



RUSSIAN-KYRGYZ
DEVELOPMENT FUND

ANNUAL REPORT

2021





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Message of the Chairman of the Management Board



The Russian Kyrgyz Development Fund will not stop at the achieved results. Despite the emerging challenges, it is progressively being formed as a stable and systematic development institution in the Kyrgyz market

Dear partners and clients!

The year 2021 for the entire world was a recovery period from the shock of the COVID-19 pandemic. The ease of the quarantine restrictions and the large-scale incentive programs in a number of countries revived a consumer demand, and resumed business activity.

During the pandemic and post-pandemic recovery, the Russian Kyrgyz Development Fund, as a result of its timely anti-crisis measures, also managed to maintain financial stability, continue financing investment projects and provide its borrowers with the opportunities to overcome the crisis.

The year 2021 was also marked for the Fund with the large-scale work to modernize the internal processes of activity. Currently, the world economy operates in a mode of rapid rhythm of changes, which makes RKDF to adapt to the new conditions and challenges. Under the current economic realities, financial institutions should not only finance investment projects, but also give businesses an impetus for further development through the most comfortable lending opportunities and expert consulting support.

The results of the Fund's activities in 2021 showed an increase in the qualitative and quantitative indicators. Compared to 2020, 73% of the RKDF borrowers increased their economic performance. The total proceeds of the borrowers amounted to 57.8 billion KGS (which is about 8% of GDP), and the volume of exports to the Russian Federation - 59.4 mln. USD (which is more than twice as much compared to 2020). The share of exports of the Fund's borrowers in the total volume of exports to the Russian Federation in 2021 reached 15% (in 2020 it was 9%). The total tax deductions of the RKDF borrowers in the same period

increased to 4.1 billion KGS, which is 40% higher than in 2020. The Fund's borrowers employ about 27,900 people. Indirectly, thanks to the projects financed by the Fund, more than 5,900 people were employed.

Taking into account the investment and lending activities in 2021 (333 projects for a total of 44.2 mln. USD), the total number of projects financed by the Fund was 3,140 in the amount of 407.8 mln. USD. The Fund became the largest institutional investor in the Kyrgyz Republic with an active presence in the regions, and created a unique practice of functioning as a development institution. Currently, the volume of the Fund's loan portfolio is 23% of the long-term loan portfolio of the banking system, which determines its systemic importance in the financial market of the Kyrgyz Republic.

Compared to 2020, 73% of the RKDF borrowers increased their economic performance

Along with this, we see that nowadays there is a need of a qualitatively new principle of work. Participants of the financial market and, first of all, development institutions need to consolidate resources and develop the agreed mechanisms for the joint implementation of specific large-scale projects that correspond to the priority areas of the economic development in Kyrgyzstan. In this matters, the Fund is ready to become a liaison in order to use its accumulated experience for the preparation and provision of the expert support to the business initiatives that have significant socio-economic and integration effects.

The Russian Kyrgyz Development Fund has the status of an international organization, which means that we are guided by the best international financing standards and practices.

We see that nowadays there is a need of a qualitatively new principle of work. Participants of the financial market need to consolidate resources and develop the agreed mechanisms for the joint implementation of specific large-scale projects

Currently, the Fund's competencies include not only concessional lending, but also strategic planning, the attraction of investments from the international financial institutions, modern innovative technologies, as well as the development of the model products of the «ready-made business solutions» in the high-demanded sectors.

We will continue working consistently in the implementation of the import substitution policy in the Kyrgyz Republic with an emphasis on the financing of the projects on the cluster development of economy.

Particular attention will be paid to the renewable energy projects and activities to attract «green finance» through the global climate funds. It should be noted that in its activities the Fund follows the principles of the ESG practice for sustainable development of the economy and increase of the level of the environmental responsibility. In addition, the Fund encourages the business community to introduce and promote «green technologies» in the implementation of their projects.

This year is to become a turning point in the history of the Fund's activities. We have set ambitious goals:

- loan portfolio growth under the direct and targeted financing by at least 77 mln USD;
- creation of a single investment platform with other international development institutions;
- further development of the leasing services market and the stock market instruments;
- increase of the raw material base for the local processing enterprises by increasing the production of milk, feed, meat and wool.

One of the important tasks of the Fund is to also create light industry clusters, which include a full cycle of manufacture of the textile products from the local raw materials, beginning with the cultivation of cotton.

This will require rethinking of the current organizational and financial model of the Fund, the introduction of the highest standards of corporate governance, as well as the approval of the new credit and investment policies that will allow a more flexible approach to the review of the new investment projects in a shorter period, including in terms of easing the requirements for refinancing of the existing loans in order to improve the Fund's collateral base.

We will continue working consistently in the implementation of the import substitution policy in the Kyrgyz Republic with an emphasis on the financing of the projects on the cluster development of economy

The Russian Kyrgyz Development Fund will not stop at the achieved results. Despite the emerging challenges, it is progressively being formed as a stable and systematic development institution in the Kyrgyz market.

The Fund consistently strives for informational openness and the highest transparency of its activities. As part of improving the efficiency of the RKDF office, digitalization program of the internal processes will be implemented. For the development of human capital, the Fund is consistently improving the procedures for competitive selection and improving the competencies of the personnel. Nowadays we feel safe to say that the Fund's team is ready to implement its main mission - to promote the modernization and development of the economy of the Kyrgyz Republic, and the economic cooperation between the Kyrgyz Republic and the Russian Federation.

To sum up, I would like to thank all partners and clients of the Fund for the cooperation aimed at the development of Kyrgyzstan. By joining out efforts, we can contribute to the move of our republic to the new level of sustainable economic development and prosperity.

ARTEM NOVIKOV

**CHAIRMAN OF
THE MANAGEMENT BOARD**

About the Russian Kyrgyz Development Fund

Mission, goals and objectives of the Fund

The Russian Kyrgyz Development Fund (hereinafter referred to as the Fund) 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» of May 29, 2014, and the Agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation «On the Russian Kyrgyz Development Fund» of November 24, 2014.

The main activity of the Fund is to provide loans to the self-sustaining projects, and to conduct other activities related to the provision of the medium and long-term financing to the businesses of the

Kyrgyz Republic in the priority sectors of economy.

The statutory goals of the Fund are:

- modernization and development of the economy of the Kyrgyz Republic;
- expansion and strengthening economic cooperation between the Kyrgyz Republic and the Russian Federation;
- facilitation of the integration of the Kyrgyz Republic into the Eurasian Economic Union (EAEU).

The statutory goals of the Fund

Modernization and development of the economy of the Kyrgyz Republic

Expansion and strengthening economic cooperation between the Kyrgyz Republic and the Russian Federation

Facilitation of the integration of the Kyrgyz Republic into the Eurasian Economic Union (EAEU)

The Board of the Fund



**Maksimov
Timur Igorevich**

Deputy Minister of Finance
of the Russian Federation

Chairman of the Board

The Board of the Fund is a supreme body of the Fund, which carries out strategic management of its activities. The Board of the Fund includes 3 representatives from the Russian side, and 2 representatives from the Kyrgyz side.

In the reporting period, the Board members were:



**Amangeldiev
Daniyar Joldoshevich**

Minister of Economy and
Commerce of the Kyrgyz Republic

Member the Board



**Fedorov
Ilya Viacheslavovich**

Director of the Department for
Development of Integration Projects
under the Ministry of Economic
Development of the Russian Federation

Member the Board



**Baketaev
Almaz Kushbekovich**

Minister of Finance of
the Kyrgyz Republic

Member the Board



**Iachevskaya
Svetlana Viktorovna**

Deputy Chairman, Member of the Board
of the State Corporation "Bank for
Development and Foreign Economic
Affairs (Vnesheconombank)"

Member the Board

Management Board of the Fund



**Novikov
Artem Eduardovich**

Chairman of the Management Board

Management Board of the Fund is a permanent collegial executive body of the Fund. The Board of the Fund includes 3 representatives from the Kyrgyz side and 2 representatives from the Russian side.

In the reporting period, the Management Board members were:



**Kudiakov
Oleg Amirovich**

Deputy Chairman of
the Management Board



**Vetoshkin
Anton Vladimirovich**

Member of the
Management board



**Kurmanbekov
Bakyt Obolbekovich**

Member of the
Management board



**Mamytov
Nurlan Toktobekovich**

Member of the
Management board

Place of the Fund in the financial market, and the main financial indicators

One of the significant limitations of the financial market of the Kyrgyz Republic is a lack of long-term financing. In this regard, the role of the Russian Kyrgyz Development Fund in providing long-term financial resources remains fundamentally important.

The Fund's capital is comparable to the capital of the entire banking system of the Kyrgyz Republic. The equity capital of the Fund at the end of 2021 reached 541 mln USD, while the total capital of the banking system of the Kyrgyz Republic was 612 mln USD. The ratio of the assets of the Fund and the assets of the banking system of the Kyrgyz Republic at the end of 2021 was 13.7 percent.

Table 1

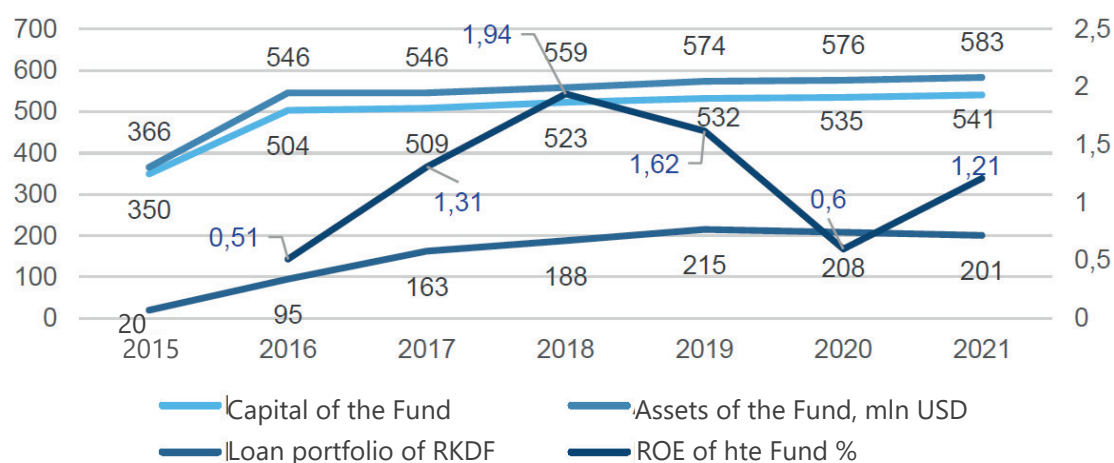
Key financial indicators of the banking system of the Kyrgyz Republic¹ and RKDF, mln USD

Name	31.12.2015	31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021
Capital of the Fund, mln USD	350	504	509	523	532	535	541
Assets of the Fund, mln USD	366	546	545	559	574	575	582
Share of the Fund's capital in its assets, percent	96%	92%	93%	94%	93%	93%	93%
Ratio of the Fund's assets and total assets of the banking system, percent	16%	23%	19%	18%	16%	16%	14%
Total capital of the banking system, mln USD	344	413	468	506	604	511	612
Total assets of the banking system, mln USD	2 346	2 346	2 876	3 178	3 575	3 500	4 263
The ratio of the total capital of the Fund to the assets of the banking system, percent	15%	21%	18%	16%	15%	15%	13%
Loan portfolio of RKDF, mln USD	17	96	164	188	216	211	204
Long-term loan and investment portfolio of the banking system of the Kyrgyz Republic corresponding to the mandate of RKDF, mln USD	140	186	299	376	412	448	394
The ratio of the loan and investment portfolio of RKDF and the long-term loan portfolio of the banking system, which conforms to the mandate of RKDF, mln USD	12%	51%	55%	50%	52%	47%	52%
Leverage ratio of the banking system, times	7	6	6	6	6	7	7

¹ Bulletin of the National Bank of the Kyrgyz Republic for 2021

² Loan portfolio excluding mortgage and consumer lending

Key financial indicators of RKDF, mln USD



The volume of the Fund's loan portfolio is about 9 percent of the loan portfolio of the banking system, 23 percent of the long-term loan portfolio³, or 51 percent of the long-term loan portfolio of the banking system that conforms to the mandate of RKDF, excluding the mortgage and consumer lending, which determines systemic importance of the Fund in the financial market of the Kyrgyz Republic.

The Fund's average weighted rate under direct financing in 2021, both in the national and foreign currencies, was approximately twice lower compared to the average weighted rates for long-term loans of the commercial banks⁴.

This, in its turn, affects the dynamics and the structure of interest rates, as well as the maturity of the loan market, which today is a significant achievement in the process of pricing on the country's loan market. The share of the long-term loans issued by the banking system after the start of the Fund's operation, increased from 30 percent at the end of 2015 to 42 percent at the end of 2021⁵. Notably, there was a significant increase in the share of loans in foreign currency provided for over three years in the total volume of loans in foreign currency from 41.8 percent at the end of 2015 to 47.8 percent on December

31, 2021. The weighted average interest rate on long-term loans for the same period decreased from 18.9 to 13.68 percent in national currency and from 15.08 to 9.04 percent in foreign currency. One of the significant reasons for the respective structural shifts was the Fund's program for targeted financing of SMEs through the financial and credit organizations.

The Fund provides funding to commercial banks and other financial and credit organizations on preferential terms in order to increase the availability of finance for small and medium-sized businesses. The share of the Fund's loan portfolio in the targeted financing of small and medium-sized businesses in the loan portfolio of the banking system of the Kyrgyz Republic at the end of 2021 is 3.7 percent. Herewith, the ratio of the credit portfolio in the direction of the target financing of small and medium-sized businesses to the long-term credit and investment portfolio of the banking system of the Kyrgyz Republic by the end of 2021 is 20 percent. The final rate for small and medium-sized businesses on loans from the Fund's resources is 5 percent in USD and 9 percent in KGS (before August 15, 2017, the lending rate for small and medium-sized businesses in KGS was 12 percent, from August 15, 2017 to August 15, 2019 - 10 percent).

³Loans over three years according to the bank statistics

⁴The average weighted rate on the Fund's loans: in KGS - 8.4 percent, in USD - 4.4 percent. The average weighted rate on the loans of commercial banks: in KGS - 14.15 percent, in USD - 8.92 percent.

⁵Bulletin of the National Bank of the Kyrgyz Republic (loans issued by commercial banks at the end of the period)

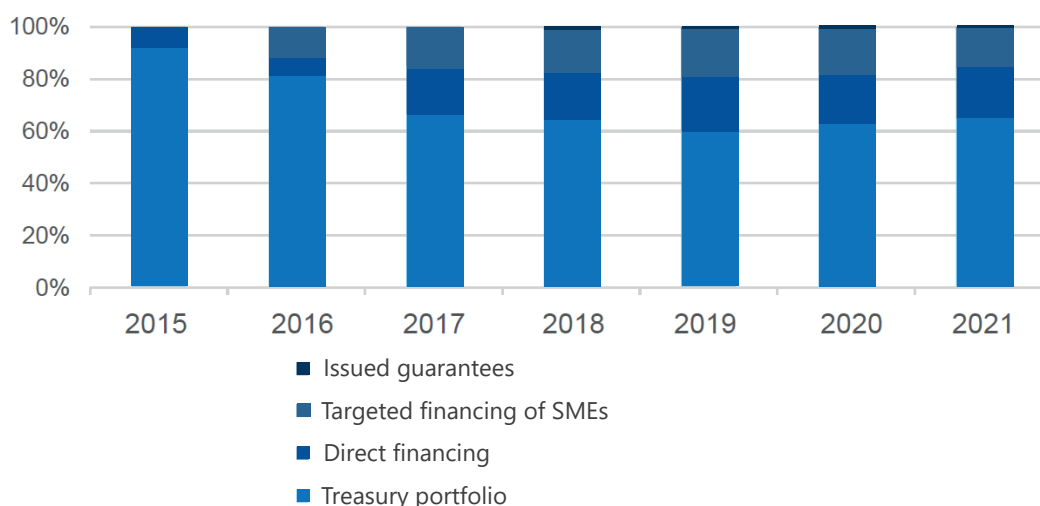
Table 2

Main indicators of the Fund's portfolios for 2015-2021 in USD

Name	31.12.2015	31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021
Treasury portfolio	189 241	399 390	317 713	337 993	318 003	328 461	340 482
Loan portfolio:							
- Direct financing	1 101	34 043	86 798	92 433	108 003	103 719	104 051
- Targeted financing of small and medium-sized businesses	15 513	58 775	70 491	88 664	96 007	87 825	78 431
The amount of the undrawn loan funds (part of financing limits available for drawdown)							
- Direct financing		41 229	34 090	14 575	23 609	17 254	24 019
- Targeted financing of SMEs		18 787	28 739	20 643	43 180	47 026	37 109
Portfolio guarantee:							
- Issued guarantees		0	1 694	6 118	5 654	4 565	3 646
- Total guarantee limit		-	1 950	5 904	5 728	6 050	4 843
Profit	707	2 578	6 686	10 129	8 635	3 185	6 554
Equity	350 028	503 859	509 066	523 413	531 981	534 886	541 250

Figure 2

Key indicators of the Fund's portfolios in 2015-2021 (shares in total volume)



Between 2015 and 2021, the Fund demonstrated a stable financial position in all areas of activity: direct financing, targeted financing of small and medium-sized businesses through commercial banks of the Kyrgyz Republic and treasury transactions.

Therewith, the Fund, unlike commercial organizations, does not set the goal of

maximizing profit. In accordance with the Charter, the Fund's profit is not distributed in favor of the founders, but is capitalized, which allows long-term financing of projects at preferential interest rates in the future and guarantees long-term sustainability of the Fund as a development institution.

Investment and project activities

Between 2015 to 2021, the Fund approved 3,140 projects worth 407.8 mln USD

General results

In 2021, the Fund continued actively working to finance projects in the priority sectors of the economy, including the agro-industrial complex, the pharmaceutical and food sectors, tourism, light industry and other priority areas.

The investment and credit activities of the Fund are carried out in two areas:

- provision of large investment loans under direct and program financing;
- provision of the targeted financing to the financial and loan organizations of the Kyrgyz Republic for subsequent financing of the small and medium-sized businesses.

Between 2015 and 2021, the Fund approved 3,140 projects worth 407.8 mln USD. Under direct financing, the Fund approved 74 major projects in the amount of 205.4 mln USD, and 3,066 projects in the amount of 202.4 mln USD under the «Lending to small and medium-sized businesses» program, through commercial banks and microfinance institution of the Kyrgyz Republic.

Of the total amount of loans issued (407.8 million USD), 7.433 mln were issued in the national currency KGS and 311 million in USD.

Table 3

The amount of finance provided by the Fund in 2015-2021

Direction	Thousands of KGS	Thousands of USD
Direct financing	1 296 720	188 162
Commercial banks	5 781 503	122 860
MFI	354 402	-
Total	7 432 625	311 022
TOTAL in USD		407 813

Figure 3

The amount of funds provided by RKDF in 2015-2021, in thousands of KGS

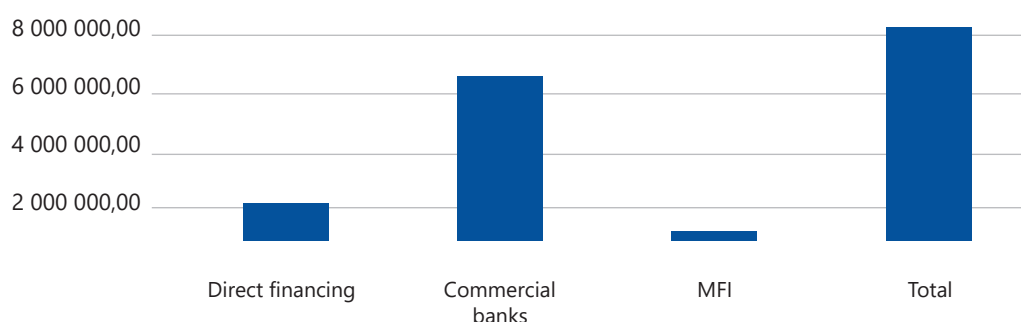
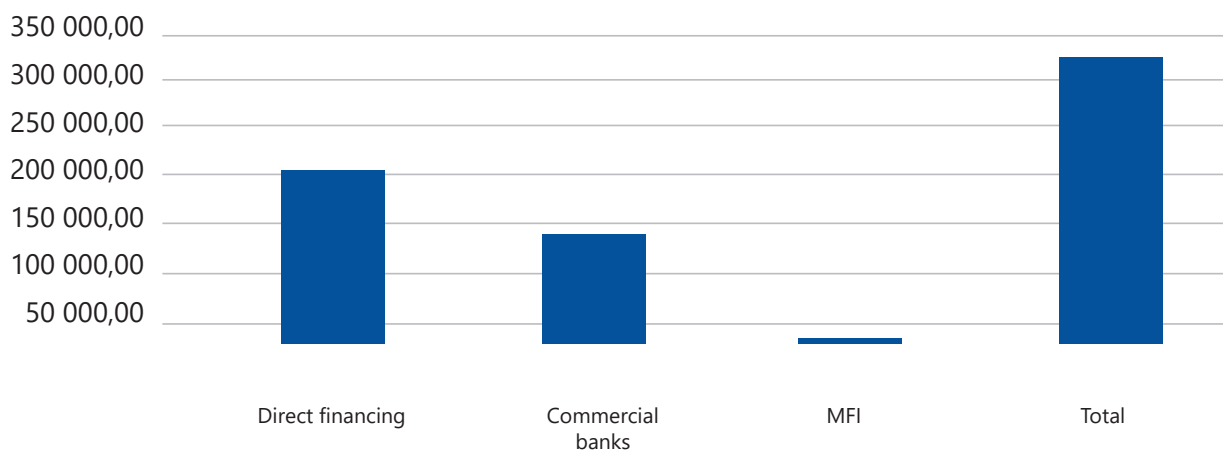


Figure 4

The amount of funds provided by RKDF in 2015-2021, in thousands of USD



In the portfolio structure of the loans approved by the Fund, broken down by sector, as of December 31, 2021, the largest share was held by: sphere of production - 34 percent (141.5 mln USD), agro-industrial complex, production and processing of agricultural

products - 24 percent (99.5 mln USD), infrastructure development 13 percent (53 mln USD), tourism 12.4 percent (50.5 mln USD), transport and warehousing 8.3 percent (33.9 mln USD).

Table 4

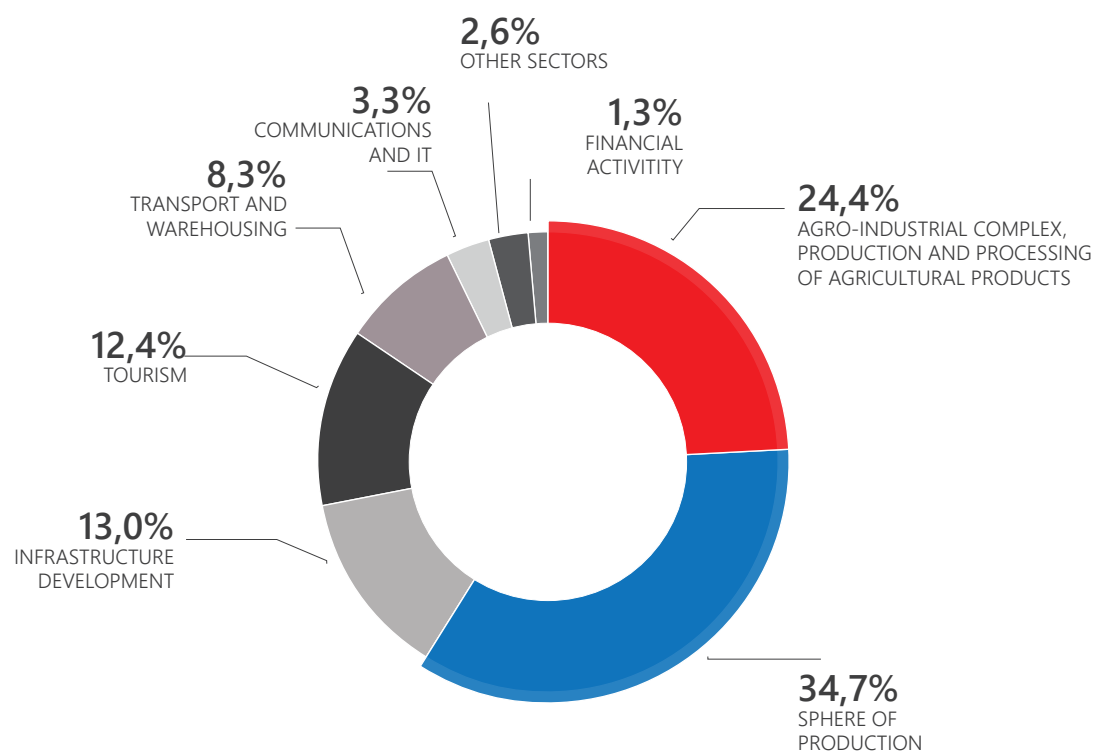
Sectoral structure of the projects approved by the Russian Kyrgyz Development Fund as of December 31, 2021

Sphere	Number of projects	Thousands of USD	Structure, percent
Sphere of production	600	141 550	34%
Agro-industrial complex, production and processing of agricultural products	1 860	99 538	24%
Infrastructure development	183	53 053	13%
Tourism	179	50 494	12%
Transport and warehousing	226	33 905	8%
Communications and information technology	9	13 296	3%
Other sectors	81	10 448	2%
Financial activity	2	5 529	1%
Total	3 140	407 813	100%

Source: The Russian Kyrgyz Development Fund

Figure 5

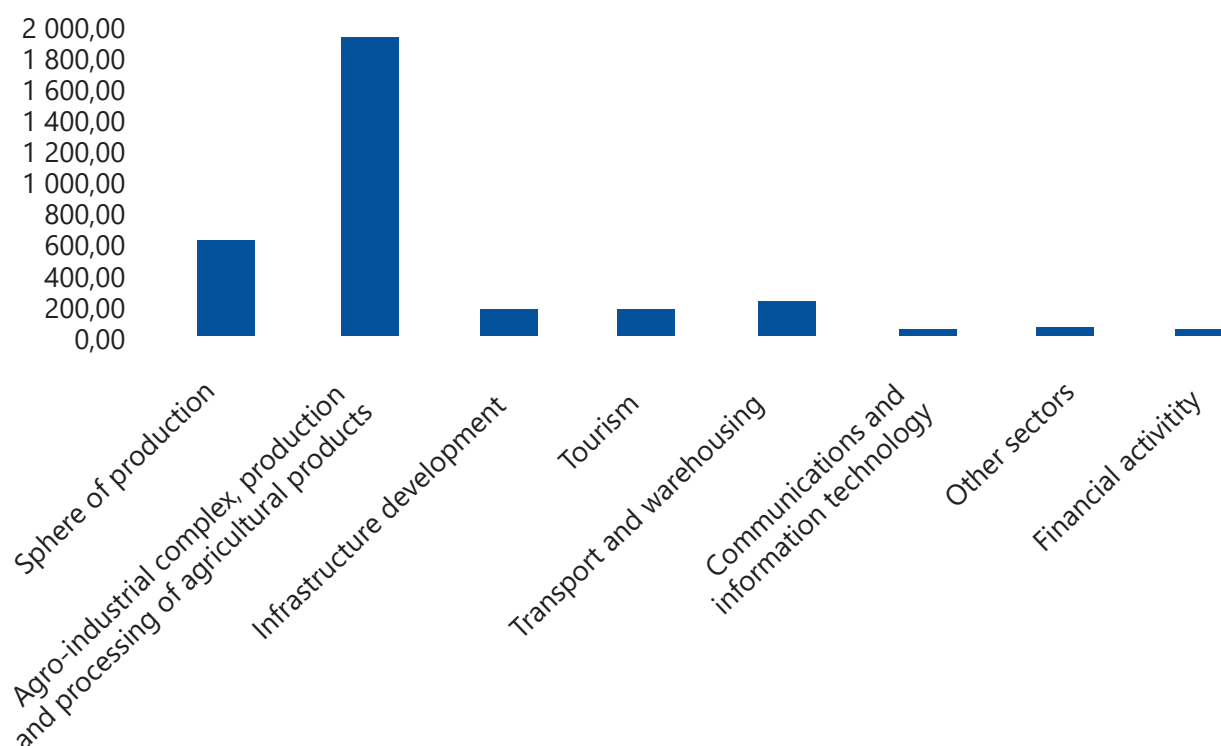
Sectoral structure of projects



Source: The Russian Kyrgyz Development Fund

Figure 6

Sectoral structure of projects, number of projects



Source: The Russian Kyrgyz Development Fund

In its lending and investment activities, the Fund, among other things, adheres to one of the important tasks of facilitating the development of the regions through financing of the projects that have a multiplier socio-economic effect at the territorial level.

In order to ensure the availability of project financing for all regions, direct lending limits were temporarily reduced to \$100,000 for the Talas, Batken, and Naryn regions, and to \$200,000 for other regions of the Kyrgyz Republic. This measure stimulates the growth of the gross regional product and supports

entrepreneurship, including through the effect on employment and economic activity.

Through a wide partner network of the Fund under the «Lending to small and medium-sized businesses» program, the RKDF resources are available in every region. Financial and credit institutions who are partners of the Fund have over 600 divisions (branches, savings banks, representative offices) across the country, through which the RKDF loan funds are provided to small and medium-sized businesses on the favorable terms.

Table 5

Regional structure of the projects approved by the Russian Kyrgyz Development Fund as of December 31, 2021

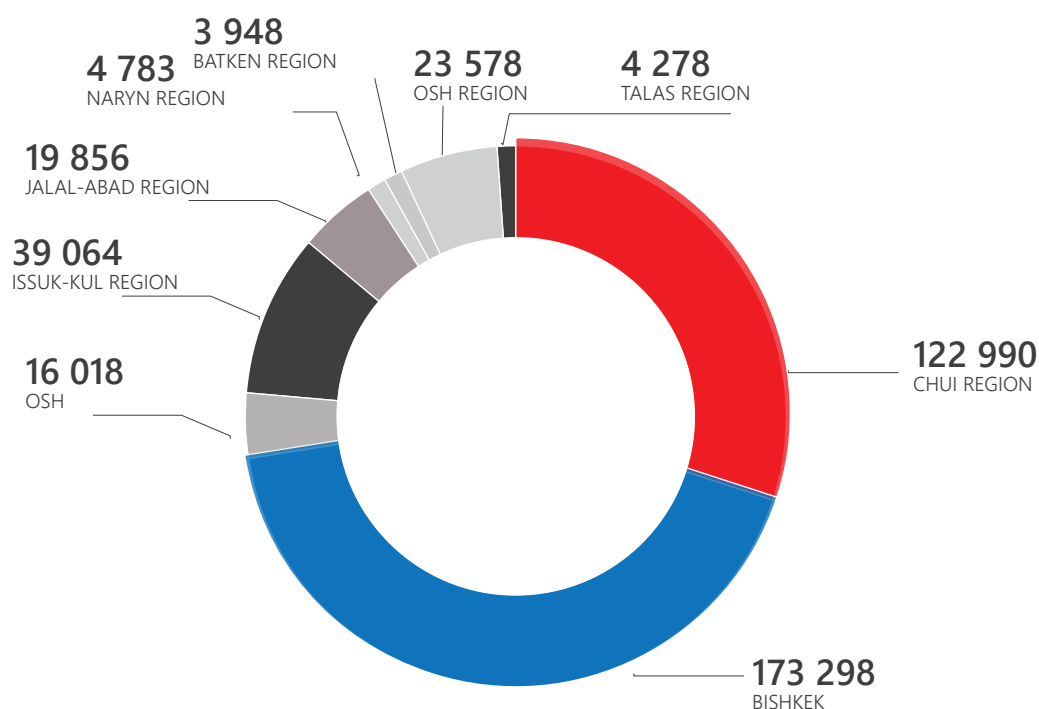
Name of cities/regions	Total loans issued as of 01.01.2022	
	Thousands of USD	Number of projects
Chui region	122 990	612
Bishkek	173 298	575
Issyk-Kul region	39 064	539
Talas region	4 278	455
Jalal-Abad region	19 856	352
Osh region	23 578	293
Batken region	3 948	116
Osh	16 018	107
Naryn region	4 783	91
Total:	407 813	3 140

Source: The Russian Kyrgyz Development Fund

Through a wide partner network of the Fund under the «Lending to small and medium-sized businesses» program, the RKDF resources are available in every region

Figure 7

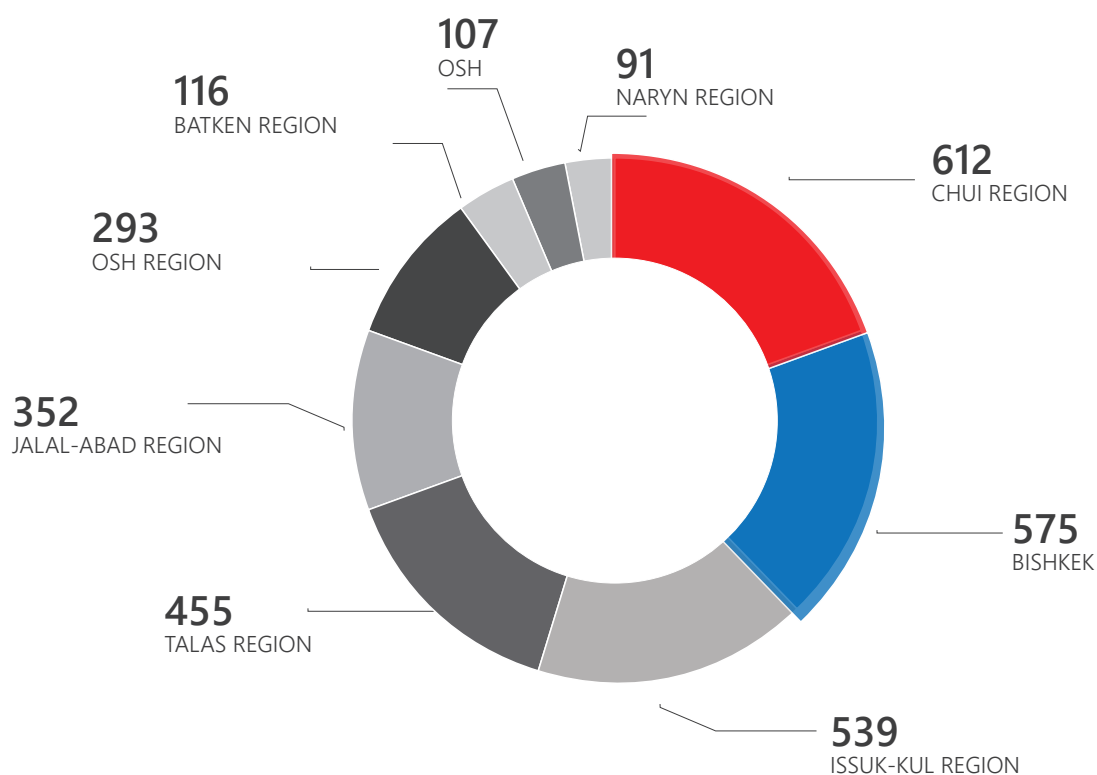
Total loans issued as of 01/01/2022, thousands of USD



Source: The Russian Kyrgyz Development Fund

Figure 8

Total loans issued as of 01/01/2022, number of projects



Source: The Russian Kyrgyz Development Fund

In 2021, the Fund began to actively implement new loan products to finance cluster projects focused on the development of value chains in the below priority sectors of the economy of the Kyrgyz Republic:

- dairy production;
- meat production;
- aquaculture;

- fruit and vegetable sector.

The projects in these areas can provide a significant multiplier effect for the country's economy, and make a significant contribution to the development of the regions.

Since the launch of these products, financing of 12 cluster projects in the amount of 10.3 million USD has been approved under direct lending.

Loan products for cluster projects financing



**Dairy
production**



**Meat
production**



Aquaculture



**Fruit and
vegetable
sector**

Table 6

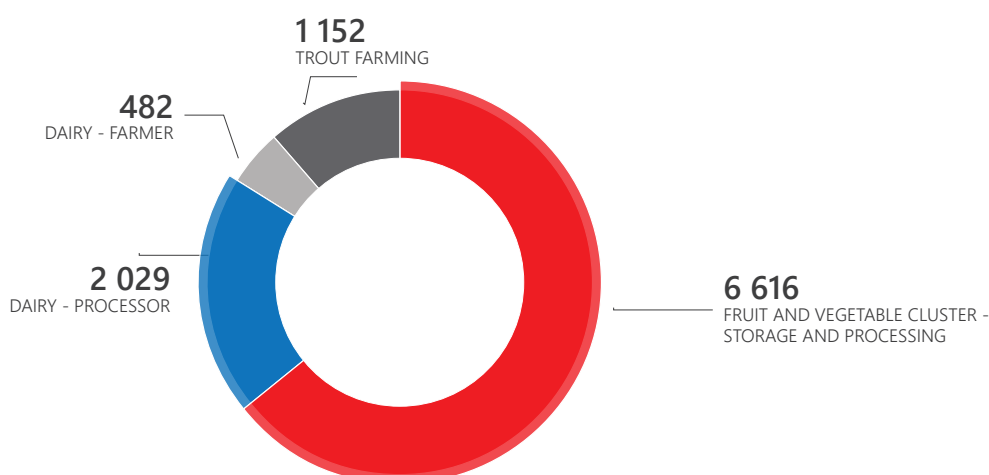
Financing of the cluster projects as of December 31, 2021

Cluster name	Number of projects	Approved amount, thousands of USD
Fruit and vegetable cluster - storage and processing	6	6 616
Dairy - processor	4	2 029
Dairy - farmer	1	482
Trout farming	1	1 152
Total:	12	10 279

Source: The Russian Kyrgyz Development Fund

Figure 9

Financing of the cluster projects as of 12/31/2021, thousands of USD



The main distinctions of the loan products of financing the cluster projects are:

- financing of the growing companies that do not have current turnover comparable to the volume of lending;
- extended terms of financing and grace periods for repayment of the principal amount of the loan;
- reduced collateral coverage ratios, which increases the availability of loans under direct financing of the Fund;
- the possibility of financing working capital within the framework of an investment

project both under direct financing and the small and medium-sized business support program

Direct financing of large projects

The Fund provides direct financing to big projects in the priority sectors of the economy of the Kyrgyz Republic, aimed at the creation, acquisition, renewal and modernization of the fixed assets and other long-term investments.

In 2021, under direct financing, 18 significant projects were approved and began to be implemented in the amount of 26.5 mln USD.

Table 7

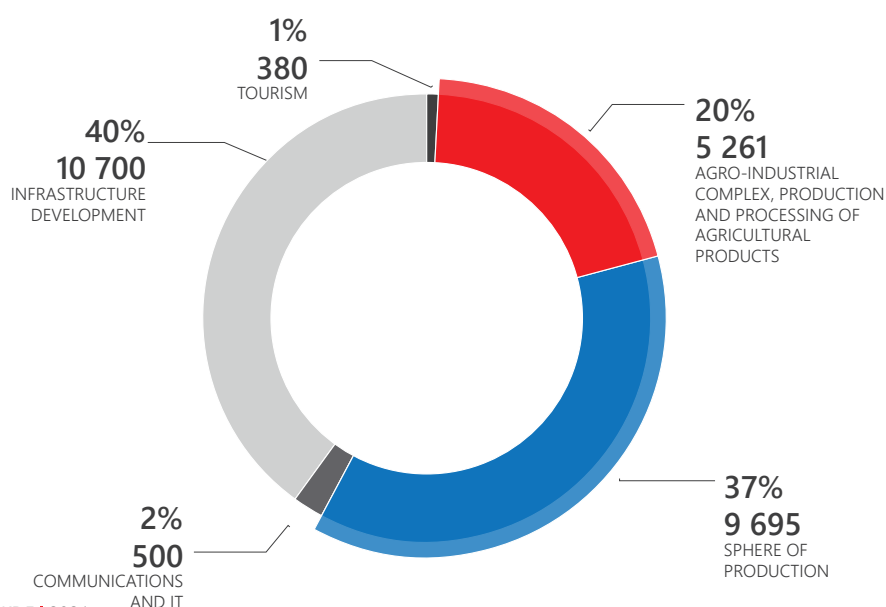
Sectoral structure of projects approved and accepted to be implemented by the Russian Kyrgyz Development Fund in 2021 under direct financing

Sector	Number of projects	Thousands of USD	Share of financing, percent
Agro-industrial complex, production and processing of agricultural products	7	5 261	20
Production	7	9 695	37
Communications and information technology	1	500	2
Infrastructure development	2	10 700	40
Tourism	1	380	1
Total:	18	26 536	100

Source: The Russian Kyrgyz Development Fund

Figure 10

Sectoral structure of projects approved and accepted for implementation by RKDF in 2021 under direct financing, thousands of USD



In 2021, five major projects totaling over 31 mln USD were developed and structured to be reviewed by the Fund's Board. These projects

have already been approved by the Fund's Board as early as the beginning of 2022.

Table 8

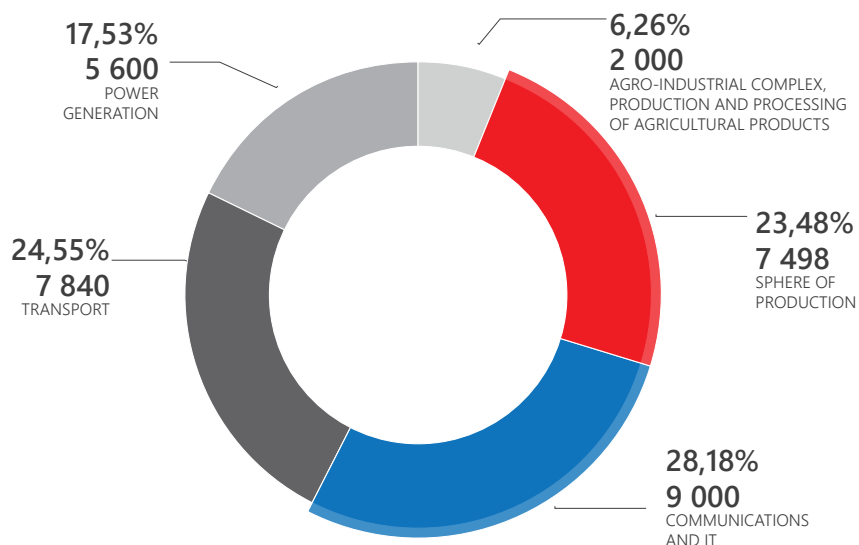
Sectoral structure of major projects, approved by the Board of RKDF under direct financing

Sector	Number of projects	USD	Share of financing, percent
Agro-industrial complex, production and processing of agricultural products	1	2 000	6,26
Production	1	7 498	23,48
Communications and information technology	1	9 000	28,18
Transport	1	7 840	24,55
Power generation	1	5 600	17,53
TOTAL	5	31 938	100

Source: The Russian Kyrgyz Development Fund

Figure 11

Sectoral structure of major projects, approved by the Board of RKDF under direct financing, thousands of USD



Source: The Russian Kyrgyz Development Fund

Under direct financing, in 2021, loans were provided for a total amount of 19.3 mln USD.

The most significant projects in 2021 were implemented in the sphere of production and the agro-industrial complex.

In 2021, the Fund approved the financing for the Eldan Atalyk investment project of the Agro-Industrial Complex company. It is planned to use the Fund's finance to purchase high-tech equipment for keeping laying birds from the

world's leading producers, which will ensure the production of 45 mln eggs per year, and reduce the Kyrgyz Republic's import dependence on chicken eggs by 10%, thereby strengthening the country's food security. Currently, the Kyrgyz Republic meets the domestic demand for chicken eggs at 54% of the market demand. The project is part of a cluster program implemented by RKDF and aimed at creating conditions for the development of the poultry cluster in the Kyrgyz Republic and increasing the competitiveness of the specialized enterprises.

In the Chui region, a large industrial plant for the production of insulation materials, having no analogues in the Kyrgyz Republic, was completed and put into operation. The annual production capacity of the plant is 20,000 tons per year, of which up to 50% is planned to be exported to the neighboring countries. The company has employed about 100 people. The Fund financed the project jointly with a commercial partner bank as part of co-financing. The Fund's loan finance was spent to purchase a production line, and raw materials from the Russian Federation.

The Fund provides investment financing to BIOVIT company for the construction of the country's first pharmaceutical plant for the production of infusion solutions and injections in ampoules in the village of Sokuluk, Chui region. The Fund's finance will be used to purchase high-tech production equipment from the world's leading manufacturers. The plant will be built and equipped in accordance with the requirements of international EU GMP standards and will increase the production volumes and ensure the supply of vital medicines, including those used as part of the COVID-19 treatment protocols, to the medical institutions and pharmacies in the country. The construction of the plant will make a significant contribution to the trade turnover of the EAEU member countries in the amount of about \$1.2 mln per year. Besides, the project will have an overall impact on the economy of the Kyrgyz Republic, by replacing imports of infusion solutions and ampoules into the country for at least 10 million USD per year and creating 78 new permanent jobs.

A large hotel complex operating under an international franchise has been completed and started operating in Bishkek. The Novotel Bishkek City Center Hotel is a 10-storey building with a total area of 17,000 m², which in addition to the room supply, also has a restaurant and conference rooms. The Novotel brand is part of the Accor Group, which unites more than 5,000 hotels and 10,000 restaurants, cafés and bars in 110 countries around the world.

As part of the implementation of the import substitution policy, a modern glass processing plant and the production of double-glazed windows were launched in Bishkek. The Fund's

finances were used to purchase modern equipment from Russian suppliers of European production. The production capacity of the enterprise is 1,000 m² of double-glazed windows per day. Due to the implementation of the project, an additional 80 jobs have been created. The project is aimed at developing trade and economic relations with the Russian Federation: the main raw materials (glass) are purchased from Russian plants.

In the Chui region, a large industrial plant for the production of insulation materials, having no analogues in the Kyrgyz Republic, was completed and put into operation

The Fund approved an investment project aimed at creating a large clothing factory in the Osh region. The company plans to export all its products to the Russian Federation. In order to qualitatively develop the project, the Fund has engaged a specialized consultant from the Russian Federation to identify popular clothing models, develop a financial model for the project, and also to select the required automated equipment. The total production volume of the enterprise is planned at the level over 7 million units of clothes per year, which will provide employment for more than 800 people, of whom more than 85% will be women.

The first broiler poultry farm in the Kyrgyz Republic was put into operation in the Issyk-Kul region. The start of production took place in the summer of 2021. According to the results of operations for 2021, the company received revenue of more than 3.6 mln USD. The industrial complex provides jobs for about 250 people of the local population. The constructed complex allows producing 7,900 tons of poultry meat per year, upon reaching the planned capacity of local production, the outflow of funds from the Kyrgyz Republic will be reduced by an estimated 11 mln USD. Given the large scale of production, special attention was paid to environmental aspects in the preparation of the project. The poultry farm has implemented the latest technologies to reduce the impact on the environment.

The Fund provides investment financing to BIOVIT company for the construction of the country's first pharmaceutical plant for the production of infusion solutions and injections in ampoules

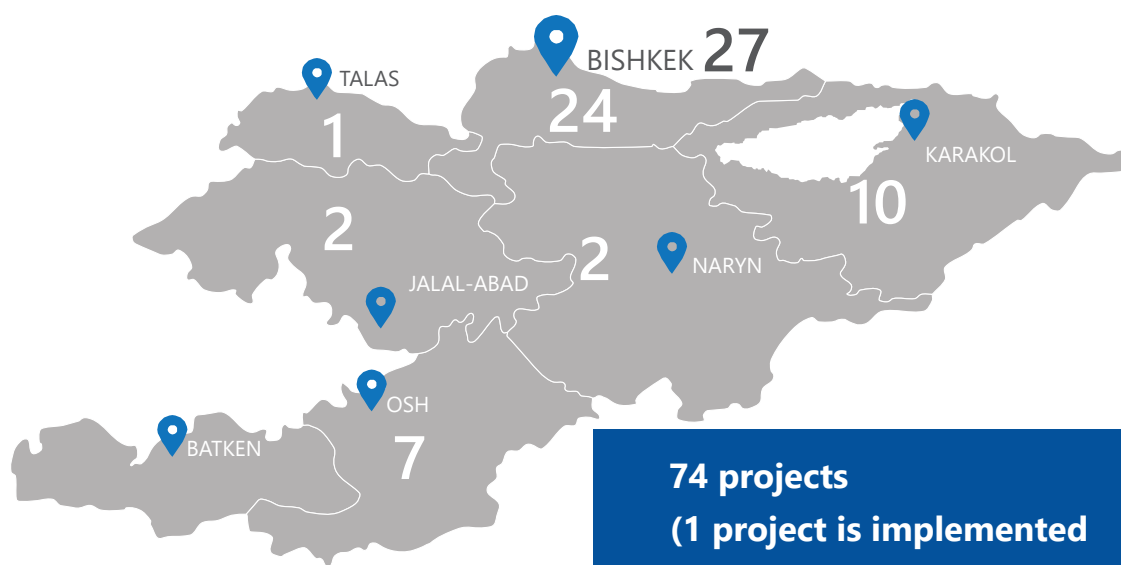
The Fund approved an investment loan to the «Semeinye Tradicii» company, which will allow an increase in the volume of milk processing and the expansion of the production of the fermented milk products in Bishkek. The project will have an overall impact on the economy of Kyrgyzstan: the milk sales markets will be expanded for farms, production of the high-quality sour-milk products and their export to the Russian Federation and the Republic of Kazakhstan will increase.

to meet the needs of the milk processing plant with its own raw materials. The capacity of the dairy complex allows to have up to 200 heads of the dairy cattle with a total milk yield of up to 6,500-7,500 liters of milk with a fat content of at least 3.5 - 4% and a protein content of 3.0-3.2%. The dairy complex will be equipped with modern equipment for feeding, milking and milk storage, and also for a manure removal system.

The Fund approved an investment project to create a dairy complex for breeding dairy cattle

Figure 12

Regional structure (direct funding)



Source: The Russian Kyrgyz Development Fund

Financing of small and medium businesses

Support and development of small and medium-sized businesses is one of the Fund's key areas of activities. In 2021, cooperation with the partner banks and microfinance organizations - partners in financing small and medium-sized businesses continued in all regions of the Kyrgyz Republic. 14 out of 23 commercial banks operating in the country, as well as 3 microfinance organizations

were involved in the implementation of the program to support small and medium-sized businesses.

According to the National Bank of the Kyrgyz Republic, in 2021 the bank sector of the Kyrgyz Republic had a high level of capital adequacy - 22.2% as of December 31, 2021, with a standard of 12%. This indicates that there is a potential to further improve the level of financial intermediation, the efficiency of operations and sustainability of the bank sector in the future⁶.

⁶ Bulletin of the National Bank of the Kyrgyz Republic for 2021

In the reporting year, the «share of non-performing loans in the loan portfolio» indicator in the banking system of the Kyrgyz Republic increased from 10.5 to 11.1 percent compared to the same indicator in 2020, which is not critical for assessing the state of the banking system.

During the cooperation of the Fund with commercial banks and microfinance organizations, an interaction mechanism has

been formed that allows monitoring of the financial situation of the financial and credit institutions, and rapidly respond to the changes, monitor the loan portfolio formed at the expense of the Fund's resources.

In 2021, under the program for financing small and medium-sized businesses, 307 projects were financed at the expense of the Fund for a total of 24.9 mln USD.

Table 9

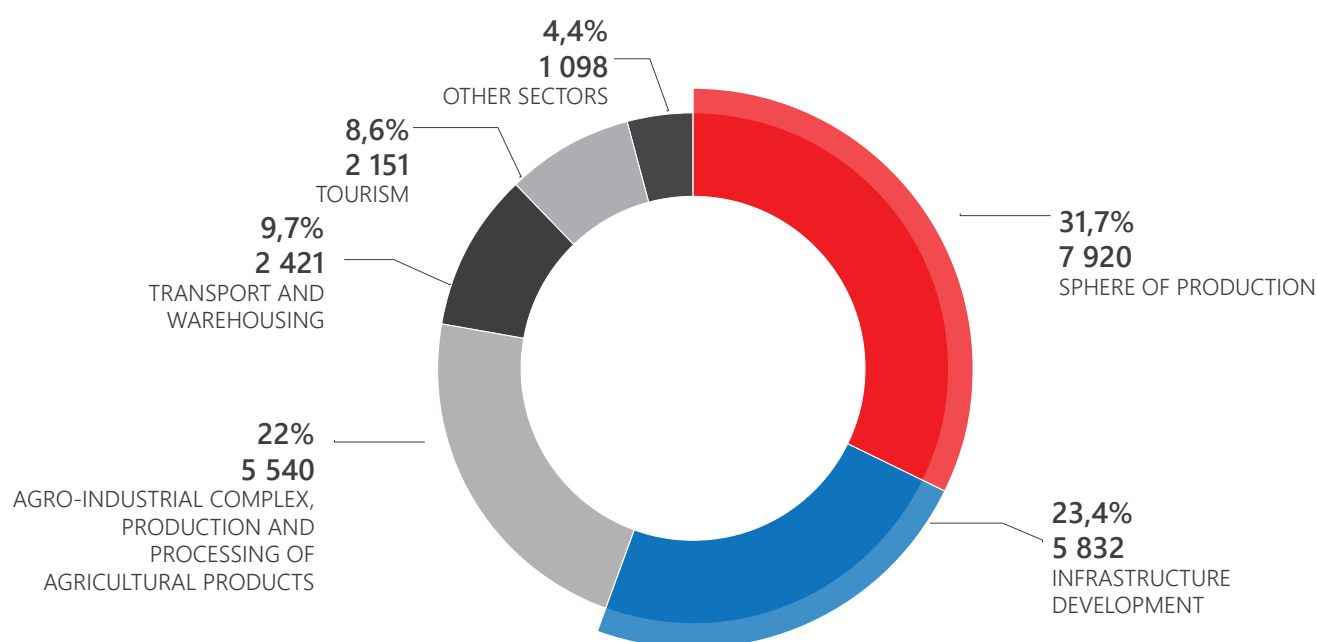
Information on the approval of loans under the Fund's program of the targeted financing of small and medium-sized businesses in 2021

Sector	Number of projects	Thousands of USD	Share of financing, %
Sphere of production	51	7 920	31,7
Infrastructure development	30	5 832	23,4
Agro-industrial complex, production and processing of agricultural products	170	5 540	22,2
Transport and warehousing	24	2 421	9,7
Tourism	19	2 151	8,6
Other sectors	13	1 098	4,4
TOTAL	307	31 938	100

Source: The Russian Kyrgyz Development Fund

Figure 13

Sectoral structure of projects within the small and medium business financing program



Source: The Russian Kyrgyz Development Fund

In the structure of the loan portfolio approved under the Fund's Programs/Loan Products for the targeted financing of small and medium-sized businesses in 2021, broken down by sector, the largest share is held by: production - 31.7 percent (7.9 mln USD), infrastructure development - 23.4 percent (5.8 mln USD), agro-industrial complex, production and processing of agricultural products - 22.2 percent (5.5 mln USD), transport and storage - 9.7 percent (\$2.4 mln), tourism - 8.6 percent (\$2.1 mln) and other sectors - 4.4 percent (\$1.1 mln).

Interaction with regions

An important direction of the Fund's communication policy is to strengthen interaction with the regions of the republic. The Fund on a regular basis carries out working trips to the regions of the republic in order to establish direct contacts with local governments, organize meetings with entrepreneurs and visit the ongoing projects through the Fund.

Currently, the Fund has memorandums of cooperation with the authorized representatives of the President (earlier with the Government representatives) of the Kyrgyz Republic in the Jalal-Abad, Batken, Talas and Naryn regions.

In order to optimize and improve the quality of informational work in the regions in each region

of the country (with the exception of Bishkek and the Chui region), the Fund's Regional consultants work on a permanent basis. Their responsibilities include:

- regular informing and consulting of entrepreneurs in the region about the credit products and news of the Russian Kyrgyz Development Fund;
- continuous monitoring of business problems in the region;
- search for promising business projects in the region;
- support and monitoring of the projects financed by the Fund at all stages.

In order to optimize and improve the quality of informational work in the regions in each region of the country, the Fund's Regional consultants work on a permanent basis

In 2021, the regional consultants of RKDF provided individual advice to 1,265 potential borrowers of the Fund and provided support in the preparation of business plans and the development of feasibility studies for 245 projects.

An important direction of the Fund's communication policy is to strengthen interaction with the regions of the republic

Table 10

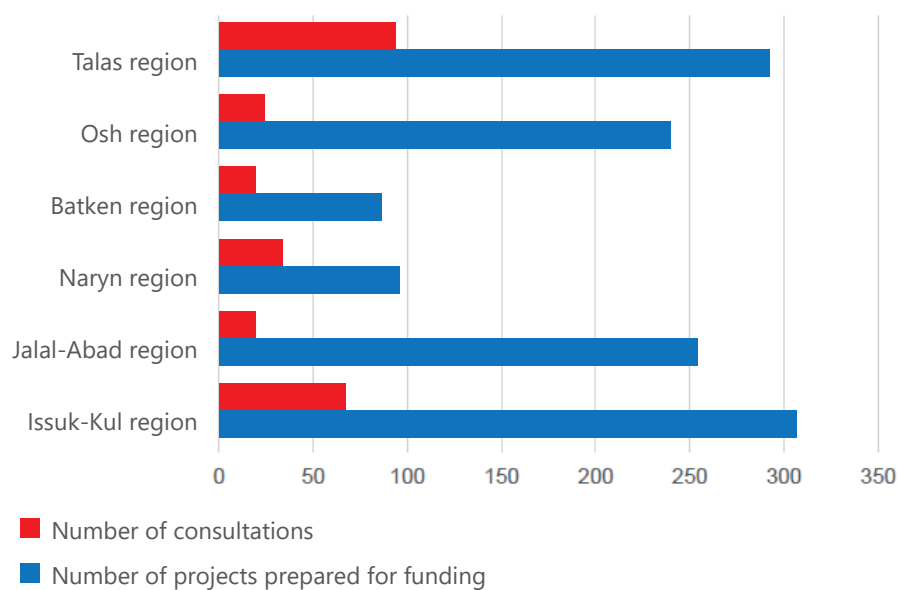
Key performance indicators of the work of the regional consultants in 2021

Name of cities/regions	Number of consultations	Number of projects prepared for funding
Talas region	291	92
Issyk-Kul region	305	64
Naryn region	93	30
Osh region	238	24
Jalal-Abad region	252	19
Batken region	86	16
Total:	1 265	245

Source: The Russian Kyrgyz Development Fund

Figure 14

Key performance indicators of the regional representatives in 2021



Source: The Russian Kyrgyz Development Fund

The Fund is interested in the development of the clients, therefore, in addition to providing loan resources, it helps in the preparation and maintenance of the projects

The use of the PPSF funds (Project Preparation and Support Fund)

The Fund is interested in the development of the clients, therefore, in addition to providing loan resources, it helps in the preparation and maintenance of the projects. Due to the deductions from the profits of the Fund, the Project Preparation and Support Fund (PPSF) was set up - a mechanism for providing technical assistance and conducting expertise on the ongoing investment projects and the projects of potential borrowers, as well as financing researches and activities to analyze markets, various sectors of the economy, to develop and promote the sectoral and regional programs. The funds of the Project Preparation and Support Fund are allocated on a grant basis with the project initiator's contribution.

In 2021, at the expense of PPSF, the provision of technical/advisory assistance and funding for activities and research for 14 projects for a total of 218,000 USD was approved in the following areas:

- development of the regulatory and technical documentation, and assessment of the feasibility studies for the projects considered for subsequent financing, including the preparation of financial models and business plans;
- development and implementation of the production systems of the quality management and food safety at the existing projects of the Fund;
- training of the personnel of the companies-borrowers of the Fund in the use and maintenance of the equipment purchased at the expense of the Fund;

- review of the current state and prospects of the development of various sectors and markets of the economy of the Kyrgyz Republic;
- independent audits of the financial statements, legal and other expertise that contribute to the development of further measures to support the ongoing projects.

In 2021, at the expense of PPSF, the provision of technical/advisory assistance and funding for activities and research for 14 projects for a total of 218,000 USD was approved

The use of funds from the Project Preparation and Support Fund made it possible to:

- improve the quality and the depth of elaboration of the large technological projects considered for subsequent financing by the Fund;
- increase the efficiency of the activities of borrowers of the Fund through the optimization of the technological flows and internal communications, expanding the range of products, reducing non-production costs, and increasing the labor productivity;
- obtain comprehensive information and understanding of the current situation, the risks and prospects for the development of the main directions and sectors of the economy of the Kyrgyz Republic, the strengths and weaknesses of the participants of the industry chains;
- determine the real financial condition of the projects financed by the Fund in order to further develop measures for their support and development.

Informational and analytical activity of the Fund

Information and analytical activity is one of the priority areas of the Fund's work, the results of which are aimed at creating popular and applied proposals for the new Fund tools. The main areas of analytic activity are sector analysis, assessment of the condition of the economy and trade, internal risks, external factors and global trends, and the stability of the financial system.

In 2021, assessment of the actual socio-economic impact of the Fund's activities was continued on the basis of the primary information obtained from the monitoring of project implementation. Due to this, it is possible to assess a practical impact of the Fund's activities on the various aspects of society through the projects funded under direct financing and the SME lending program.

In the reporting year, the information and analytic materials were prepared, including:

- review of the dairy production of the Kyrgyz Republic;
- review of the chicken egg production in the Kyrgyz Republic;

- analysis of the fine-wool and semi-fine-wool sheep breeding in the Kyrgyz Republic;
- analysis of the intensive horticulture in the Kyrgyz Republic;
- review of the housing and construction industry of the Kyrgyz Republic;
- review of the lending market in the Kyrgyz Republic for 2015-2021;
- place of the Russian Kyrgyz Development Fund in the financial market in 2021;
- perspectives of leasing development in the Kyrgyz Republic.

The key research topic of the Fund remains the sector reviews with a proposal for feasibility study in the specific areas of business decisions, and identification of the socio-economic effects of the Fund's activities. The results of the analytical work allow the Fund to take an active position not only in offering financing, but also in the promotion of the new areas of investment.

The key research topic of the Fund remains the sector reviews with a proposal for feasibility study in the specific areas of business decisions, and identification of the socio-economic effects of the Fund's activities

Socio-economic and integration impact of the activities of the Russian Kyrgyz Development Fund

The annual monitoring of the socio-economic and integration impact of the Fund's lending and investment activities on the economy of the Kyrgyz Republic is carried out based on a

survey of its borrowers. Summary data of the socio-economic and integration effect are presented in the tables below.

Socio-economic impact, billion KGS

Name	2021	2020	Change	Change %
The revenue of the borrowers	58	45	13	29%
GDP of the Kyrgyz Republic	723,1	601,8	121	20%
The ratio of revenue of RKDF clients to GDP of the Kyrgyz Republic	8%	7%	1%	
The tax deductions of the borrowers	4,2	3,0	1,2	40%
Tax revenues to the budget of the Kyrgyz Republic	135,8	69,8	66,1	95%
Share of tax deductions from RKDF borrowers	3,1%	4,30%	-1%	
Social contributions to the insurance premiums	1,2	1,1	0	9%
The total social contributions	38,4	32,4	6	19%
Share of social contributions from RKDF borrowers	3,1%	3,4%	-0,3%	
The number of the jobs	27900	25867	1033	4,0%

The revenue of the enterprises and private entrepreneurs received finance from the Fund has increased by 12.9 billion KGS or 29% (152 mln USD at the NBKR rate at the end of 2021). The total revenue for the year amounted to 57.8 billion KGS or 8% of GDP (in 2020 - 44.9 billion KGS or 7% of GDP).

The total tax deductions amounted to 4.2 billion KGS or 3.1% of all tax revenues to the state budget of the republic (in 2020, 3.0 billion KGS or 4.3% of all tax revenues to the state budget of the republic).

The total revenue



The total tax deductions



The volume of the tax deductions directed by the borrowers of the Fund to the budget of the Kyrgyz Republic, at the end of 2021, increased by 1.2 billion KGS or 40% (14 mln USD at the NBKR rate at the end of 2021).

The volume of social contributions on the insurance premiums paid by the borrowers of the Fund to the budget of the Social Fund of the Kyrgyz Republic increased by 95.8 mln KGS or 9% at the end of 2021 (1.1 mln USD at the NBKR rate at the end of 2021). The total social contributions amounted to 1.2 billion KGS or 3.1% of all insurance revenues to the budget of the Social Fund (in 2020 - 1.1 billion KGS or 3.4% of all insurance revenues to the budget of the Social Fund).

The total social contributions



The number of the newly created jobs at the companies that received funding from the Fund, at the end of 2021, was 1,033 people. The number of jobs increased from 26,900 in 2020 to 27,900 in 2021. The number of indirectly created jobs after the implementation of projects amounted to 5,900 people in the reporting year (at the end of 2020, the number of jobs created at the enterprises of the Fund's borrowers was 26,900 people, and indirectly created jobs after the implementation of projects were 5,900 people).

Newly created jobs



Integration impact, mln USD

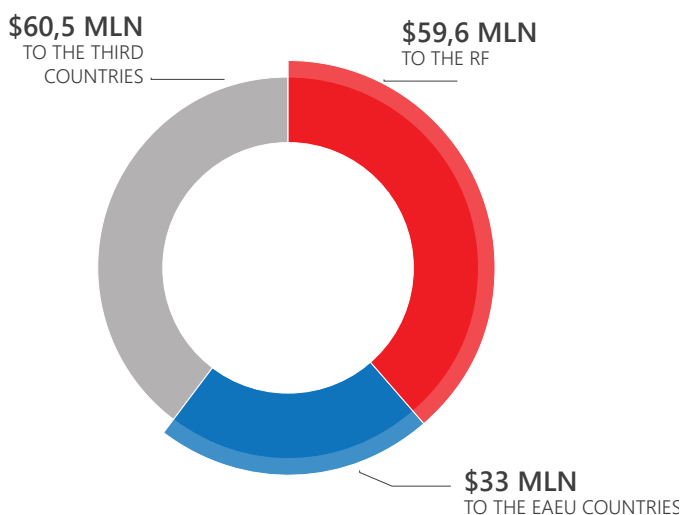
Name	2021	2020	Change	Change %	Structure 2021	2020
Export of the Fund's borrowers	153,2	94,3	58,9	62%	100%	100%
Russian Federation	59,6	23,4	36,3	155%	39%	25%
EAEU countries	33,0	24,0	9,0	37%	22%	25%
Third countries	60,5	46,9	13,6	29%	40%	50%
Purchases of equipment ⁷	315,0	169,3	145,7	86%	100%	100%
Russian Federation	30,9	26,8	4,1	15%	10%	16%
Domestic market	106,4	53,7	52,7	98%	34%	32%
EAEU countries	11,9	7,4	4,5	61%	4%	4%
Third countries	165,7	81,4	84,3	104%	53%	48%
Purchases of raw materials and materials ⁸	462,6	376,6	86,0	23%	305%	383%
Russian Federation	124,0	73,0	51,0	70%	27%	19%
Domestic market	193,0	144,6	48,4	33%	156%	198%
EAEU countries	80,4	74,1	6,3	9%	42%	51%
Third countries	65,2	84,9	-19,6	-23%	81%	115%

⁷ The volume of purchases of equipment are shown in total for all the previous periods of the RKDF activity till 31.12.2021

⁸ The volume of purchases of raw materials and materials are shown in total for all the previous periods of the RKDF activity till 31.12.2021

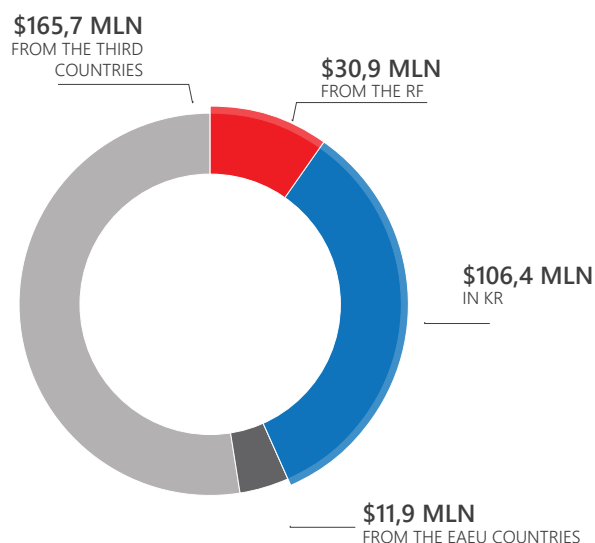
The total export volume of the Fund's borrowers at the end of 2021 was 153 mln USD, including: to the Russian Federation, the volume of exports in value terms was 59.6 mln USD or 39% of the total volume, to other EAEU member countries - 33.0 mln USD or 22% of the total exports and to the third countries - 60.5 mln USD or 40% of the total exports (at the end of 2020 to the Russian Federation in value terms it was 23.4 mln USD (25%) to other EAEU member countries - 24.0 mln USD (25%) and to the third countries - 46.9 mln USD (50%). The share of exports of the Fund's borrowers in the total volume of exports to the Russian Federation in 2021 reached 15% (in 2020 it was 9%). At the end of 2021, the volume of exports of enterprises - borrowers of the Fund increased by 58.9 mln USD or 62% compared to 2020.

The total export volume



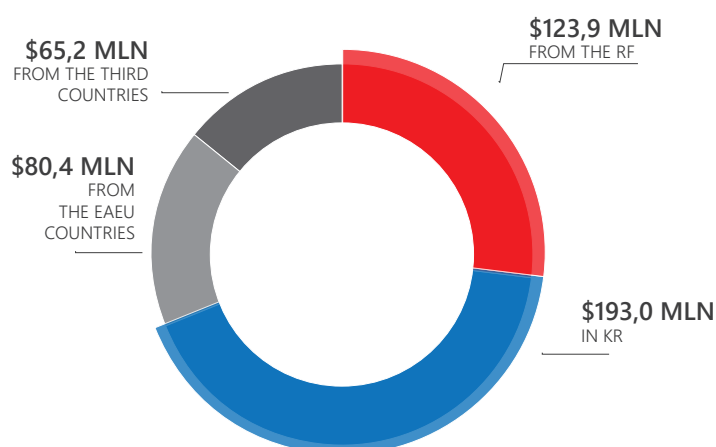
Enterprises and private entrepreneurs that received funding from the Fund in 2021 have purchased equipment in the total amount of 145,7 mln USD. The total volume of the purchased equipment, including all the previous periods of the Fund's activity, reached 312 mln USD: from the Russian Federation - in the amount of 30.9 mln USD or 10% of the total amount of equipment purchases; in the local market - 106.4 mln USD or 34%, from other countries of the EAEU - 11.9 mln USD or 4%, and from the third countries - 165.7 mln USD or 53% (according to the results of 2020 from the Russian Federation - 26.7 mln USD, in the domestic market - 53.7 mln USD, from other countries of the EAEU - 7.4 mln USD, from third countries - 81.4 mln USD).

Purchases of equipment



The total volume of purchases of raw materials and materials for 2021 was 86 mln USD. The total volume of the purchases of raw materials and materials, including all the previous periods of the Fund's activity, from the Russian Federation amounted to 123.9 mln USD or 27% of all purchases, purchases on the domestic market - 193.0 mln USD or 42%, from other countries of the EAEU - 80.4 mln USD or 17% and from third countries - 65.2 mln USD or 14% (in 2020, purchases from the Russian Federation - 73 mln USD (19%), in the domestic market - 144.6 mln USD (38%), from other EAEU countries - 74 mln USD (20%), from third countries - 84.8 mln USD (23%).

Purchases of raw materials and materials



The amount of investments of enterprises that received funding from the Fund for the development of innovations⁹ for all the period has amounted to 67.9 mln USD. The amount of investments of the enterprises that received financing from the Fund in the energy-saving components¹⁰ has amounted to 129.2 mln USD.

The additional amount of investments for 2021 was 9,5 mln USD for the development of innovations¹¹ and 18,2 mln USD in the energy-saving components.¹²

Investments for the development of innovations



Investments for the development of energy-saving components



⁹ Estimated amount of financing aimed at the purchase of innovative equipment, re-equipment of technological funds, purchase of software, etc.

¹⁰ Estimated amount of financing aimed at energy saving in the construction and reconstruction of buildings and structures, for the production and use of the renewable energy sources.

¹¹ Estimated amount of financing aimed at the purchase of innovative equipment, re-equipment of technological funds, purchase of software, etc.

¹² Estimated amount of financing aimed at energy saving in the construction and reconstruction of buildings and structures, for the production and use of renewable energy sources.

International activity

The international activity of the Fund is focused on the implementation of its mission – deepening an economic cooperation between the Kyrgyz Republic and the Russian Federation and expanding Eurasian economic integration, including the attraction of the external sources of investment financing to the economy of Kyrgyzstan.

The key focus is on expanding Russian Kyrgyz business cooperation, including through integration events.

In August 2021, the III Kyrgyz-Russian Business Forum was held, which traditionally brought together representatives of the Russian businesses, investors, sectoral state enterprises and many others. Totally, over 300 people participated in the forum. 13 documents were signed - contracts that will allow entrepreneurs of the Kyrgyz Republic to expand cooperation with the Russian Federation and implement joint investment projects and export contracts. During the Forum, an agreement was signed with the Eurasian Development Bank on a credit line with the improved financing conditions. Under this agreement, the Fund may offer ruble financing to borrowers, including for the working capital. Also, an Agreement on strategic partnership and interaction between RKDF and the Russian Export Center Company was signed. The document provides for the expansion of

cooperation between the export center and RKDF in order to facilitate the promotion of exports between the two countries.

In November 2021, the Fund organized a visit of the international multi-industry mission of Russian companies to the Kyrgyz Republic. As part of the event, representatives of about 70 leading companies and financial institutions of the Russian Federation visited the republic.

During the mission, RKDF and Natspromlizing company signed an agreement on the establishment of the company Natspromlizing-Kyrgyzstan in Kyrgyzstan with the authorized capital of 50 mln KGS. This leasing company will focus on the development of industry and industrial cooperation and will allow attracting capital from Russia to the Kyrgyz economy in the coming years without using the Fund's resources directly.

About 200 Kyrgyz companies took part in the B2B business meetings. The venue of the event has become a convenient place to find new partners, launch joint projects and develop the potential of entrepreneurs of the two countries.

The key focus is on expanding Russian Kyrgyz business cooperation, including through integration events

The international activity of the Fund is focused on the implementation of its mission – deepening an economic cooperation between the Kyrgyz Republic and the Russian Federation and expanding Eurasian economic integration

In 2021, the Fund continued active work to expand cooperation with international institutions and non-financial international development partners in order to implement joint projects. Activities within the framework of such projects include provision of technical assistance to projects, information campaigns, trainings, consultations on a wide range of issues and other activities aimed at building the capacity of business entities of the Kyrgyz Republic.

In cooperation of RKDF with the UNDP Financing for Sustainable Development in the CIS region project, the Council for the formation of a list of priority investment projects under the Ministry of Economy and Commerce of the Kyrgyz Republic approved 11 applications for business projects for grant technical assistance for the development of a feasibility study, of which 3 projects have already been approved for RKDF financing. As part of the implementation by the Fund of an integrated approach to the development of the dairy industry, together with the UNDP Strengthening the Capacity for Financing Sustainable Development in the CIS

Region project, the trainings were held for the owners of dairy farms located in the Jaiyl and Issyk-Ata districts of the Chui region.

In 2021, the Fund continued active work to expand cooperation with international institutions and non-financial international development partners in order to implement joint projects

Important agreements have been reached with the Ensuring Market Access" (EMA) project financed by the International Fund for Agricultural Development (IFAD) on attraction of the grant technical assistance for the projects in agriculture for the development of a feasibility study for the projects financed by RKDF.

The Fund continues cooperation with international financial organizations and other partners in order to establish the basis for interaction in the direction of joint and parallel financing of projects, as well as diversifying instruments within the framework of lending activities.

The Fund's activities in financial markets and treasury operations

Activities in the financial markets were carried out by the Fund as part of the process of managing temporarily available funds and were aimed at ensuring the achievement of the Fund's main tasks

Activities in the financial markets were carried out by the Fund as part of the process of managing temporarily available funds and were aimed at ensuring the achievement of the Fund's main tasks. The treasury operations were carried out in accordance with the principles of safety and efficient use of temporarily available funds. The choice of financial instruments within the framework of the treasury operations was carried out in compliance with the liquidity priority and the reliability over the profitability.

The temporarily available funds are placed exclusively in the debt securities of the government and corporate issuers, and also in the debt instruments of the international financial institutions with a credit rating of at least 'BB-' according to the classification of the Standard and Poor's or Fitch Ratings, or 'Ba3' level according to the Moody's Investors Service rating agency. As of the reporting date, the temporarily available funds were placed in the issues of eleven issuers of securities with the credit ratings of investment grade not lower than «BBB-» level by the classification of the Standard and Poor's or Fitch Ratings agencies, or «Baa3» by the classification of the Moody's Investors Service rating agency.

The main strategic parameters of the Fund's temporarily available funds portfolio were set by the Fund's Board. The decisions on the choice of financial instruments, determination of the volumes and terms of investment of the temporarily available funds were made by the Fund's Executive Board within the framework of the strategic parameters set by the Fund's Board.

In 2021, the global economy continued to struggle with the consequences of the COVID -19 pandemic, which caused a global slowdown in the economic growth because of the restrictive measures introduced by governments. The financial markets operated under the conditions of stimulating economic activity on the part of financial regulators. As a result, the activity in the financial markets was carried out in an environment of extremely low interest rates. At the same time, income received as a result of the management of temporarily available funds allowed the Fund to finance projects on preferential terms. By the end of 2021, as quarantine measures were eased, there was a trend towards a recovery of the global economic growth, which was accompanied by an increased inflation pressure.

Attraction of financial resources

The Fund has carried out activities to improve conditions for cooperation in the attraction of financial resources. The Fund's opportunities to raise funds for the purpose of financing a working capital within the framework of the ongoing investment projects have been expanded. The activity in this direction was carried out jointly with the international development institutions, and also with the Russian and foreign export-import institutions.

In particular, the respective agreements were reached with the Eurasian Development Bank (EDB), according to which the possibility of financing working capital in Russian rubles was provided, the term for providing borrowed funds was extended, the cost of the attracted resources was reduced, and the opportunity was provided to purchase raw materials from the EAEU countries at the revised, more preferential conditions.

In 2021, at the expense of the EDB funds, concessional financing was provided for the purpose of replenishing working capital to several direct borrowers of the Fund. All funds issued were used to

purchase raw materials from the EAEU countries, and also contributed to an increase in the trade between the countries participating in the integration association.

The Fund's opportunities to raise funds for the purpose of financing a working capital within the framework of the ongoing investment projects have been expanded

Financing of the Russian component of the cost structure of the projects being implemented, as well as those ones being under consideration by the Fund, was carried out by attracting concessional financing in Russian rubles from Roseximbank. The Fund carried out work to expand the earmarked purpose of the credit limit of Roseximbank in the amount of 20 mln USD. Under the new agreements, in addition to financing of the capital expenditures, the Fund has the opportunity to use the funds of Roseximbank to replenish the borrowers' working capital.

Being a reliable partner of the National Bank of the Kyrgyz Republic, the Fund continues to work together in terms of lending to economic entities of the Kyrgyz Republic in the national currency.

Risk management

Risk management is an essential element of the Fund's activities. The main tasks of risk management are to ensure long-term financial stability and achieve the goals set within the framework of the Fund's mission. The risk management system includes identification, assessment and monitoring of risks, the development of effective measures to reduce them. Significant types of risks of the Fund include:

1. Credit risk. The Fund's activity is characterized by a higher level of «risk appetite» in comparison with the banking system of the Kyrgyz Republic, which is caused by the Fund's mission and the availability of a significant capital adequacy ratio. An increased level of the risk appetite is expressed in lending to the predominantly big projects (concentration risk), long loan terms (up to 10 years), a preferential financing rate and higher risk metrics of projects, including the increased leverage ratios and lower collateral requirements.

In 2021, there was an adaptation of businesses to the post-crisis situation and an improvement in the financial condition of most projects financed by the Fund. As a result, there was an improvement in the quality of the loan portfolio: the share of loans without signs of impairment increased from 76% to 80%. The main provisions for loans with the signs of impairment were mainly formed in 2020, due to which in 2021 there was a significant decrease in the volume of provisions: from 7.0 mln USD to 2.0 mln USD.

2. Market and structural risks, including interest rate risks, liquidity risk and currency risk, were assessed as moderate during 2021. In connection with the policy pursued by the main central banks aimed at stimulating economic activity in the pandemic and post-pandemic years of 2020-2021, there was a decrease in the interest income on investments in securities. The decrease in the interest income was compensated by an improvement in the quality of the Fund's loan portfolio, which made it possible to recover part of the provisions for the expected credit losses and ensure the Fund's profitability in the respective period.

In 2021, there was an adaptation of businesses to the post-crisis situation and an improvement in the financial condition of most projects financed by the Fund

The Fund's liquidity in 2021 remained at a high level. Temporarily available funds exceeded the Fund's loan obligations several times.

In 2021, the exchange rate of the national currency of the Kyrgyz Republic was stable, due to this, the VAR indicators (estimated value of potential losses that will not be exceeded with a certain probability) decreased significantly compared to 2020. The size of the Fund's open currency position in 2021 remained at a minimum level and, as a result, the currency risks were assessed as low.

The Fund regularly assesses the emerging financial and economic environment

Because of the growing geopolitical tensions, since February 2022, there has been a significant increase in the volatility of the currency and financial markets around the world. It also notes the emergence of a number of restrictions on international transfers and transactions with securities. The main factors that may lead to an increase in the level of risks in 2022 are:

- a. Volatility of the national currency - approximately 70% of the direct financing loan portfolio is exposed to the currency risk of projects (indirect currency risk) caused by the mismatch between the currency receipts and the loan currency.
- b. Violation of the schemes of the supply of raw materials, goods and equipment, which may lead to an extension of the implementation and launch of the investment projects and, as a result, to a possible deterioration in the financial condition of borrowers.
- c. Decreased business activity and purchasing power in the Kyrgyz Republic and trading

partner countries related to the high inflation and restrictions on the movement of goods and services.

- d. Restrictions on the transactions with securities, which may affect the ability of the Fund to manage assets to earn interest income, and maintain liquidity.

- e. Withdrawal of the international credit ratings of the issuers from the Russian Federation may lead to the need to use the assessments of the national rating agencies.

Given the uncertainty that arose at the beginning of 2022, the Fund regularly assesses the emerging financial and economic environment. The anti-crisis working group is working on the necessary response measures in order to maintain the long-term financial stability of the Fund for further participation in the development and modernization of the economy of the Kyrgyz Republic.

Organizational development

The success of the Fund's activities largely depends on its team. In this regard, the Fund pays great attention to the development of the personnel potential of employees. During the year, deep methodological work was carried out to improve the regulatory framework governing the management and organizational development of the Fund: a new Personnel Policy and Regulations on Training were adopted, the Regulations on the recruitment, relocation and dismissal of personnel, the Regulations on the system of remuneration, compensation, social and other payments in RKDF, a collective agreement was concluded between the Fund and its employees.

In connection with the ongoing efforts to improve the efficiency of the Fund's activities and improve corporate governance in 2021 - early 2022, the activities were carried out to update an organizational structure and staffing.

In connection with the ongoing efforts to improve the efficiency of the Fund's activities and improve corporate governance in 2021 - early 2022, the activities were carried out to update an organizational structure and staffing

through the preparation and implementation of individual development plans.

The Fund employs personnel with relevant competence, skills, experience, professional expertise and good reputation. In order to attract and motivate such personnel, the Fund provides competitive remuneration, a social package, training and development opportunities, as well as a career growth.

The Fund employs personnel with relevant competence, skills, experience, professional expertise and good reputation

The Fund, realizing the aspiration of employees for professional development, actively supports the staff and attaches great importance to the continuous training system and professional growth, which contributes to the improvement of the Fund's performance. Throughout the year, 30% of employees completed training programs aimed at improving their knowledge and skills in financial modeling, assessment and value creation of the company.

Long-term plans of the Fund for 2022

In 2022, the Fund faces a whole range of important tasks related to achieving a new level of institutional maturity, including the approval of the Fund's Strategy for 2023 - 2027. The Fund aims to strengthen its position as a sustainable development institution and increase its internal potential by completing the modernization of all major internal processes.

The Fund intends to complete optimization of the business processes, including the processes for reviewing loan applications and risk assessment. This will positively affect the quality of project development in the key areas of financing of the Russian Kyrgyz Development Fund, including within the framework of project financing.

In order to diversify the liquidity risk when managing temporarily available funds, and to minimize the consequences of the emerging geopolitical situation, it is planned to expand the list of securities of the treasury portfolio.

The internal corporate activities aimed at improving the skills of employees, the accounting of loans, guarantees, approaches to budgeting, organization of effective work with the problem projects and automation of the internal business processes will improve the quality and performance of the Fund.

In the context of the increased uncertainty of the development of the financial and economic situation in the world in general and in the Central Asia in particular, the Fund is ready to provide timely measures of financial support to its clients.

The Fund plans to expand cooperation with the international development institutions and attract resources on the terms of co-financing projects. The Fund also intends to continue working with the specialized export organizations to attract resources to projects implemented by the Fund.

The Fund's attention will be directed to

expanding ties between the business communities of the Russian Federation and the Kyrgyz Republic with the prospect of implementing joint integration projects. Conducting the Kyrgyz-Russian business forum, participation in the business mission of the Russian business in Kyrgyzstan will traditionally become one of the central events for the business community of the Kyrgyz Republic. The Fund's involvement in the preparation of the Eurasian Economic Forum will allow the establishment of new contacts, and the expansion of the business and economic cooperation. Regular meetings of Russian investors and the business community of the Kyrgyz Republic at the integration platforms will greatly contribute to the emergence of the new joint business projects.

In 2022, the Fund faces a whole range of important tasks related to achieving a new level of institutional maturity, including the approval of the Fund's Strategy for 2023 - 2027

The Fund will continue working on the development and implementation of the products for financing cluster projects focused on the development of sustainable value chains in the agro-industrial sector. In 2022, the Fund plans to conduct sectoral research in the priority areas in order to determine the cluster approach in a number of promising sectors of the country's economy. It is expected that as a result of the Fund's analytical activity, new cluster products will be created.

In 2022, it is planned to increase the volume of lending based on the approaches of project financing and financing of the innovative projects aimed at technological modernization of the economy of the Kyrgyz Republic. The Fund intends to intensify work on finding and assisting in structuring the projects. An increase in the volume of financing of the economy is also planned to be carried out through the development of such a new financial instrument as equity participation.

It is planned to expand an expert and analytical support to improve the quality of project documentation for potential borrowers of the Fund. Technical assistance will be provided in the preparation of business plans and feasibility studies, as well as in the involvement of independent experts and audit firms. Sources of funding will be both the PPSF funds and technical assistance from other international development institutions.

In 2022, the Fund will keep working on establishing active interaction with the regions

of the country. The activities will be intensified to raise awareness in the regions about the Fund's products, including the cluster areas. The main task of the regional advisory centers is still to assist in the preparation of business plans and the receipt of financing by entrepreneurs through the Fund.

The attention of the Fund will also be directed to promising areas, in particular, to the development of the level of digitalization of the financial sector of Kyrgyzstan and promotion of the sustainable green finance ideas.



Approval of the Fund's Strategy for 2023 - 2027



Completion of optimization of the business processes,



Expansion of the list of securities of the treasury portfolio.



Expansion of cooperation with the international development institutions and attraction of resources on the terms of co-financing projects.



Expansion of ties between the business communities of the Russian Federation and the Kyrgyz Republic with the prospect of implementing joint integration projects



Development and implementation of the products for financing cluster projects



Increase of the volume of lending based on the approaches of project financing and financing of the innovative projects aimed at technological modernization of the economy of the Kyrgyz Republic



Expansion of an expert and analytical support to improve the quality of project documentation for potential borrowers of the Fund



Active interaction with the regions of the country



Development of the level of digitalization of the financial sector of Kyrgyzstan and promotion of the sustainable green finance ideas

RKDF financial statements and auditor's report

The annual financial statements of the Fund are prepared in accordance with the international financial reporting standards and are confirmed by the opinion of an external audit company



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Ernst & Young Audit LLC
Toktogul Str., 125/1
Bishkek, 720001
Kyrgyz Republic

Independent auditor's report

To the Council of Russian Kyrgyz Development Fund

Opinion

We have audited the financial statements of Russian Kyrgyz Development (hereinafter, the "Fund"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 Fund as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other information included in 2021 Annual Report of the Fund

Other information consists of the information included in the Fund's 2021 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 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 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 Fund to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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


Olga Kheday
Auditor

Qualification certificate of the auditor:
Series AD No. 0017, registration number
No. 0466 dated 7 August 2019

Toktogul Str., 125/1
Bishkek 720001, Kyrgyz Republic

18 March 2022


Paul Cohn
General Director
Ernst & Young Audit LLC

Qualification certificate of the auditor:
Series A No. 0366, registration number
No. 0446 dated 22 October 2018

Audit license: Series A, No. 0036, registration
number No. 0065, issued on 20 February 2010
by the State Service for Regulation and
Supervision of the Financial Market under the
Government of the Kyrgyz Republic

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**For the year ended 31 December 2021***(In thousands of US dollars)*

	<i>Note</i>	<i>2021</i>	<i>2020</i>
Interest revenue calculated using effective interest rate	5	12,870	16,235
Interest expense	5	(1,331)	(1,571)
Net interest income		11,539	14,664
Credit loss expense	6	(691)	(8,013)
Net interest income after credit loss expense		10,848	6,651
Net fee and commission income		22	151
Net gains/(losses) on transactions with foreign currencies		2	(277)
General administrative expenses	7	(4,318)	(3,340)
Profit before income tax expense		6,554	3,185
Income tax expense		—	—
Profit for the year		6,554	3,185
Other comprehensive income		—	—
Total comprehensive income for the year		6,554	3,185

Signed and authorised for issue on behalf of the management of the Fund:

Mr. Novikov A. E.

Chairman of the Management Board

Ms. Nam O.R.

Chief Accountant



18 March 2022

STATEMENT OF FINANCIAL POSITION**As at 31 December 2021***(In thousands of US dollars)*

	<i>Note</i>	<i>2021</i>	<i>2020</i>
Assets			
Cash and cash equivalents	8	13,990	10,535
Amounts due from the National Bank of the Kyrgyz Republic	14	43,335	43,335
Amounts restricted in use	9	1,399	-
Amounts due from credit institutions	10	78,431	87,825
Loans to customers	11	104,051	103,719
Investment securities	12	340,482	328,461
Property and equipment and intangible assets	13	91	114
Other assets		502	535
Total assets		582,272	574,524
Liabilities			
Amounts due to the National Bank of the Kyrgyz Republic	14	32,453	33,281
Other liabilities	15	8,569	6,357
Total liabilities		41,022	39,638
Equity	16		
Charter capital		500,000	500,000
Retained earnings and special reserves		41,250	34,886
Total equity		541,250	534,886
Total liabilities and equity		582,272	574,524

STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2021***(In thousands of US dollars)*

	<i>Charter capital</i>	<i>Retained earnings and special reserves</i>	<i>Total equity</i>
As at 31 December 2019	500,000	31,981	531,981
Profit for the year	—	3,185	3,185
Total comprehensive income for the year	—	3,185	3,185
Use of the fund for preparation and support of the projects <i>(Note 16)</i>	—	(280)	(280)
As at 31 December 2020	500,000	34,886	534,886
Profit for the year	—	6,554	6,554
Total comprehensive income for the year	—	6,554	6,554
Use of the fund for preparation and support of the projects <i>(Note 16)</i>	—	(190)	(190)
As at 31 December 2021	500,000	41,250	541,250

STATEMENT OF CASH FLOWS**For the year ended 31 December 2021***(In thousands of US dollars)*

	<i>Note</i>	<i>2021</i>	<i>2020</i>
Cash flows from operating activities			
Interest received		9,927	11,951
Interest paid		(1,527)	(1,578)
Fees and commissions received		47	151
General and administrative expenses paid		(3,513)	(3,225)
Cash flows from operating activities before changes in operating assets and liabilities		4,934	7,299
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from the National Bank of the Kyrgyz Republic		–	(2,920)
Amounts restricted in use		(1,390)	–
Amounts due from credit institutions		8,828	2,718
Loans to customers		(1,850)	(2,128)
Other assets		(458)	(202)
<i>Net increase in operating liabilities</i>			
Amounts due to the National Bank of the Kyrgyz Republic		–	2,420
Other liabilities		2,433	149
Net cash from operating activities		12,497	7,336
Cash flows from investing activities			
Purchase of investment securities		(156,493)	(187,852)
Proceeds from redemption of investment securities		147,861	180,087
Purchase of property and equipment and intangible assets	13	(24)	(80)
Net cash used in investing activities		(8,656)	(7,845)
Cash flows from financing activities			
Lease payments		(383)	–
Net cash used in financing activities		(383)	–
Effect of exchange rate changes on cash and cash equivalents		(3)	(1)
Net increase/(decrease) in cash and cash equivalents		3,455	(510)
Cash and cash equivalents, as at 1 January		10,535	11,045
Cash and cash equivalents, as at 31 December	8	13,990	10,535