the Kyrgyz Republic and expanding integration processes with the Russian Federation

The Russian-Kyrgyz Development Fund (the Fund, RKDF) was established and operates in accordance with the Agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation “On the development of economic cooperation in the context of the Eurasian economic integration” as of May 29, 2014, the Agreement between the Government of the Kyrgyz Republic and the Russian Federation “On the Russian-Kyrgyz Development Fund” as of November 24, 2014.

The Fund is intended to become a consolidating element of the financial infrastructure, a catalyst for the development of the economy of the Kyrgyz Republic and expanding integration processes with the Russian Federation.

The main activity of the Fund is lending to self-sustaining projects, and other activities related to providing of medium and long-term financing to business entities in the priority sectors of the economy of the Kyrgyz Republic.

## The mission of the Fund



Modernization and development of the economy of the Kyrgyz Republic



Expansion and strengthening of the economic cooperation between the KR and the RF



Promotion of the integration of the KR into the EAEU



## The Board of the Fund



**Storchak**

**Sergei Anatolyevich**

Deputy Finance Minister of the RF

**Chairman of the Board**



It is the supreme body of the Fund, providing strategic management of its operations. The Board is composed of two representatives from the Kyrgyz side and three representatives from the Russian side. The Chairman of the Board is appointed by the Government of the Russian Federation.

*\*As of January 1, 2020*



**Mukanbetov Sanjar Turdukojoevich**

Minister of Economy of KR

**Deputy Chairman of the Board**



**Abramian Rafael Mikhailovich**

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

**Member of the Board**



**Jeenbaeva Baktygul Janybekovna**  
Minister of Finance of KR  
**Member of the Board**



**Iachevskaja Svetlana Viktorovna**  
Deputy Chairman - Member of the Executive Board of Vnesheconombank of the RF  
**Member of the Board**

## The Management Board of the Fund



**Asrandiev**

**Erkin Shamshudinovich**

**Chairman of the Management Board**



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

*\*As of January 1, 2020*



**Kudiakov Oleg Amirovich**  
Deputy Chairman of the Management Board



**Arseniev Andrei Sergeevich**  
Member of the Management Board



**Cholponkulov Almazbek Askarbekovich**  
Member of the Management Board



**Aaliev Aziz Kubanychbekovich**  
Member of the Management Board

# The Fund's position in the financial market and its financial highlights

The share of the Fund's capital in the capital of the banking system of the Kyrgyz Republic is steadily ranging from 92 to 122 percent, that is, fluctuating around the parity

Contributing to the modernization of the country's economy and its integration into the single market of Eurasian Economic Union (EAEU), the Fund holds a significant position in the lending market of the Kyrgyz Republic, and exerts a considerable impact on it.

The share of the Fund's capital in the capital of the banking system of the Kyrgyz

Republic is steadily ranging from 92 to 122 percent, that is, fluctuating around the parity.

Unlike the banking system, which has an average leverage ratio of about 6, the Fund's balance is almost non-leveraged<sup>1</sup> and consists mainly of capital.

Table 1

Key financial indicators of the banking system and RKDF

|   | 01.01.2016 | 01.01.2017 | 01.01.2018 | 01.01.2019 | 01.01.2020 |
|---|------------|------------|------------|------------|------------|
| Fund's capital, (\$ mln)  | 350,0      | 503,9      | 509,1      | 523,4      | 532,0      |
| Fund's assets, (\$ mln)   | 366,2      | 545,5      | 545,5      | 559,1      | 574,2      |
| Share of the Fund's capital in its assets   | 95,6%      | 92,4%      | 93,3%      | 93,6%      | 92,6%      |
| Ratio of the Fund's assets to the total assets of the banking system of the Kyrgyz Republic | 15,6%      | 23,3%      | 19,0%      | 17,6%      | 16,1%      |
| Total capital of the banking system of the Kyrgyz Republic, (\$ mln)                        | 343,7      | 413,3      | 468,2      | 506,2      | 604,1      |
| Total assets of the banking system of the Kyrgyz Republic, (\$ mln)                         | 2 346,0    | 2 346,0    | 2 876,0    | 3 178,0    | 3575,1     |
| Share of total capital in the assets of the banking system of the Kyrgyz Republic           | 15,0%      | 18,0%      | 16,0%      | 16,0%      | 16,9%      |
| Leverage ratio of the banking system of the Kyrgyz Republic                                 | 7          | 6          | 6          | 6          | 6          |

For this reason, the share of the Fund's assets in the assets of the banking system of the Kyrgyz Republic is close to 20 percent rather than to 100.

The amount of financing provided by the Fund consistently accounts for about

10 percent of the banking system's loan portfolio, and 13.2 percent of the loan portfolio excluding mortgages and consumer loans (beyond the Fund's mandate), which is also an indicator that proves a systemic importance of the Fund for the loan market of the Kyrgyz Republic.



<sup>1</sup> Factually no borrowed funds

**The Fund managed to gain a significant share of the lending market within a short time due to its advantage being a fairly low interest rate and longer terms of lending.**

As a result, the Fund has influenced the dynamics and the structure of interest rates triggering the market to decrease the cost of lending, which for today is a significant achievement in the pricing of borrowed resources in the country's loan market.

Thus, according to the National Bank of the Kyrgyz Republic, the average weighted loan rate of commercial banks in foreign currency extended in 2019 with loan maturity of more than 3 years, in the sectors consistent with the mandate of the Fund: manufacturing, agriculture,

transport, communications, procurement and processing amounted to 9.5 percent, while the average weighted rate of the Fund on direct financing is lower by 5.1 percentage points (4.4 percent), lending rate of the Fund for financing of small and medium business (through financial and credit organizations) – 5 percent in USD and 9 percent in KGS (before August 15, 2017 the lending rate for SMB in KGS was 12 percent, and after August 15, 2017 to August 15, 2019 – 10 percent). In the period 2015-2019, the Fund demonstrated consistently positive financial results: a rapid expansion of the loan portfolio for both direct financing and financing of small and medium business through commercial banks of the Kyrgyz Republic (Table 2).

Table 2

Financial highlights of RKDF for 2015-2019  
(in USD as of the end of the period)

|                    | 2015    | 2016    | 2017    | 2018    | 2019    |
|--------------------|---------|---------|---------|---------|---------|
| Securities         | 185 723 | 394 962 | 315 487 | 332 839 | 324 418 |
| Loans, including:  |         |         |         |         |         |
| - Direct financing | 1 120   | 35 673  | 91 748  | 98 171  | 118 480 |
| - SMB financing    | 15 810  | 59 705  | 71 550  | 89 753  | 96 887  |
| Profit             | 707     | 2 578   | 9 971   | 10 129  | 8 635   |
| Own capital        | 350 028 | 503 859 | 509 066 | 523 413 | 531 982 |

At the same time the Fund has not set a goal to maximize profits. The Fund's profit is not distributed for the benefit of the founders, but capitalized. This makes it possible to finance projects at concessional interest rates.

By the level of capitalization, the Fund is comparable with the level of capitalization of

the whole banking system of the Republic. According to the data of the National Bank of the Kyrgyz Republic, in 2019, the total capital of the banking system amounted to 42,070,000 KGS, which is \$604.1 mln at the official NBKR exchange rate at the end of 2019, while the Fund's own capital reached \$532.0 mln by the end of 2019.



# Investment and project activity of the Fund

In 2019, the Russian-Kyrgyz Development Fund continued its active work on financing projects in the priority sectors of the economy

In 2019, the Russian-Kyrgyz Development Fund continued its active work on financing projects in the priority sectors of the economy, including agricultural sector, sewing and textile industry, manufacturing, transport and tourism.

The structure of the approved projects by direct financing of the Fund includes

57 large projects totaling \$202.1 mln. Under the Lending to Small and Medium Business program the Fund approved 2,294 projects in the amount of \$177.3 mln through commercial banks and microfinance organizations of the Kyrgyz Republic (Table 3).

Table 3

Sectoral structure of the projects approved by the Russian-Kyrgyz Development Fund as of December 31, 2019

| Economy sectors   | Number of projects | USD            | Share, percent of the total amount |
|---|--------------------|----------------|------------------------------------|
| Sector of production  | 491                | 114 681        | 30,2                               |
| Agricultural sector, production and processing of agricultural products | 1 343              | 87 139         | 23,0                               |
| Tourism   | 140                | 46 415         | 12,2                               |
| Transport and storage   | 189                | 41 161         | 10,8                               |
| Infrastructure development  | 124                | 40 487         | 10,7                               |
| Communications and information technology                               | 10                 | 15 244         | 4,0                                |
| Financial operations  | 1                  | 5 754          | 1,5                                |
| Other industries  | 53                 | 7 113          | 1,9                                |
| Available limit of financial and credit institutions for financing SMB  |                    | 21 401         | 5,6                                |
| <b>Total</b>  | <b>2 351</b>       | <b>379 394</b> | <b>100,0</b>                       |

Source: Russian-Kyrgyz Development Fund

Lending and investment activity of the Fund is carried out in two directions:

- provision of large investment loans in the framework of direct and project financing;

- provision of targeted funding in USD and KGS to the financial and credit institutions of the Kyrgyz Republic for subsequent financing of small and medium business.



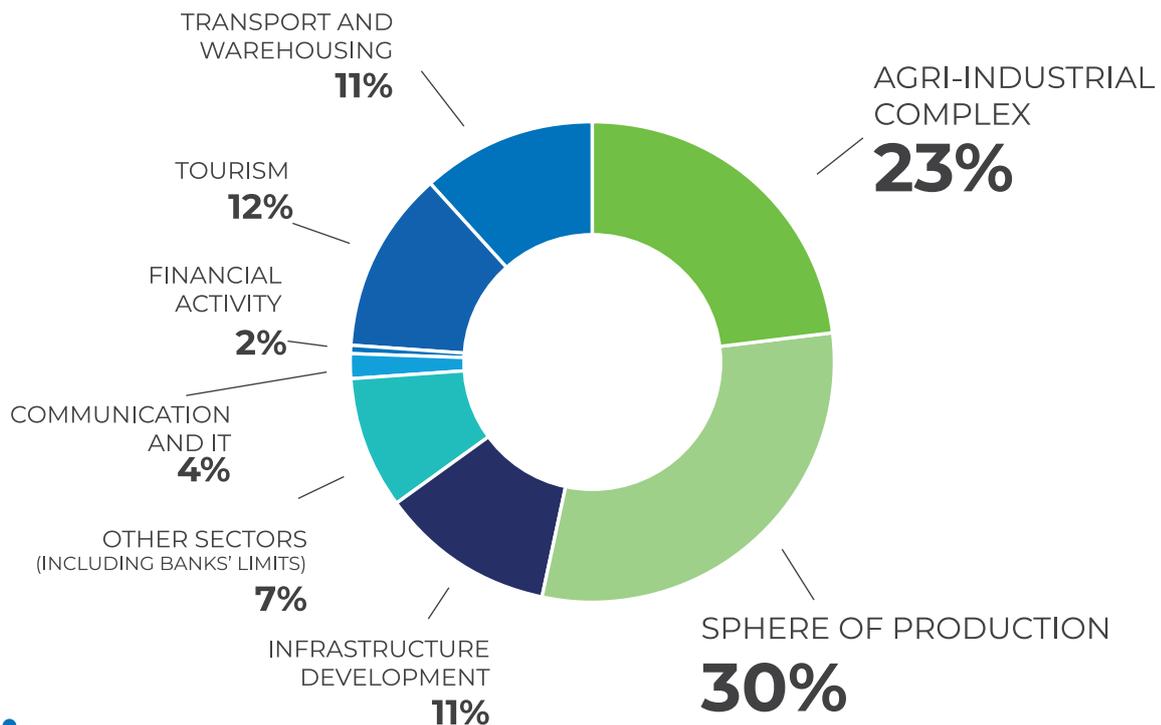
Table 4

Lending areas of the Russian-Kyrgyz Development Fund as of December 31, 2019

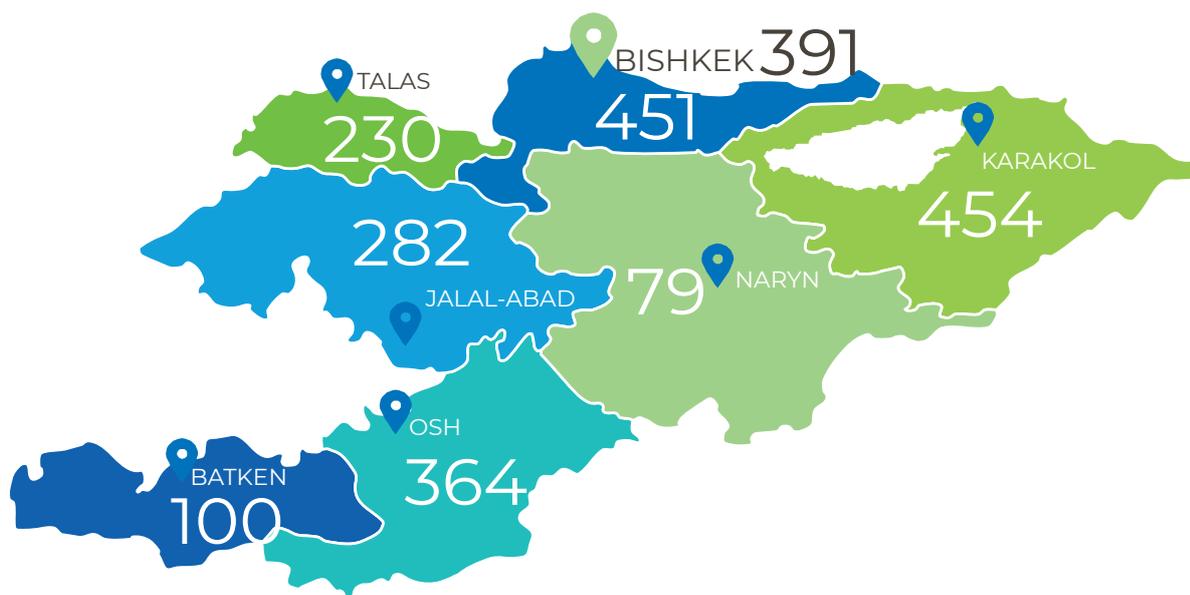
|   | Number of projects | USD            | Share, percent |
|---|--------------------|----------------|----------------|
| Direct financing  | 57                 | 202 124        | 53,3           |
| Financing of small and medium business through commercial banks and microfinance organizations of the Kyrgyz Republic | 2 294              | 177 270        | 46,7           |
| <b>Total</b>  | <b>2 351</b>       | <b>379 394</b> | <b>100,0</b>   |

Source: Russian-Kyrgyz Development Fund

### RKDF's projects by sectors



## RKDF's projects by regions



In 2019, in support of the export-oriented enterprises, the Fund developed the product of Financing of Factoring Transactions loan. The product is designed for financing the working capital of export-oriented enterprises that have supply contracts. This loan product provides supplier with financing against the assignment of rights of claims, arising from supply contracts with deferred payment. The product is of crucial importance for local companies that seek entering the markets of the Russian Federation and member countries of the Eurasian Economic Union.

In line with the Fund's mission to develop economic cooperation between the Fund's member countries, and with the purpose to promote projects with a Russian component, the Kyrgyz-Russian Business Partnership product was developed. This product provides a refund to the borrower of  $\frac{1}{2}$  of the interest paid on the loan in USD and  $\frac{1}{4}$  of the paid interest on the loan in KGS according to the results of the calendar year if the obligations to the Fund are

fulfilled in each year and if the project meets at least one of the following conditions:

- at least 30 percent of the participation of the Russian investor in the capital;
- at least 70 percent of products are exported to the Russian Federation;
- at least 50 percent of the loan will be directed to the purchase of high-tech equipment from the Russian Federation;
- at least 70 percent of the loan will be directed to the purchase of equipment and technologies from the Russian Federation.

In order to form and develop business projects in the regions of the Kyrgyz Republic with a goal of their further consolidation, the financing of start-up projects was launched. For this purpose, \$2 mln have been allocated. These funds are distributed in equal proportions to start-up projects under the direct financing program and to the projects financed through the partner banks of the Fund.



Within financing of start-up projects by direct financing, 3 regions of the Kyrgyz Republic were selected where the Fund has a low level of presence (Batken, Naryn and Talas regions). At the yearend of 2019, two projects were selected:

- construction of a milk processing plant in the Naryn region;
- construction of a modern logistics center by the HACCP standard for processing apricots in the Batken region.
- Within financing start-up projects in the regions of the Kyrgyz Republic, the following activities were carried out along with the financial and credit organizations and the Guarantee Fund:
  - an organizational plan for financing start-up projects in the regions of the Kyrgyz Republic has been approved;
  - framework agreements were signed on financing start-up projects in the regions of the Kyrgyz Republic at the expense of the Fund, the Guarantee Fund and partner banks (RSK Bank, Bakai Bank, Aiyl Bank);
  - agent agreements on providing finance for start-up projects were signed with partner banks (RSK Bank, Bakai Bank, Aiyl Bank).

As part of measures to spark development of the regions of the Kyrgyz Republic, field meetings and conferences were held in the regions to inform the business community about new products of the Fund. The Fund has allocated funds for the Guarantee Fund in the amount of 200 mln KGS provided that guarantees are given exclusively to the regions of the Kyrgyz Republic.

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**The funding threshold for direct financing projects has been reduced from \$1 mln to \$200,000.**

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This limit applies to all regions of the country, except for the city of Bishkek, Alamedin and Sokuluk districts of the Chui region.

In 2019, the Fund approved Internet Access Project in the regions of the Kyrgyz Republic in the amount of \$250,000 as part of the contest The Fund's Participation in Equity. As a result, the Fund approved entering into the authorized capital of the company in order to increase the investment program of the enterprise while maintaining the debt load at an acceptable level. In addition, measures were approved for improving the corporate governance of the funded company.

### Direct financing

In 2019, in the Chui region, the Fund successfully implemented a project on a multi-profile production of special-purpose footwear. This is the first modern domestic shoe factory. In early 2017, the company launched the production of civilian footwear on its own, and in January 2019 it launched production of special-purpose footwear. The total investment in the factory was \$4.2 mln. The company's products are exported to the EAEU markets, which contributes to the development of trade and economic relations with the member countries of this integration union.

In Bishkek, the Fund-financed construction of an alternative branch of the heating main consisting of three lines of pipes with a diameter of 900 mm was completed. Construction of an alternative branch increased the capacity of the Vostok highway by 72,740 Gcal of heat energy per year for residents of the southern districts of the city. The total cost of the project was \$ 6.4 mln.

In 2019, in the Moscow region of the Chui region, a canning factory for processing fruits and vegetables, packing tomato paste and refined sugar was launched. The total cost of the project amounted to \$1.3 mln. The project has a multiplier effect because it is meant for processing the crop of local farmers.

For the reporting year, 58 applications were submitted to the Fund, of which 22 applications for \$47 mln were approved, including:

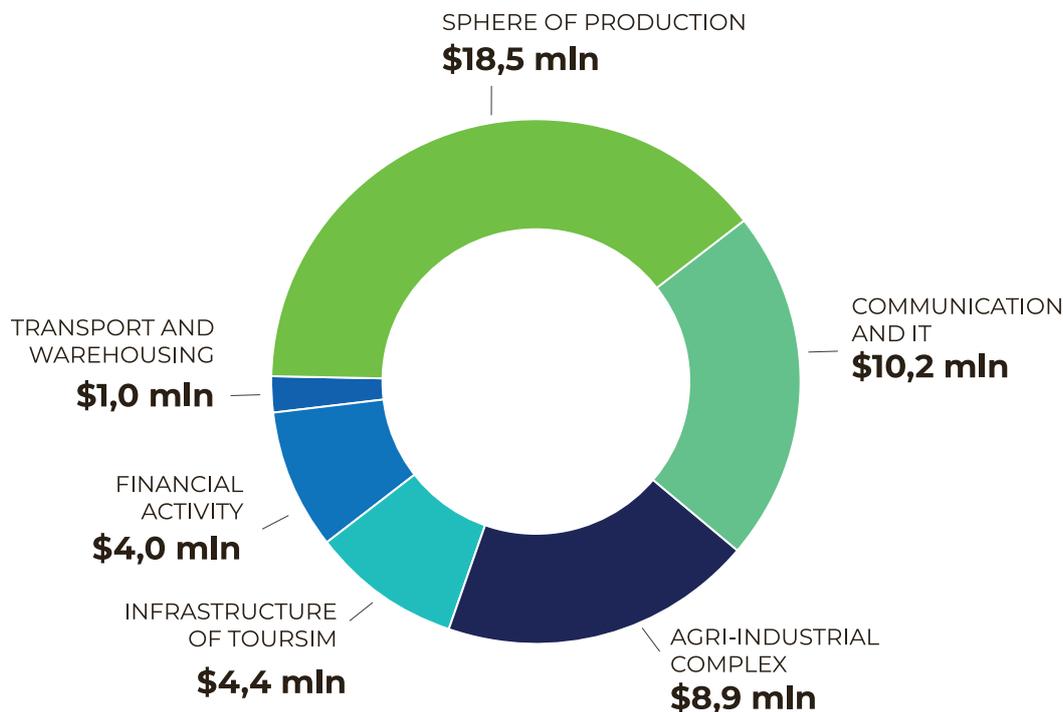
- in the production sector, 6 projects totaling \$18.5 mln are aimed at expanding the production of plastic products, purchasing sewing equipment, building a basalt fiber factory, purchasing equipment for the production of polyamide casing for sausage products, etc.;
- in the communications and information technology sector, 3 projects totaling \$10.2 mln aimed at purchasing digital broadcasting and telecommunications equipment, etc.;
- in the sector of agro-industry, production and processing of agricultural products, 8 projects totaling \$ 8.9 mln aimed at the construction of a complex for primary processing and storage of agricultural products, construction of a slaughter

and primary meat processing plant, modernization of a milk processing plant, etc.;

- in the sector of the tourism infrastructure development, 2 projects totaling \$ 4.4 mln aimed at building a hotel complex;
- in the sector of infrastructure development and financial activities, 1 project in the amount of \$4 mln;
- in the sector of transport and storage, 2 projects totaling \$1 mln.

Loans approved within direct financing provide a positive socio-economic effect in the form of creating new jobs, increasing tax deductions to the state budget, reducing the dependence of domestic producers from the imports, and increasing the export potential of the Kyrgyz Republic.

#### RKDF's projects by sectors for the reporting year (direct financing)



## LLC Biovit

### Pharmaceutical plant



LLC OSKO



## Vacuum drying plant



## Financing of small and medium business

The Fund provides support to small and medium enterprises within the framework of the Program for Targeted Financing of Small and Medium Business (SMB) through partner banks and microfinance organizations. One of the key tasks of the Fund in the field of financing small and medium business in 2019 was to organize work to expand access to credit resources of business entities in all regions of the Kyrgyz Republic, as well as other financial and credit organizations that provide financial support to small and medium business, including the Guarantee Fund.

### The Fund's partners in the Program for Financing of Small and Medium Business are 15 banks and 4 microfinance organizations.

There are 632 units of the regional network of partner banks and microfinance organizations in the Kyrgyz Republic, issuing loans under the Fund's programs (branches, departments and regional representative offices) in all regions of the country. While working with partner banks and microfinance organizations, a mechanism of interaction was created to monitor the dynamics of the financial situation of borrowers and promptly respond to the cases of its deterioration (including by increasing the requirements for the quality of collateral), maintain the security, payment and repayment of loans, and monitor the loan portfolio of financial

organizations formed at the expense of the Fund's resources.

This mechanism reduces the Fund's operational and credit risks and ensures a high degree of loan repayment (commercial banks and microfinance organizations do not have cases of default or late payments), gives individual partner banks the opportunity to use revolving credit lines as they repay previously issued loans.

As part of the Fund's programs/loan products, partner banks provided loans to small and medium business at concessional interest rates of 10 percent per annum in national currency and 5 percent per annum in USD. In August 2019, in order to create favorable conditions for small and medium business, a decision was made to reduce the interest rate on loans in the national currency to 9 percent per annum. Financing for small and medium business was provided for up to 7 years, depending on the established criteria of the Fund's Programs/loan products.

The partner banks of the Fund under the Lending to Small and Medium Business through Commercial Banks program are: Aiy Bank, RSK Bank, BTA Bank, CB Kyrgyzstan, Kyrgyz Investment and Credit Bank, Halyk Bank, Bank of Asia, Capital Bank, Companion Bank, Demir Kyrgyz International Bank, Optima Bank, Bakai Bank and Kyrgyzkommercbank. For the reporting year, credit limits for Bai-Tushum Bank and Kyrgyz-Swiss Bank were approved.

This mechanism of interaction with partner banks reduces the Fund's operational and credit risks



In general, in 2019, the growth in the number of approved projects through partner banks and microfinance organizations amounted to 17.5 percent and was provided by the following factors:

- provision of loans in two currencies (in USD and in national currency), which allowed small and medium business to receive financing in the currency of the entity's source of income;
- setting of additional credit limit for new banks-partners, adoption of renewable (revolving) credit lines for individual partner banks - (Aiyl Bank, Commercial Bank Kyrgyzstan, Kyrgyz Investment Credit Bank, Halyk Bank, BTA Bank, Optima Bank, Bai-Tushum Bank, and Kyrgyz-Swiss Bank);

- increasing the number of partners-microfinance organizations of the Kyrgyz Republic, such as ABN Microfinance Company, Bailyk Finance and increase in the limit of BT Innovations.

As of the end of the reporting year, the Fund financed 37 intensive gardening projects for a total amount of \$3.4 mln within the loan product of Financing of Planting Intensive Gardens with aim to introduce new intensive horticulture technologies in the Kyrgyz Republic, to provide processing enterprises with the necessary amount of raw products, and to generally increase the export potential of the industry. The total area of the gardens set is 500 hectares.

632 units of the regional network of the partner banks and microfinance organizations in the Kyrgyz Republic are issuing loans under the Fund's programs



The Fund provided institutional support in promoting leasing operations for purchasing agricultural machinery, processing, industrial and food-processing equipment. The Fund financed the purchase of 113 units of machinery and equipment in the amount of \$8.4 mln through commercial banks and microfinance organizations under the Financing Of Leasing Operations program/loan products (with an account of borrower's own contribution).

As part of the program for financing small businesses through microfinance organizations of the Kyrgyz Republic, small businesses and group borrowers were given the opportunity to receive loans up to 500,000 KGS for the establishment and development of their own businesses. At the end of 2019, microfinance organizations provided loans to small businesses in the amount of more than \$3.2 mln.

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**In 2019 financial market maintained the trend of reducing the level of loan interest rates.**

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This trend was observed since the beginning of the Fund's cooperation with partner banks in the framework of the targeted financing of small and medium business.

According to the National Bank of the Kyrgyz Republic (hereinafter – NBKR), the average weighted interest rate on the newly issued loans of commercial banks for a period of more than 3 years in December 2019 amounted to 12.2 percent, which compared to September 2015 decreased by 5.2 percentage points (in September 2015 - 17.41 percent).

By the end of 2019, the loan portfolio of the banking system of the Kyrgyz Republic amounted to 144,200,000 KGS and grew by 12.8 percent during the reporting period (as of the end of 2017 - 127,885,000 KGS). The

Fund holds a significant share in the total volume of lending in the banking system as a whole, so the Fund's loan portfolio is 10.3 percent of the total loan portfolio of the banking system of the Kyrgyz Republic.

**The use of funds of the Project Support Foundation**

In order to successfully implement projects, increase the efficiency of the invested funds and improve the business environment through deductions from the Fund's profits, Project Support Foundation (PSF) was set up. This is a mechanism for providing technical assistance and expertise for the ongoing investment projects and projects of potential customers, as well as financing research and events to analyze the markets, various sectors of the economy, and to develop and promote the industry and regional programs. The funds of the Project Support Foundation are allocated mainly on a grant basis with the contribution of the project initiators.

The size of the Project Support Foundation at the end of 2019 was \$1,896,000 and the amount of deductions for the reporting year amounted to \$604,000.

Over 2019 from funds of Project Support Foundation \$75,000 out of \$156,000 approved were directed on financing of technical/advisory assistance, and for financing of events and research.

In the reporting year, the Fund worked on accreditation of the companies providing qualified assistance in preparing project documentation (including business plans and feasibility studies), as well as various types of technological and specialized assistance to support the project at all stages of its implementation.

**Over 2019 from funds of Project Support Foundation \$75,000 out of \$156,000 approved were directed on financing of technical/advisory assistance, and for financing of events and research**



## Activity on the financial markets and treasury transactions

The income received from managing temporarily available funds allowed the Fund to finance projects at concessional interest rates

Activities in the financial markets were carried out by the Fund as part of the process for managing temporarily available funds. Treasury operations were carried out in strict accordance with the principles of safety and efficient use of temporarily available funds. The main condition for choosing financial investment instruments is the priority of liquidity and reliability over profitability. The income received from managing temporarily available funds allowed the Fund to finance projects at concessional interest rates.

The Board of the Fund has determined the main strategic parameters of the portfolio of the temporarily available funds of the Fund. The Executive Board of the Fund made decisions on the selection of financial instruments, determination of volumes and terms of investment of the temporarily available funds in accordance with the strategic parameters set by the Board of the Fund.

Within the limits and restrictions set by the Fund's internal regulatory documents, temporarily available funds were placed exclusively in debt securities of the state and corporate issuers, as well as in debt instruments of the international financial institutions with a credit rating higher than "BB-" level according to the classification of rating agencies Standard and Poor's or Fitch Ratings, or Ba3 according to the classification of Moody's Investors Service. Credit instruments of similar quality were also used in the management of the short-term liquidity operations of the Fund.

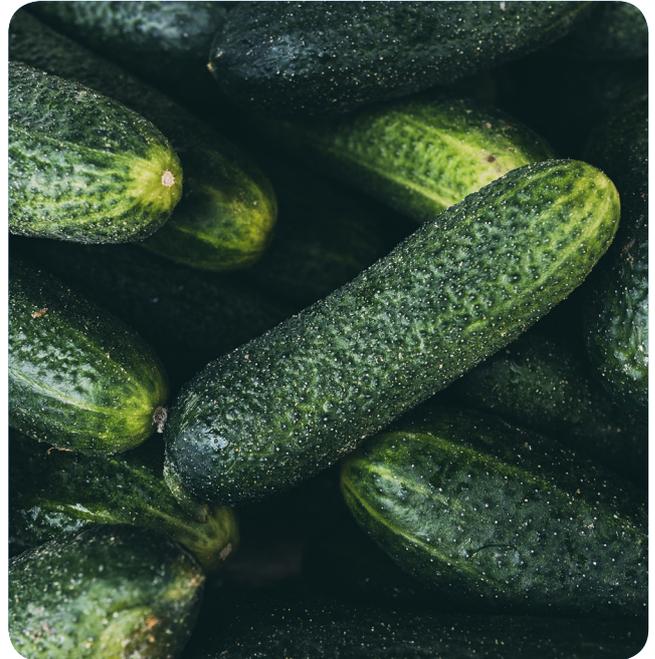
Cooperation in attracting funds to the projects implemented by the Fund was carried out with the Russian and foreign export-import institutions, and with the international development institutions. The Fund continued to actively cooperate with the National Bank of the Kyrgyz Republic on attracting funds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



## LLC Dar Zemli



## Canning plant



# LLC Kant Sut



## Natural dairy products production



## Socio-economic impact of the Fund's activities

The number of newly created jobs by the end of 2019 totalled 3,400

The income of enterprises and private entrepreneurs, financed by the Fund, increased by 9,167,900 KGS (by \$131.6 mln at NBKR's exchange rate at the end of 2019). The growth rate of total revenue, both on direct financing and the SMB program, was 18.1 percent.

**The total income of enterprises and private entrepreneurs financed by the Fund, according to the results of the year, amounted to 51.2 billion KGS (8.7 percent of GDP).**

Tax payments of the enterprises and private entrepreneurs who received funding from the Fund increased by 21.0 percent at the end of the year, which is associated with the expansion of production and, accordingly, the growth in the number of employees. The amount of tax payments increased by 941.8 mln KGS (by \$13.5 mln at the NBKR exchange rate at the end of 2019).

The total tax payments of the Fund's borrowers amounted to 5.4 billion KGS, or 4.5 percent of all tax revenues to the state budget of the country.



**\$202 mln**  
financed directly

**\$177 mln** financed  
through commercial banks and  
microfinance organizations



**THE TOTAL  
INCOME**

**51 billion  
soms**  
(8,7% of GDP)

↗ The growth rate was **18%**

↗ Increased by **\$132 MLN**



**TAX  
PAYMENTS**

**5,4 billion  
soms**

4,5% of all tax revenues to  
the state budget of the country

↗ Increased by **21%**

↗ The amount increased by **\$13,5 MLN**

The total tax payments of the Fund's borrowers amounted to 5.4 billion KGS, or 4.5 percent of all tax revenues to the budget of the country



The volume of exports of the enterprises and private entrepreneurs financed by the Fund to the Russian Federation grew by 34 percent in 2019, to the EAEU countries - by 8 percent. According to the results of 2019, the export volume to the Russian Federation in value terms amounted to \$37.7 mln, to the EAEU countries - \$ 8.5 mln and to the third Countries - \$90.7 mln.

Enterprises and private entrepreneurs who received finance from the Fund purchased equipment for \$134.3 mln, including: from the Russian Federation - \$25.8 mln, purchases at the domestic market in the amount of \$26.3 mln, from the EAEU - \$8.4 mln and from the third countries - for \$73.8 mln. The total amount of purchases of fixed assets is 5.8 percent of the capital investments from all sources of financing in the Kyrgyz Republic.

The total volume of purchases of raw materials amounted to \$216.8 mln, purchases of raw materials from the Russian Federation accounted for 28.3 percent of all purchases, from the EAEU member countries accounted for 14.6 percent and from the third countries - 12.2 percent. Accordingly, almost 45 percent of the purchases were made in the Kyrgyz Republic.

The number of newly created jobs by the end of 2019 totalled 3,400, from which 748 are held by women, making 22 percent of the total number of the created jobs. The number of indirectly created jobs after the implementation of the projects totalled 56,800.



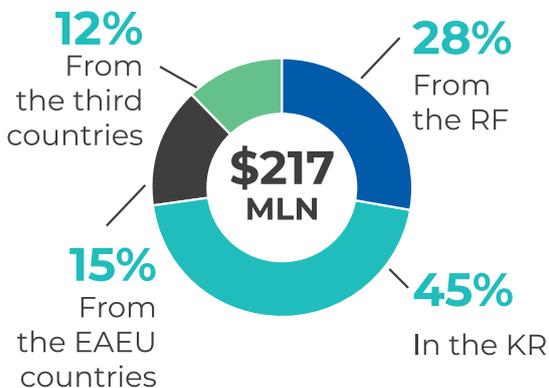
**THE VOLUME OF EXPORTS**

To the RF grew by **34%**  
 To the EAEU countries grew by **8%**

To the RF **\$38 MLN**  
 To the EAEU countries **\$28,5 MLN**  
 To the third countries **\$91 MLN**

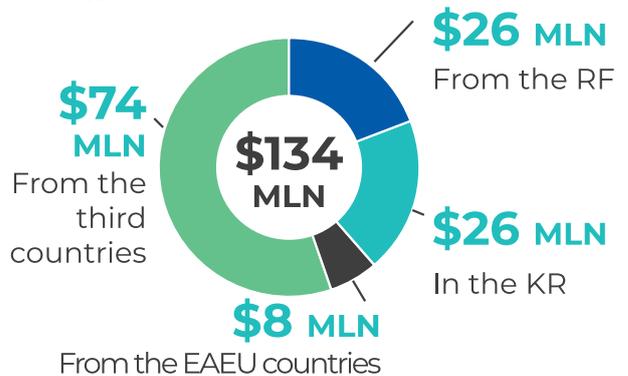


**PURCHASES OF RAW MATERIALS**



**PURCHASES OF FIXED ASSETS**

5,8% of the capital investments from all sources of financing in the Kyrgyz Republic



**NEWLY CREATED JOBS**

**3,400** Newly created jobs  
**56,800** Indirectly created jobs  
**748** women

## International activities of the Fund

### In 2019 the Fund participated in the high-level development forum Accelerating Reforms for Sustainable Development

In September 2019, the Kyrgyz-Russian Business Forum II was held as a part of the fourth international forum Eurasian Week, organized by the Eurasian Economic Commission together with the member states of the Eurasian Economic Union. The Kyrgyz-Russian Business Forum II was held in the form of workshop sessions in the following areas: Small and Medium Power Industry of the Kyrgyz Republic – The Development Prospects and Projects, Financing of Small and Medium Business – The Driver of Economic Growth in the Kyrgyz Republic, The Agri-industrial Complex within EAEU.

The forum was attended by over 150 participants. Based on the results of the forum, a number of agreements were signed, including a Memorandum of Understanding between the Fund and the Federal Corporation for the Development of Small and Medium Enterprises. The purpose of the Memorandum is to unite efforts in promoting entrepreneurship of the two EAEU member countries, establishing mutually beneficial relations and developing cooperation between the Russian and Kyrgyz small and medium enterprises. Also, in framework of the forum Russian company JSC MNTO INSET and the Kyrgyz company LLC SATELLIT-2005 signed an agreement on development of feasibility study for the construction of a small hydropower plant.

In 2019, the Fund participated in the high-level development forum Accelerating Reforms for Sustainable Development.

The forum was attended by the Government of the Kyrgyz Republic and Development Partners, united in the Development Partners' Coordination Council (DCCP), and other international and national organizations, representatives of the civil society and the business community to discuss current tasks and determine further joint efforts to develop the Kyrgyz Republic.

During the forum, the participants approved a number of priority areas for joint actions, and determined plans for collaboration in the future, which will ensure sustainable, large-scale and inclusive development.

Within the framework of cooperation on The Access to Markets project financed by the International Fund for Agricultural Development (IFAD), the Russian Kyrgyz Development Fund plans to allocate up to \$20 mln as a cofinancing of the projects in the livestock farming and value chain development.

In 2019 the Fund began negotiations with German development bank KfW on signing of bilateral memorandum of cooperation aimed at financing of value added chains in agriculture to develop its participants increasing their investment returns and competitiveness. Thus, value chains of agricultural production and sales will be in focus of financing. In framework of such cooperation, farmers producing agricultural products and supplying them to agro-processing companies with/without intermediaries are planned to be financed.



In 2019, the Fund continued its cooperation with the United Nations Development Program (UNDP) within the UNDP project Capacity Building for Financing Sustainable Development in the CIS Region. The first component is aimed at providing technical assistance to the Kyrgyz Republic in identifying, preparing and implementing acceptable projects to be financed by the Fund.

As part of the project, a Council on making of a list of priority investment projects under the Ministry of Economy of the Kyrgyz Republic was set up. This Council is composed of one of the members of the Executive Board of the Fund, representatives of UNDP, the Ministry of Economy of the Kyrgyz Republic, the Central Office of the Government of the Kyrgyz Republic, the Agency for the Promotion and Protection of Investments and business community. Several meetings were held, at which a number of business project proposals were approved for the development of a feasibility study and business plans by selected consulting company. The company already begun to develop a feasibility study for the approved applications of business projects.

To build capacity of entrepreneurs in preparing project proposals for financing, UNDP provided technical support to the Fund in drafting business proposal templates for various sectors financed by the Fund, to stimulate and expand entrepreneurs' access to financial services, and to overcome obstacles and accelerate the flow of investments to the priority national projects. The templates of business proposals and financial models are available on the Fund's website.

In the framework of the Fund's new program on financing the start-up projects across the country, with UNDP's grant support, the selected company organized and conducted intensive training for entrepreneurs in order to improve the quality of project proposals. In August and September 2019, 10 companies participated in the training sessions in the Talas, Batken and Naryn regions. In addition to the knowledge and skills gained during the training, the participants of the training received individual recommendations for further development of their professional capacity.

**RKDF's partners on international cooperation**



A Council on making of a list of priority investment projects under the Ministry of Economy of the Kyrgyz Republic was set up



# Risk management

In 2019, all Fund's standards were kept at a high level and with a significant reserve in relation to the maximum allowable values

Risk management system is a set of regulatory, methodological and organizational components aimed at supporting implementation of the strategic objectives and mission of the Fund. The risk management system includes identification, assessment and monitoring of risks, development of effective measures to optimize and reduce risks, and forming regular risk reports.

During the reporting period, certain activity was continued to integrate the key risk management elements into business processes and to improve risk management processes, including risk assessment of project financing, equity participation, subordinated lending. This work was carried out to keep the risk management system in line with the nature and scope of the Fund's activities, the changing profile of risks it takes, the economic conditions and the needs for further development.

The main strategic objective of risk management is to limit the potential loss from the risks to which the Fund's operations are exposed, taking into account its risk-appetite and risk profile, ensuring financial reliability and long-term sustainable development of the Fund in accordance with strategic objectives.

In order to maximize the economic and integration effect, the Fund is largely focused on long-term project financing, which often corresponds to the projects with a higher risk profile than the average in the banking system of the Kyrgyz Republic. Since the Fund often finances large projects to maximize economic impact, the Fund's activities are also at risk of concentration.

**However, the Fund maintains a high level of financial sustainability.**

The reserves formed for the credit and investment portfolio (in accordance with IFRS 9), together with retained earnings, exceed the balance of debt on financial instruments from Stages 2 and 3.<sup>2</sup>

In addition, capital adequacy, asset quality and liquidity ratios are regularly calculated to assess and monitor risk levels. In 2019, all Fund's standards were kept at a high level and with a significant reserve in relation to the maximum allowable values, which indicates the stability and balance of the Fund's activities, as well as significant opportunities for further financing projects (both directly and through financial and credit organizations), which contribute to the development of the country's economy.

<sup>2</sup> Stages 2 and 3 are used for classification of the financial instruments under IFRS 9:

Stage 2 - financial instruments with signs of a significant increase in credit risk compared to the date of initial recognition;

Stage 3 - credit-impaired financial instruments eligible for default.



The pandemic and quarantine measures have led to the limitation of cross-border movements, the introduction of a state of emergency in the Kyrgyz Republic, and, together with the failure to reach an agreement within the framework of the Organization of the Petroleum Exporting Countries (OPEC+) format, a sharp drop in the price of oil and stock indices, and as a result, a decline in the exchange rate of the Kyrgyz som to the US dollar (by 15 percent or more), and, if these trends continue, the credit risk of the financial institutions (including the Fund) that provide dollar financing to corporate borrowers, could be adversely affected.

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**Despite the crisis, the Fund has a stable financial position for the following reasons:**

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1. The portfolio of loans to corporate clients issued in US dollars does not, in contrast to the banks of the Kyrgyz Republic, occupy a major share in the capital of the Fund, being limited to 20 percent (for comparison, in the country's banking system, the ratio of loans in foreign currency to the capital, according to the NBKR, exceeded 120 percent at the end of 2019).

According to the Fund's assessment, approximately 80 percent of the loan portfolio of direct financing of the Fund is sensitive to the current situation. Reserves for this portfolio together with the Fund's undistributed profit cover more than 1/3 of the value of this portfolio, and besides, there is a high level of collateral security.

As a result, even if the negative trends in the economy and the currency market continue, the Fund's capital adequacy standards will not be compromised.

2. The Fund is not exposed to liquidity risk due to the practical absence of leverage in its balance sheet, except for the risk of currency liquidity in the event of non-renewal of tranches of the loan facility in KGS provided by the NBKR in USD (part of the Fund's capital). Exposure to the interest rate risk, provided that the rate on the general agreement with the NBKR on granting the Fund a credit line in KGS is unchanged, is also minimal. The Fund's active operations are almost entirely financed by its capital or by funds secured by a part of its capital. At the same time, about 60 percent of the Fund's capital is presented in cash or placed in highly liquid securities with international investment grade credit ratings (from S&P, Moody's and Fitch) and short duration, which allows the Fund to avoid liquidity and price risk. A significant positive factor is the confirmation of the Russia's investment rating (BBB-) with a stable outlook from S&P, which took place despite the global crisis.<sup>3</sup>

3. The Fund's exposure to direct currency risk, which may happen when foreign exchange assets and liabilities are unbalanced, is at an acceptable level due to the insignificance of its open foreign exchange position (less than 0.5 percent of capital).

A significant increase in the Fund's direct exchange risk, which is unacceptable in the context of instability in the currency market, may occur if the NBKR's KGS tranches are not extended, which has not been the case since the second half of 2015, and/or if some of the foreign exchange loans provided by the Fund are converted in Kyrgyz Soms without adequate KGS liquidity from the NBKR.

**As a result, even if the negative trends in the economy and the currency market continue, the Fund's capital adequacy standards will not be compromised**

<sup>3</sup> As of March 26, 2020



However, the current circumstances increase the level of uncertainty of the conditions of conducting business activities in the Kyrgyz Republic, and in this regard, the Fund is continuously monitoring to reduce exposure to risks related to the overall macroeconomic situation, and, in accordance with its mandate, takes anti-crisis measures to support the economy of the country.

In this context, the Fund has adopted two anti-crisis packages - for borrowers of direct financing and targeted financing of SMB, including:

- extension of the repayment of the principal debt and the credit period for a period of 3 to 12 months, depending on the exposure of the borrowers to the current crisis situation;

- temporary non-application of measures of influence in case of violation of the terms of financing and requirements for collateral cover;
- a moratorium on interest payments for a specified period;
- other measures needed to ease the impact of the current situation.

The Fund regularly assesses the changes in the financial and economic trends, continuing to draft additional anti-crisis measures aimed at mitigating the consequences of the current situation for the economic entities it finances.

### Anti-crisis measures for borrowers of direct financing and targeted financing of SMB



Extension of the repayment of the principal debt and the credit period for a period of 3 to 12 months



Temporary non-application of measures of influence in case of violation of the terms of financing and requirements for collateral cover



A moratorium on interest payments for a specified period



Other measures needed to ease the impact of the current situation

# LLC Aiko Seiko



## Workwear and uniform production



## 2020 activity plans

### In 2020 it is planned to implement the Fund's plans to enter into the capital of a system-forming financial institution of the Kyrgyz Republic

In 2019, the Fund started working on the introduction of products to finance cluster projects focused on the development of value chains in the priority sectors of the economy of the Kyrgyz Republic, which will provide a multiplier effect for the economy of the Kyrgyz Republic. Based on the results of the work, it is planned to develop own programs and ensure their harmonization with those of the existing key players in this area (government institutions, donor organizations, international funds, etc.).

As one of the measures to support the development of the financial sector and increase the volume of financing of the economy of the Kyrgyz Republic, in 2020 it is planned to implement the Fund's plans to enter into the capital of a system-forming financial institution of the Kyrgyz Republic through the provision of a subordinated loan.

In the framework of increasing economic relations between Kyrgyz and Russian businesses and integration of Kyrgyz businesses in the EAEU market conditions, it is planned to strengthen financing of Russian-Kyrgyz projects in accordance with the requirements of the Kyrgyz-Russian Business Partnership product of the Fund.

The Fund plans to expand cooperation with international development institutions and specialized export organizations in attracting credit funds to the projects implemented by the Fund. Such institutions include Eximbank of Russia, the Eurasian Development Bank, and the Czech Export-Import Bank. The Fund also intends to continue to seek and cooperate with similar financial institutions to attract foreign

investment for co-financing projects. In order to increase funding opportunities in the national currency (Kyrgyz Som), the Fund is planning to continue active cooperation with the National Bank of the Kyrgyz Republic.

Organizing and co-hosting the regular Kyrgyz-Russian business forum with partners from the Russian Federation will be traditionally one of the central events for the business community of the Kyrgyz Republic. Regular meetings between Russian investors and the business community of the Kyrgyz Republic at the forum will greatly contribute to the emergence of new joint Kyrgyz-Russian business projects.

In order to implement the projects and stimulate the development of entrepreneurship in the regions, and to support the Presidential Decree declaring 2020 the Year of Regional Development, Digital Country and Child Support, the term of the competition Regions - Growth Points was extended until the end of 2020 and the selection of projects continues.

**It is planned to continue implementation of measures to improve the quality of project documentation of potential borrowers of the Fund.**

Technical assistance will be provided for the preparation of business plans and feasibility studies, as well as for attracting independent experts and audit companies. At the same time, the funds of the Project Support Foundation and international organizations, such as UNDP, UNIDO, and USAID will be used.



As part of measures to improve the quality of projects, the Fund also plans to form a public expert council in the key areas of the Fund's financing.

A separate area of the Fund's activity in 2020 will be the implementation of pilot deals for financing start-up projects, mainly in the regions of the Kyrgyz Republic. The start-ups in the regions in the field of small business are aimed at providing conditions for the creation of new industries and technologies in all areas of the country in the priority sectors of the economy of the Kyrgyz Republic.

**In 2020, a work on expansion of the access of regional entrepreneurs to the Fund's financial resources will be continued.**

It is planned to continuously train the Regional Consultation centers, selected by the Fund through accreditation of consulting companies. The main task of the RCC is to assist to entrepreneurs in the preparation of business plans and getting funding through the Fund.

Due to the increased demand for high-quality production and agricultural equipment, the Fund plans to consider setting up a leasing company. In addition, within the framework of the provided investment financing, in order to expand the product line, it is planned to develop a product for a working capital loan.

In 2020, as a measure to build and strengthen the image of a sustainable international financial institution, the Fund plans to consult with the international rating agencies on a credit rating obtaining. Also, based on the existing needs on the part of borrowers, the Fund will consider the possibility of attracting financial resources in Russian rubles by issuing bonds.

Additionally, the Fund plans to conduct a number of internal corporate activities aimed at optimizing business processes, improving the organizational structure, organizing effective work with problem projects and automating internal business processes.

Moreover, given the current situation in the economy of the Kyrgyz Republic, caused by volatility in the foreign exchange market, and by the constrained measures related to the coronavirus epidemic, The Fund approved a number of anti-crisis measures, both for large players and for small and medium business that received finance from the Fund.

A package of urgent measures in this situation is aimed at supporting local businesses and includes the following activities:

- deferral of repayment of the principal amount of debt with a simultaneous extension of the loan term from 3 months to 12 months;
- moratorium on the interest payments in USD for a period of 3 months to 12 months;
- easing collateral requirements to commercial banks.

Changes in the loan repayment schedules will not be addressed to as restructuring related to significant changes in market conditions.

With regard to the above, in 2020, the Fund intends to continue financing business entities of the Kyrgyz Republic on concessional terms. Within the framework of the Fund's programs on direct lending, project financing and financing of small and medium business in 2020 it is planned to approve financing for a total amount of up to \$69.1 mln.

**In 2020 it is planned to approve financing for a total amount of up to \$69.1 mln**





Development of cluster financing programs and their harmonization with those of the existing key players in this area



Entering into the capital of a system-forming financial institution of the Kyrgyz Republic through the provision of a subordinated loan



Strengthening of financing of Russian-Kyrgyz projects



Widening of cooperation with international development institutions and specialized export organizations in attracting credit funds to the projects implemented by the Fund



Organizing and co-hosting the regular Kyrgyz-Russian business forum



Prolongation of Regions - Growth Points competition timeline till the end of 2020



Implementation of measures to improve the quality of project documentation of potential borrowers of the Fund



Formation of a public expert council in the key areas of the Fund's financing



Continuous trainings of the Regional Consultation centers



Considering setting up a leasing company



Development of a product for a working capital loan within the framework of the provided investment financing



Consulting with the international rating agencies on obtaining a credit rating



Considering the possibility of attracting financial resources in Russian rubles by issuing bonds



Optimization and automatization of internal business processes of business processes, improvement of the organizational structure, organizing effective work with problem projects



Implementation of anti-crisis measures for Fund's borrowers within the framework of the provided investment financing



Approvement of financing for a total amount of up to \$69.1 mln



## CJSC Partner KG



## Fruit and vegetable logistics centers



# LLC Manas Handling



## Ski base



# Audited financial statements



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## Independent Auditors' Report

To the Council of Russian-Kyrgyz Development Fund

### *Opinion*

We have audited the financial statements of Russian-Kyrgyz Development Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### *Basis for Opinion*

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

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

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

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

KPMG Bishkek LLC, a company incorporated under the Laws of the Kyrgyz Republic, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.





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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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





**Russian-Kyrgyz Development Fund**  
*Independent Auditors' Report*  
 Page 3

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

The engagement partner on the audit resulting in this independent auditors' report is:

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Maxim Pristalov

Attorney




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

27 March 2020



*Russian-Kyrgyz Development Fund*  
*Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019*

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

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

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



  
 Ms. Nam O.R.  
 Chief Accountant

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



*Russian-Kyrgyz Development Fund*  
*Statement of Financial Position as at 31 December 2019*

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

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



*Russian-Kyrgyz Development Fund*  
*Statement of Cash Flows for the year ended 31 December 2019*

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

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



*Russian-Kyrgyz Development Fund*  
Statement of Changes in Equity for the year ended 31 December 2019

| USD'000   | Charter capital | Retained earnings and special reserves | Total equity |
|---|-----------------|--|--------------|
| <b>Balance at 1 January 2018</b>                            | 500,000         | 13,284                                 | 513,284      |
| <b>Total comprehensive income</b>                           |                 |  |              |
| Profit for the year   | -               | 10,129                                 | 10,129       |
| <b>Total comprehensive income for the year</b>              | -               | 10,129                                 | 10,129       |
| <b>Balance at 31 December 2018</b>                          | 500,000         | 23,413                                 | 523,413      |
| <b>Balance at 1 January 2019</b>                            | 500,000         | 23,413                                 | 523,413      |
| <b>Total comprehensive income</b>                           |                 |  |              |
| Profit for the year   | -               | 8,635                                  | 8,635        |
| <b>Total comprehensive income for the year</b>              | -               | 8,635                                  | 8,635        |
| Use of the Fund for Preparation and Support of the Projects | -               | (67)                                   | (67)         |
| <b>Balance at 31 December 2019</b>                          | 500,000         | 31,981                                 | 531,981      |

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





## **ANNUAL REPORT 2018**

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