# CLOSED JOINT STOCK COMPANY DEMIR KYRGYZ INTERNATIONAL BANK

**Financial Statements**
For the year ended 31 December 2010

# CLOSED JOINT STOCK COMPANY DEMIR KYRGYZ INTERNATIONAL BANK

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Closed Joint Stock Company Demir Kyrgyz International Bank (hereinafter - the "Bank").

Management is responsible for the preparation of financial statements that present fairly the Bank's financial position at 31 December 2010, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2010 were authorised for issue on 25 February 2011.

**On behalf of the Management Board:**

| | |
|---|---|
| **Sevki Sarilar** | **Gulbara Djakypbaeva** |
| **General Manager** | **Chief Accountant** |
| 25 February 2011 | 25 February 2011 |
| Bishkek | Bishkek |
| Kyrgyz Republic | Kyrgyz Republic |

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Closed Joint Stock Company Demir Kyrgyz International Bank:

*Report on the Financial Statements*

We have audited the accompanying financial statements of CJSC Demir Kyrgyz International Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, which require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance of whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other matter*

The financial statements of the Bank as at and for the year ended 31 December 2009 were audited by other auditors whose report dated 16 March 2010 expressed an unmodified opinion on those statements.

25 February 2010

# CLOSED JOINT STOCK COMPANY DEMIR KYRGYZ INTERNATIONAL BANK

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2010

*(in thousands of Kyrgyz Soms, except for earnings per share which are in Soms)*

| | Notes | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|---|
| Interest income | 3, 22 | 221,413 | 234,630 |
| Interest expense | 3, 22 | (30,160) | (36,118) |
| NET INTEREST INCOME BEFORE RECOVERY OF PROVISION/(PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 191,253 | 198,512 |
| Recovery of provision/(provision) for impairment losses on interest bearing assets | 4 | 7,965 | (22,943) |
| NET INTEREST INCOME | | 199,218 | 175,569 |
| Net gain on foreign exchange operations | 5 | 68,988 | 62,315 |
| Fee and commission income | 6 | 103,013 | 77,293 |
| Fee and commission expense | 6 | (22,490) | (19,432) |
| Other income | | 145 | 997 |
| NET NON-INTEREST INCOME | | 149,656 | 121,173 |
| OPERATING INCOME | | 348,874 | 296,742 |
| OPERATING EXPENSES | 7, 22 | (254,938) | (220,110) |
| OPERATING PROFIT | | 93,936 | 76,632 |
| Provision for impairment losses on other transactions | 4 | (3,426) | (3,082) |
| PROFIT BEFORE INCOME TAX | | 90,510 | 73,550 |
| Income tax expense | 8 | (9,527) | (9,570) |
| NET PROFIT FOR THE PERIOD | | 80,983 | 63,980 |
| Net change in fair value of available-for-sale investments , net of deferred income tax | | (341) | 2,545 |
| TOTAL COMPREHENSIVE INCOME | | 80,642 | 66,525 |
| EARNINGS PER SHARE (KGS) | 9 | 611 | 483 |

**On behalf of the Management Board:**

| | |
|---|---|
| **Sevki Sarilar**<br>**General Manager** | **Gulbara Djakypbaeva**<br>**Chief Accountant** |
| 25 February 2011<br>Bishkek<br>Kyrgyz Republic | 25 February 2011<br>Bishkek<br>Kyrgyz Republic |

The notes on pages 7 to 39 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

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# CLOSED JOINT STOCK COMPANY DEMIR KYRGYZ INTERNATIONAL BANK

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2010

*(in thousands of Kyrgyz Soms)*

| | Notes | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash on hand | | 275,930 | 302,067 |
| Balances with the National Bank of the Kyrgyz Republic | | 957,168 | 414,998 |
| Due from banks | 11, 22 | 2,969,404 | 1,471,049 |
| Loans to customers | 12, 22 | 1,418,813 | 1,042,884 |
| Available-for-sale investments | 13 | 183,363 | 162,689 |
| Investments held to maturity | 14 | 14,973 | 148,904 |
| Property, equipment and intangible assets | 15 | 173,262 | 188,689 |
| Other assets | 16 | 43,729 | 44,130 |
| TOTAL ASSETS | | 6,036,642 | 3,775,410 |
| **LIABILITIES AND EQUITY** | | | |
| LIABILITIES: | | | |
| Due to banks | 17, 22 | 3,357 | 9,857 |
| Customer accounts | 18, 22 | 5,382,302 | 3,201,621 |
| Income tax liabilities | 8 | 7,572 | 6,034 |
| Other liabilities | 19 | 24,595 | 19,724 |
| TOTAL LIABILITIES | | 5,417,826 | 3,237,236 |
| EQUITY: | | | |
| Share capital | 20 | 132,540 | 132,540 |
| Additional-paid-in capital | 20 | 1 | 1 |
| Revaluation reserve for available-for-sale investments | | 2,204 | 2,545 |
| Retained earnings | | 484,071 | 403,088 |
| Total equity | | 618,816 | 538,174 |
| TOTAL LIABILITIES AND EQUITY | | 6,036,642 | 3,775,410 |

**On behalf of the Management Board:**

**Sevki Sarilar**
**General Manager**

25 February 2011
Bishkek
Kyrgyz Republic

**Gulbara Djakypbaeva**
**Chief Accountant**

25 February 2011
Bishkek
Kyrgyz Republic

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## CLOSED JOINT STOCK COMPANY DEMIR KYRGYZ INTERNATIONAL BANK

### STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED 31 DECEMBER 2010
*(in KGS and in thousands)*

| | Share capital | Additional-paid-in capital | Retained earnings | Reserve for revaluation of available-for-sale investments | Total equity |
|---|---|---|---|---|---|
| **Balance as at 31 December 2008** | 132,5 | 1 | 339,1 | - | 471,6 |
| Other comprehensive income | - | - | - | 2,5 | 2,5 |
| Profit for the year | - | - | 63,9 | - | 63,9 |
| **Balance as at 31 December 2009** | 132,5 | 1 | 403,0 | 2,5 | 538,1 |
| Other comprehensive loss | - | - | - | (341) | (341) |
| Profit for the year | - | - | 80,9 | - | 80,9 |
| **Balance as at 31 December 2010** | 132,5 | 1 | 484,0 | 2,2 | 618,8 |

**On behalf of the Management Board:**

| | |
|---|---|
| **Sevki Sarilar** | **Gulbara Djakypbaeva** |
| **General Manager** | **Chief Accountant** |
| 25 February 2011 | 25 February 2011 |
| Bishkek | Bishkek |
| Kyrgyz Republic | Kyrgyz Republic |

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# CLOSED JOINT STOCK COMPANY DEMIR KYRGYZ INTERNATIONAL BANK

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2010
*(in thousands of Kyrgyz Soms)*

| | Notes | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest receipts | | 221,413 | 233,464 |
| Interest payments | | (27,235 | (32,616) |
| Fees and commissions received | | 103,013 | 77,293 |
| Fees and commissions paid | | (22,490 | (19,432) |
| Foreign exchange gains | | 60,760 | 52,422 |
| Other operating income | | 145 | 992 |
| Administrative expenses | | (201,165 | (183,068) |
| Changes in operating assets and liabilities: | | | |
| **(Increase)/decrease in operating assets** | | | |
| Due from banks | | (70,649 | - |
| Loans to customers | | (367,130 | 260,703 |
| Other assets | | (3,025 | (5,898) |
| **Increase/(decrease) in operating liabilities** | | | |
| Due to banks | | (6,500 | 8,428 |
| Current accounts and deposits from customers | | 2,177,7 | 828,343 |
| Other liabilities | | (11,953 | (13,178) |
| **Cash inflow from operating activities before income tax** | | 1,852,9 | 1,207,453 |
| Income taxes paid | | (7,989 | (6,480) |
| **Net cash inflow from operating activities** | | 1,844,9 | 1,200,973 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of securities | | (390,879 | (315,699) |
| Proceeds from sale of securities | | 273,898 | 251,521 |
| Purchase of property and equipment | | (17,132 | (22,458) |
| Proceeds from sale of property and equipment | | 2,274 | 9,372 |
| Purchase of intangible assets | | (6,664 | (3,690) |
| **Net cash outflow from investing activities** | | (138,503 | (80,954) |
| Effect of changes in exchange rates on cash and cash equivalents | | 7,394 | 7,787 |
| **Net increase in cash and cash equivalents** | | 1,713,8 | 1,127,806 |
| Cash and cash equivalents at the beginning of the year | 10 | 2,432,9 | 1,305,178 |
| **Cash and cash equivalents at the end of the year** | 10 | 4,146,8 | 2,432,984 |

**On behalf of the Management Board:**

**Sevki Sarilar**
**General Manager**

25 February 2011
Bishkek
Kyrgyz Republic

**Gulbara Djakypbaeva**
**Chief Accountant**

25 February 2011
Bishkek
Kyrgyz Republic

The notes on pages 7 to 39 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

## 1. ORGANISATION

Demir Kyrgyz International Bank (the “Bank”) is a closed joint stock company, which was incorporated in Kyrgyzstan on 2 May 1997. The Bank is regulated by the National Bank of the Kyrgyz Republic ("NBKR") and conducts its business under license number 35 issued on 11 March 1999 and re-issued on 20 April 2005. The Bank's primary business consists of commercial activities, trading with securities, foreign currency instruments, originating loans and guarantees.

The registered office of the Bank is located at 245 Chui Avenue, Bishkek 720001, Kyrgyzstan. The Bank’s head office is in Bishkek, and the Bank has four branches in Bishkek and Osh. At 31 December 2010 and 2009 the Bank employed 321 and 302 people, respectively.

As at 31 December 2010 and 2009, the Bank’s ownership structure was as follows:

| **Shareholders** | **31 December 2010 %** | **31 December 2009 %** |
|---|---|---|
| Halit Cingillioglu | 70 | 70 |
| International Finance Corporation (IFC) | 15 | 15 |
| European Bank for Reconstruction and Development (EBRD) | 15 | 15 |
| | 100 | 100 |

These financial statements were authorised for issue by the Bank’s Management Board on 25 February 2011.

## 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of *Kyrgyz Soms (“kKGS”)*, unless otherwise indicated. These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank maintains its accountings records in accordance with Kyrgyz legislation which stipulates preparation of financial statements in conformity with IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 25.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

**Recognition of interest income and expense**

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at financial assets ‘at fair value through profit or loss’ (FVTPL).

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

**Recognition of revenue – other**

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

**Financial instruments**

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

**Financial assets**

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Held to maturity investments**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in Note 23. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

**Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### Securities repurchase and reverse repurchase agreements and securities lending transactions

In the normal course of business, the Bank enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received within depositary instruments with banks.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and/or loans and advances to customers.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Kyrgyz Republic and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

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

### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

**Renegotiated loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss i recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

**Write off of loans and advances**

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the income statement (the statement of comprehensive income) in the period of recovery.

**Derecognition of financial assets**

A financial asset (or, where applicable a part of the financial asset or part of a group of similar financial assets) is derecognized where:

- Rights to receive cash flows from the asset has expired;
- The Bank has transferred its rights to receive cash flows from the asset or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Bank either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

**Financial liabilities**

Financial liabilities, including deposits by banks and customers, other borrowed funds and other liabilities, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Derecognition of financial liabilities**

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

**Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets ; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Bank as lessor***

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### *The Bank as lessee*

Assets held under finance leases are initially recognised as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Bank's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## Property, equipment and intangible assets

Depreciation and amortisation are charged on the carrying value of property and equipment, and intangible assets, and are designed to write off assets over their useful economic lives. Depreciation and amortisation are calculated on a straight line basis at the following annual prescribed rates:

| | |
|---|---|
| Buildings | 2% |
| Computers and office equipment | 20% |
| Motor vehicles | 20% |
| Intangible assets | 20% |

Leasehold improvements are amortised over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalisation.

The carrying values of property and equipment are reviewed at each balance sheet date to assess whether they have been recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less selling costs and value in use. Where carrying values exceed an estimated recoverable amount, assets are written down to their recoverable value, while impairment is recognised in the respective period and included in operating expenses. After recognising an impairment loss, the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less residual value (if any), on a systematic basis over its remaining useful life.

## Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### *Current tax*

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

***Deferred tax***

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

***Current and deferred tax for the year***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

***Operating taxes***

The Kyrgyz Republic also has various other taxes, which are assessed on the Bank’s activities. These taxes are included as a component of operating expenses in the income statement.

**Provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Contingencies**

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

**Foreign currencies**

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

| | **31 December 2010** | **31 December 2009** |
|---|---|---|
| KGS/1 US Dollar | 47.0992 | 44.0917 |
| KGS/1 Euro | 61.7949 | 63.5229 |

**Collateral**

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer’s assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

**Equity reserves**

The reserves recorded in equity (other comprehensive income) on the Bank’s statement of financial position include ‘Available-for-sale’ reserve which comprises changes in fair value of available-for-sale investments.

**Non-current assets held for sale**

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

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

**Critical accounting judgements and key sources of estimation uncertainty**

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

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

***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

<u>Impairment of loans and receivables</u>
The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Kyrgyz Republic and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2010 and 2009 the gross loans and receivables totalled KGS 1,502,938 thousand and KGS 1,134,974 thousand, respectively, and allowance for impairment losses amounted to KGS 84,125 thousand and KGS 92,090 thousand, respectively.

**Adoption of new and revised standards**

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2010. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that could affect the amounts reported for the current or prior years.

**Standards and interpretations issued, but not yet adopted**

At the date of authorisation of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Standards and Interpretations were in issue but not yet effective.

**New and revised IFRS in issue but not yet effective**

The Bank has not applied the following new and revised IFRS that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRS 1 | *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[1] |
| Amendments to IFRS 7 | *Financial Instruments: Disclosures*[2] |
| IFRS 9 (as amended in 2010) | *Financial Instruments*[3] |
| IAS 24 (revised in 2009) | *Related Party Disclosures*[4] |
| IAS 28 (revised in 2008) | *Investments in Associates*[2] |
| Amendments to IAS 32 | *Classification of Rights Issues*[5] |
| Amendments to IFRIC 14 | *Prepayments of a Minimum Funding Requirement*[4] |
| IFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments*[1] |
| Amendments to IAS 1 | *Presentation of Financial Statements*[4] |

Improvements to IFRSs issued in 2010[6]

[1] Effective for annual periods beginning on or after 1 July 2010.
[2] Effective for annual periods beginning on or after 1 July 2011.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2011.
[5] Effective for annual periods beginning on or after 1 February 2010.
[6] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

Bank management believes that adoption of these Standards and Interpretations will not significantly influence the Bank's financial statements.

IFRS 9 *Financial Instruments*, issued in November 2009 and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective it is to collect contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest, are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Management anticipates that IFRS 9 that will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Bank’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred, but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

Management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Bank’s disclosures regarding transfers of trade receivables previously affected. However, if the Bank enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Bank because the Bank is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Bank has not entered into any arrangements that would fall within the scope of the amendments. However, if the Bank does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Bank has not entered into transactions of this nature. However, if the Bank does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying value of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

## 3. NET INTEREST INCOME

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| **Interest income comprises:** | | |
| Interest income on financial assets recorded at amortised cost: | | |
| - interest income on impaired financial assets | 123,121 | 169,084 |
| - interest income on unimpaired financial assets | 80,738 | 44,324 |
| Interest income on financial assets at fair value | 17,554 | 21,222 |
| **Total interest income** | 221,413 | 234,630 |
| Interest income on financial assets recorded at amortised cost comprises: | | |
| Interest on loans to customers | 172,548 | 196,073 |
| Interest on balances due from banks | 30,914 | 6,278 |
| Interest on investments held to maturity | 397 | 10,979 |
| Interest on reverse repurchase transactions | - | 78 |
| Total interest income on financial assets recorded at amortised cost | 203,859 | 213,408 |
| Interest income on financial assets at fair value: | | |
| Interest income on financial assets available-for-sale | 17,554 | 21,222 |
| Total interest income on financial assets at fair value | 17,554 | 21,222 |
| **Total interest income** | 221,413 | 234,630 |
| **Interest expense comprises:** | | |
| Interest expense on financial liabilities recorded at amortised cost comprise: | | |
| Interest on customer accounts | 27,212 | 32,388 |
| Interest on due to banks | 2,948 | 3,678 |
| Other interest expense | - | 52 |
| **Total interest expense** | 30,160 | 36,118 |
| **Net interest income before** recovery of provision/(provision) for impairment losses on interest bearing assets | 191,253 | 198,512 |

## 4. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

Movements in the impairment loss allowance on loans to customers were as follows:

| | 2010 | 2009 |
|---|---|---|
| At the beginning of the year | 92,0 | 69,1 |
| (Recovery of provision)/provision | (7,9 | 22,9 |
| **At the end of the year** | 84,1 | 92,0 |

The movements in the provision for guarantees and other commitments and allowances for other assets were as follows:

| | Guarantees and other commitments | Other assets | Total |
|---|---|---|---|
| 31 December 2008 | 1,029 | 3,135 | 4,164 |
| Provision | 1,709 | 1,373 | 3,082 |
| 31 December 2009 | 2,738 | 4,508 | 7,246 |
| Provision | 383 | 3,043 | 3,426 |
| 31 December 2010 | 3,121 | 7,551 | 10,672 |

## 5. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Dealing, net | 67,065 | 52,422 |
| Translation differences, net | 1,923 | 9,893 |
| **Total net gain on foreign exchange operations** | 68,988 | 62,315 |

## 6. FEE AND COMMISSION INCOME AND EXPENSES

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| **Fee and commission income:** | | |
| Settlements | 31,630 | 24,467 |
| Cash operations | 31,240 | 28,222 |
| Plastic card service | 16,794 | 11,064 |
| Guarantee and letter of credit issuance | 8,401 | 5,116 |
| Account maintenance | 5,793 | 4,481 |
| Account opening | 1,593 | 131 |
| Other | 7,564 | 3,812 |
| **Total fee and commission income** | 103,013 | 77,293 |
| **Fee and commission expenses**: | | |
| Visa direct connection fees | 15,581 | 13,158 |
| Correspondent bank services | 5,990 | 5,551 |
| Cash operations | 194 | 210 |
| Other | 725 | 513 |
| **Total fee and commission expenses** | 22,490 | 19,432 |

## 7. OPERATING EXPENSES

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Salaries and employee benefits | 114,934 | 100,381 |
| Social taxes | 14,178 | 14,043 |
| **Total salaries and employee benefits** | 129,112 | 114,424 |
| Depreciation and amortisation | 36,949 | 36,248 |
| Office rent | 11,044 | 7,433 |
| Professional services fees | 10,989 | 9,567 |
| Equipment services | 10,178 | 8,651 |
| Insurance charges | 9,018 | 3,636 |
| Maintenance fees | 6,282 | 5,254 |
| Communications | 4,606 | 4,633 |
| Entertainment/business promotions | 4,595 | 3,818 |
| Office security | 4,525 | 3,737 |
| Training | 3,582 | 828 |
| Marketing expenses | 3,116 | 1,731 |
| Taxes, other than income tax | 2,401 | 2,161 |
| Business trip expenses | 2,209 | 4,483 |
| Charity | 1,864 | 895 |
| Utilities | 1,516 | 1,685 |
| Stationery and supplies | 1,184 | 1,369 |
| Other expenses | 11,768 | 9,557 |
| **Total operating expenses** | 254,938 | 220,110 |

## 8. INCOME TAX

The Bank provides for taxes based on tax accounts maintained and prepared in accordance with statutory tax regulations, which may differ from IFRS. During the years ended 31 December 2010 and 2009, the corporate income tax rate was 10%.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of exchange losses and other expenses and tax-free regime under local tax regulations. Deferred taxes reflect the net tax effects of temporary differences between the carrying values of assets and liabilities for financial reporting purposes and amounts used for tax purposes. Temporary differences as at 31 December 2010 and 2009 relate mostly to different methods of income and expense recognition used as well as the recorded values of certain assets.

Temporary differences as at 31 December 2010 and 2009 comprise:

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| **Taxable temporary differences**: | | |
| Property and equipment | (52,290) | (59,800) |
| **Total taxable temporary differences** | (52,290) | (59,800) |
| **Net deferred income tax liabilities at the statutory rate (10%)** | (5,229) | (5,980) |

The relationship between tax expenses and accounting profit for the years ending 31 December 2010 and 2009 are as follows:

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Profit before income tax | 90,5 | 73,5 |
| Tax at the statutory tax rate (10%) | 9,0 | 7,3 |
| Tax effect of permanent differences | 476 | 2,2 |
| **Income tax expense** | 9,5 | 9,5 |
| Current income tax expense | 10,2 | 8,0 |
| Change in deferred tax liabilities | (751) | 1,5 |
| **Income tax expense** | 9,5 | 9,5 |

Income tax liabilities consist of the following:

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Deferred income tax liabilities | 5,229 | 5,980 |
| Current income tax liabilities | 2,343 | 54 |
| **Income tax liabilities** | 7,572 | 6,034 |

| **Deferred income tax liabilities** | **2010** | **2009** |
|---|---|---|
| At the beginning of the year | 5,9 | 4,4 |
| Change in deferred tax liability for the year | (751) | 1,5 |
| **At the end of the year** | 5,2 | 5,9 |

## 9. EARNINGS PER SHARE

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Net profit for the year | 80,983 | 63,980 |
| Weighted average number of ordinary shares | 132,540 | 132,540 |
| **Earnings per share** (KGS) | 611 | 483 |

## 10. CASH AND CASH EQUIVALENTS

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

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Cash on hand | 275,930 | 302,067 |
| Balances with the NBKR | 957,168 | 414,998 |
| Due from banks (Note 11) | 2,898,755 | 1,471,049 |
| Available-for-sale investments | - | 95,966 |
| Investments in securities | 14,973 | 148,904 |
| **Cash and cash equivalents** | 4,146,826 | 2,432,984 |

Balances with the National Bank of the Kyrgyz Republic as at 31 December 2010 and 2009 include KGS 420,753 thousand and KGS 303,006 thousand, respectively, which are obligatory reserves in the National Bank of the Kyrgyz Republic. The Bank's ability to withdraw from these accounts is not restricted by Kyrgyz legislation.

## 11. DUE FROM BANKS

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Interbank deposits | 2,337,219 | 750,353 |
| Correspondent accounts | 632,185 | 720,696 |
| **Total due from banks** | 2,969,404 | 1,471,049 |

As at 31 December 2010 and 2009 balances due from banks included the Bank's guarantee deposits for its operations under counter guarantee terms issued to Commerzbank AG, Germany totalling KGS 38,141 thousand and KGS 3,410 thousand, respectively.

As at 31 December 2010 and 2009 the Bank had 10 and 4 banks, respectively, whose balances exceeded 10% of the Bank's equity. The gross value of these balances as at 31 December 2010 and 2009 was KGS 2,368,106 thousand and KGS 983,587 thousand, respectively.

## 12. LOANS TO CUSTOMERS

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Loans to customers | 1,502,938 | 1,134,974 |
| Less: allowance for impairment losses | (84,125) | (92,090) |
| **Total loans to customers** | 1,418,813 | 1,042,884 |

As at 31 December 2010 and 2009 accrued interest income included in loans to customers amounted to 14,812 thousand KGS and 12,379 thousand KGS, respectively.

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Loans collateralised by real estate | 963,880 | 786,794 |
| Loans collateralised by cash | 421,584 | 248,419 |
| Loans collateralised by vehicles | 9,736 | 37,432 |
| Loans collateralised by equipment | 1,127 | 9,777 |
| Other collateral | 83,841 | 48,467 |
| Unsecured loans | 22,770 | 4,085 |
| | 1,502,938 | 1,134,974 |
| Less: allowance for impairment losses | (84,125) | (92,090) |
| **Total loans to customers** | 1,418,813 | 1,042,884 |

Movements in allowance for the years ended 31 December 2010 and 2009 are disclosed in Note 4.

| **Analysis by sector** | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Trade | 385,919 | 343,786 |
| Production | 351,809 | 221,442 |
| Individuals | 141,438 | 105,413 |
| Services | 580,975 | 391,159 |
| Staff loans | 19,310 | 24,830 |
| Other | 23,487 | 48,344 |
| | 1,502,938 | 1,134,974 |
| Less: allowance for impairment losses | (84,125) | (92,090) |
| **Total loans to customers** | 1,418,813 | 1,042,884 |

Loans to individuals comprise the following products:

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Consumer loans | 104,702 | 56, 427 |
| Mortgage loans | 36,736 | 48,986 |
| | 141,438 | 105,413 |
| Less: allowance for impairment losses | (3,734) | (745) |
| **Total loans to individuals** | 137,704 | 104,668 |

As at 31 December 2010 and 2009, the Bank had provided a loan to Beta Insaat Yatirimcilik CJSC of KGS 113,423 thousand and KGS 94,103 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2010 and 2009, the Bank had issued loans to microfinance institutions of KGS 404,994 thousand and KGS 241,967 thousand respectively and received USD deposits in the equivalent amount of KGS 421,584 thousand and KGS 282,187 thousand respectively as collateral for the above loans. The Bank's currency risk is covered by the protective clauses of respective loan agreements requiring sufficient collateral from microfinance organisations in the event of adverse change.

## 13. AVAILABLE-FOR-SALE INVESTMENTS

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| State Treasury bills of the Ministry of Finance of the Kyrgyz Republic: | | |
| - 3 months | - | 95,966 |
| - 12 months | 183,363 | 66,723 |
| | 183,363 | 162,689 |

## 14. INVESTMENTS HELD TO MATURITY

| | Nominal Interest rate % | 31 December 2010 | Interest to nominal % | 31 December 2009 |
|---|---|---|---|---|
| NBKR notes | 5.43% | 14,973 | 0.90% | 148,904 |
| | | 14,973 | | 148,904 |

## 15. PROPERTY AND EQUIPMENT

| | Buildings | Computers and Office equipment | Transport | Equipment for installation | Construction in progress | Intangible assets | Total |
|---|---|---|---|---|---|---|---|
| **At initial cost** | | | | | | | |
| 31 December2008 | 79,284 | 98,914 | 12,169 | 2,764 | 19,191 | 47,961 | 260,283 |
| Additions | 7,804 | 6,371 | 6,659 | 1,624 | - | 3,690 | 26,148 |
| Disposals | - | (6,188) | - | (2,171) | (7,196) | (686) | (16,241) |
| Transfers | - | - | - | - | - | - | - |
| 31 December 2009 | 87,088 | 99,097 | 18,828 | 2,217 | 11,995 | 50,965 | 270,190 |
| Additions | - | 15,282 | - | 1,476 | 374 | 6,664 | 23,796 |
| Disposals | - | (14,603) | (1,079) | - | - | (5,643) | (21,325) |
| Transfers | 319 | 1,255 | - | (2,728) | (374) | 1,528 | - |
| 31 December2010 | 87,407 | 101,031 | 17,749 | 965 | 11,995 | 53,514 | 272,661 |
| **Accumulated depreciation** | | | | | | | |
| 31 December 2008 | 13,582 | 27,184 | 3,386 | - | - | 7,975 | 52,127 |
| Charge for the period | 3,183 | 20,216 | 3,126 | - | - | 9,723 | 36,248 |
| Disposals | - | (6,188) | - | - | - | (686) | (6,874) |
| 31 December 2009 | 16,765 | 41,212 | 6,512 | - | - | 17,012 | 81,501 |
| Charge for the period | 3,370 | 19,477 | 3,748 | - | - | 10,354 | 36,949 |
| Disposals | - | (12,328) | (1,080) | - | - | (5,643) | (19,051) |
| Transfers | - | - | - | - | - | - | - |
| 31 December 2009 | 20,135 | 48,361 | 9,180 | - | - | 21,723 | 99,399 |
| **Net book value** | | | | | | | |
| 31 December 2010 | 67,272 | 52,670 | 8,569 | 965 | 11,995 | 31,791 | 173,262 |
| 31 December 2009 | 70,323 | 57,885 | 12,316 | 2,217 | 11,995 | 33,953 | 188,689 |

As at 31 December 2010 and 2009 fully depreciated assets of KGS 3,026 thousand and KGS 613 thousand, respectively had been included in property, equipment and intangible assets.

As at 31 December 2010 and 2009, was no property, equipment or intangible assets had been pledged as collateral on short-term loans received.

## 16. OTHER ASSETS

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| **Other financial assets** | | |
| Travellers cheques | 6,662 | 1,678 |
| Money transfer settlements | 2,813 | 9,439 |
| Receivables from insurance company and on other transactions | 1,463 | 3,495 |
| | 10,938 | 14,612 |
| **Other non-financial assets:** | | |
| Prepayments | 20,738 | 23,509 |
| Foreclosed assets | 8,633 | 4,009 |
| Inventory | 6,086 | 5,687 |
| Other advances | 4,511 | 821 |
| Tax settlements, other than income tax | 374 | - |
| | 40,342 | 34,026 |
| Less: allowance for impairment losses for other non-financial assets | (7,551) | (4,508) |
| | 32,791 | 33,024 |
| **Total other assets** | 43,729 | 44,130 |

Movements in the allowance for impairment losses on other assets for the years ended 31 December, 2010 and 2009 are disclosed in Note 4.

## 17. DUE TO BANKS

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Correspondent accounts of other banks | 1,082 | 8,235 |
| Demand deposits of other banks | 2,275 | 1,622 |
| Total due to banks | 3,357 | 9,857 |

## 18. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Demand deposits | 4,781,946 | 2,638,365 |
| Time deposits | 600,356 | 563,256 |
| Total customer accounts | 5,382,302 | 3,201,621 |

As at 31 December 2010, the Bank had one customer whose balances exceeded 10% of total customer accounts. The gross value of this balance was KGS 614,574 thousand. As at 31 December 2009, the Bank had no customers whose balances exceeded 10% of total customer accounts.

As at 31 December 2010 and 2009, the Bank maintained customer accounts of KGS 522,603 thousand and KGS 293,803 thousand respectively, which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments.

## 19. OTHER LIABILITIES

| Other financial liabilities: | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Accrued commission expenses | 16,824 | 13,276 |
| Taxes payable | 2,986 | 2,243 |
| Total other financial liabilities | 19,810 | 15,519 |
| **Other non-financial liabilities:** | | |
| Provision for guarantees and other commitments | 3,121 | 2,738 |
| Others | 1,664 | 1,467 |
| Total other non-financial liabilities | 4,785 | 4,205 |
| **Total other liabilities** | 24,595 | 19,724 |

Movements in the provision for guarantees and other commitments for the years ended 31 December 2010 and 2009 are disclosed in Note 4.

## 20. EQUITY

As at 31 December 2010 and 2009 share capital authorised, issued and fully paid comprised 132,540 ordinary shares, with a par value of 1,000 KGS. In addition, the Bank's share capital includes 1,000 KGS of additional paid in capital at 31 December 2010 and 2009. All ordinary shares are ranked equally and carry one vote.

No dividends had been declared as at 31 December 2010 and 2009.

## 21. COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event a contracting party fails to meet obligations, where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies to meet its off-balance sheet commitments as it does for balance sheet operations.

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the National Bank of the Kyrgyz Republic.

As at 31 December 2010 and 2009 contingent liabilities comprised:

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| **Contingent liabilities and credit commitments** | | |
| Guarantees issued and similar commitments | 352,916 | 141,392 |
| Commitments on loans and unused credit lines | 482,555 | 307,780 |
| **Total contingent liabilities and credit commitments** | 835,471 | 449,172 |

The Bank approves the extension of loans to customers within credit line limits on a case-by-case basis according to borrowers' financial performance, debt service and other conditions. The Bank has clauses in credit line agreements which allow it not to bear any liability for providing funds to the customer under the credit line until supplementary agreements to the credit line are signed.

***Operating lease commitments*** – Where the Bank is the lessee, future minimum lease payments for the non-cancellable operating leases of a number of premises are as follows:

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Less than 1 year | 7,492 | 7,241 |
| Later than 1 year and not later than 5 years | 6,929 | 13,838 |
| Later than 5 years | 753 | 1,032 |
| **Total operating lease commitments** | 15,174 | 22,111 |

Leases typically run for an initial period of one to five years, with an option to renew after that date. None of the leases includes contingent rentals.

During the current year KGS 11,044 thousand was recognised as an expense in profit or loss in respect of operating leases (2009: KGS 7,433 thousand).

### Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

### Taxes

Provisions of Kyrgyz tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the tax authorities often do not interpret tax legislation in favour of taxpayers, who have to resort to court proceedings to defend their position.

Bank management is confident that all applicable taxes have been accrued and, consequently, the creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits for the three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of higher-level tax inspectorates reviewing the results of previous tax audits.

### Operating environment

The Bank’s principal business activities are within Kyrgyzstan. Emerging markets such as Kyrgyzstan are subject to different risks than in more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Kyrgyzstan and its economy in general.

Laws and regulations affecting businesses in Kyrgyzstan continue to change rapidly. Tax, currency and customs legislation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kyrgyzstan. The country’s future economic direction is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

In April 2010 the President of country was deposed during opposition protests. Subsequently to this, the Kyrgyz Republic suffered from a number of civil unrests and economic downturn. As a result of the followed parliamentary elections, new coalition government was formed in December 2010. Significant economic and political uncertainties remain and adverse changes arising from systemic risks in global and local financial systems, including any tightening of the credit environment could slow recovery or disrupt the national economy, adversely affect the Bank’s access to capital and cost of capital for the Bank and, more generally, its business, operating results, financial condition and prospects.

Inflation in Kyrgyzstan is relatively high (according to government statistics, consumer inflation for the years ended 31 December 2010 and 2009 was 19.2% and 6.8%, respectively).

**Pensions and retirement plans**

Employees receive pension benefits in accordance with the laws and regulations of the country. As at 31 December 2010 and 2009, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## 22. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is given to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

The outstanding balances as at 31 December 2010 and 2009 with related parties were as follows :

| | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|
| | Related party balances | Total category as per the financial statements caption | Related party balances | Total category as per the financial statements caption |
| Due from banks | | | | |
| - *other related parties* | 75,805 | 2,969,404 | 24,843 | 1,471,049 |
| Loans to customers | | | | |
| - *key entity or parent management personnel* | 7,914 | 1,502,938 | 7,073 | 1,134,974 |
| Due to banks | | | | |
| - *other related parties* | 874 | 3,357 | 4,624 | 9,857 |
| Customer accounts | | | | |
| - *key entity or parent management personnel* | 7,101 | 5,382,302 | 1,667 | 3,201,621 |

The remuneration of Board of Directors and other key management members was as follows:

| | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Short term employee benefits | 44,612 | 129,112 | 33,240 | 114,424 |

The following amounts, which were recognised in transactions with related parties, were included in the income statement for the years ended 31 December 2010 and 2009:

| | **Year ended 31 December 2010** | | **Year ended 31 December 2009** | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per the financial statements caption** | **Related party transactions** | **Total category as per the financial statements caption** |
| Interest income | | | | |
| - *other related parties* | - | 221,413 | 8 | 234,630 |
| Interest expense | | | | |
| - *other related parties* | - | (30,160) | 3,677 | (36,118) |
| Operating expenses | | | | |
| - *other related parties* | 6,497 | 254,938 | - | 220,110 |

## 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*. Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

Fair value of available-for-sale investments is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. As at 31 December 2010 and 2009 the fair value of these financial assets totaled KGS 183,363 thousand and KGS 162,689 thousand respectively (Note 13).

As no readily available market exists for other financial instruments held by the Bank, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. Bank management estimates that the carrying value of all assets and liabilities approximates their fair value.

## 24. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (12%) and tier 1 capital (6%) to risk weighted assets.

Equity is calculated as the amount of restricted and free components of shareholder equity plus the Bank's provisions for principal risks.

The ratio was calculated according to NBKR requirements by applying the following risk estimates to assets and off-balance sheet commitments net of impairment loss allowances:

| Estimate | Description of position |
|---|---|
| 0% | Cash and balances with the National Bank of the Kyrgyz Republic |
| 0% | State debt securities |
| 20% | Due from banks for up to 1 year |
| 100% | Loans to customers |
| 100% | Guarantees |
| 50% | Obligations and commitments on unused loans with initial maturity of over 1 year |
| 100% | Other assets |

The Bank's actual capital amounts and ratios are presented in the following table:

| Capital amounts and ratios | Actual amount | For capital adequacy purposes | Ratio for capital adequacy purposes % | Minimum Required Ratio% |
|---|---|---|---|---|
| **As at 31 December 2010** | | | | |
| Total capital | 618,816 | 615,449 | 23.3% | 12% |
| Tier 1 capital | 618,816 | 509,818 | 19.3% | 6% |
| **As at 31 December 2009** | | | | |
| Total capital | 538,174 | 526,759 | 23.4% | 12% |
| Tier 1 capital | 538,174 | 442,185 | 19.7% | 6% |

## 25. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are those related to:

- credit risk
- operational risk
- liquidity risk
- market risk

The Bank recognises the necessity of having efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and help it achieve its performance objectives. Through the risk management framework, the Bank manages risks in the following manner:

**Credit risk**

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

Risk management and monitoring is performed within set limits of authority, by Credit Committees and the Bank's Management Board. The Monitoring Department is responsible for monitoring.

The Bank has developed policies and procedures to manage credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors. The Bank establishes limits on the amount of risk accepted in relation to one borrower, or bank of borrowers, and to industry segments. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a contracting party to comply with contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to total unused commitments. However, the likely amount of the loss is less than total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to contingent liabilities as it does to balance sheet financial instruments, i.e. based on the procedures for approving the provision of loans, using limits to mitigate risk, and current monitoring. The Bank monitors the term to maturity of off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

**Operational risk**

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can damage reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

**Maximum Exposure**

The Banks maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents financial assets' and contingent liabilities' maximum exposure to credit risk. For financial assets maximum exposure is equals to the carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities maximum exposure to credit risk is the maximum amount the Bank would have to pay if a guarantee was called on or in the case of commitments, if the loan amount was called on.

| | | | 31 December 2010 | | |
|---|---|---|---|---|---|
| | **Maximum exposure** | **Offset** | **Net exposure after offset** | **Collateral Pledged** | **Net exposure after offset and collateral** |
| **31 December 2010** | | | | | |
| Due from banks | 2,969,404 | - | 2,969,404 | - | 2,969,404 |
| Loans to customers | 1,418,813 | - | 1,418,813 | (1,418,813) | - |
| Available-for-sale investments | 183,363 | - | 183,363 | - | 183,363 |
| Investments held to maturity | 14,973 | - | 14,973 | - | 14,973 |
| Other financial assets | 10,938 | - | 10,938 | - | 10,938 |
| Guarantees issued and similar commitments | 352,916 | - | 352,916 | (352,916) | - |
| Commitments on loans and unused credit lines | 482,555 | - | 482,555 | - | 482,555 |
| **31 December 2009** | | | | | |
| Due from banks | 1,471,049 | - | 1,471,049 | - | 1,471,049 |
| Loans to customers | 1,042,884 | - | 1,042,884 | (1,042,884) | - |
| Available-for-sale investments | 162,689 | - | 162,689 | - | 162,689 |
| Investments held to maturity | 148,904 | - | 148,904 | - | 148,904 |
| Other financial assets | 14,612 | - | 14,612 | - | 14,612 |
| Guarantees issued and similar commitments | 141,392 | - | 141,392 | (141,392) | - |
| Commitments on loans and unused credit lines | 307,780 | - | 307,780 | - | 307,780 |

Off-balance sheet risk

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. In its business activity the Bank follows ratings set by Moody's Rating Agency.

The following table details the credit ratings of financial assets held by the Bank:

| 31 December 2010 | Aa | A | Baa | <Baa | Not Rated | Total |
|---|---|---|---|---|---|---|
| Due from banks | 960,302 | 47,099 | 141,298 | 775,530 | 1,045,175 | 2,969,404 |
| Loans to customers | - | - | - | - | 1,418,813 | 1,418,813 |
| Available-for-sale investments | - | - | - | - | 183,363 | 183,363 |
| Investments held to maturity | - | - | - | - | 14,973 | 14,973 |
| Other financial assets | - | - | - | - | 10,938 | 10,938 |
| **31 December 2009** | | | | | | |
| Due from banks | 3,410 | 198,413 | - | 264,549 | 1,004,677 | 1,471,049 |
| Loans to customers | - | - | - | - | 1,042,884 | 1,042,884 |
| Available-for-sale investments | - | - | - | - | 162,689 | 162,689 |
| Investments held to maturity | - | - | - | - | 148,904 | 148,904 |
| Other financial assets | - | - | - | - | 14,612 | 14,612 |

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. The Bank's credit risk exposure is concentrated in Kyrgyzstan. Exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's credit and risk management policy are not breached.

In determining the credit risk of loans to customers, the Bank uses internal scoring models based on risk categorisation criteria. The scoring model takes into consideration the financial performance of the borrower, the ability to repay and any delays in repayment and the collateral pledged against any borrowings.

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

| | | Financial assets past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|
| **31 December 2010** | **Neither past due nor impaired** | **Past due up to 1 month** | **Past due 1-2 months** | **Past due 2-3 months** | **Greater than 3 months** | **Financial assets that have been Impaired** | **Total at 31.Dec.10** |
| Due from banks | 2,969,404 | - | - | - | - | - | 2,969,404 |
| Loans to customers | 373,869 | 32,555 | - | - | - | 1,012,389 | 1,418,813 |
| Available-for-sale investments | 183,363 | - | - | - | - | - | 183,363 |
| Investments held to maturity | 14,973 | - | - | - | - | - | 14,973 |
| Other financial assets | 10,938 | - | - | - | - | - | 10,938 |
| **31 December 2009** | | | | | | | |
| Due from banks | 1,471,049 | - | - | - | - | - | 1,471,049 |
| Loans to customers | 106,682 | 36,866 | - | - | - | 899,336 | 1,042,884 |
| Available-for-sale investments | 162,689 | - | - | - | - | - | 162,689 |
| Investments held to maturity | 148,904 | - | - | - | - | - | 148,904 |
| Other financial assets | 14,612 | - | - | - | - | - | 14,612 |

## Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislative and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimise potential losses from investment climate fluctuations in Kyrgyzstan. The Bank's Management Board sets up country limits, which generally apply to CIS and Baltic country banks.

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

| | Kyrgyzstan | Other non-OECD countries | OECD countries | 31 December 2010 Total |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Cash on hand | 275,930 | - | - | 275,930 |
| Balances with the NBKR | 957,168 | - | - | 957,168 |
| Due from banks | - | 36,6 | 2,93 | 2,969,4 |
| Loans to customers, net | 1,411,0 | 161 | 7,58 | 1,418,8 |
| Available-for-sale investments | 183,363 | - | - | 183,363 |
| Investments held to maturity | 14,973 | - | - | 14,973 |
| Other financial assets | 10,665 | - | 273 | 10,938 |
| **TOTAL FINANCIAL ASSETS** | 2,853,1 | 36,8 | 2,94 | 5,830,5 |
| **FINANCIAL LIABILITIES** | | | | |
| Due to banks | 31 | 217 | 3,10 | 3,357 |
| Customer accounts | 5,054,6 | - | 327,68 | 5,382,3 |
| Other financial liabilities | 19,810 | - | - | 19,810 |
| **TOTAL FINANCIAL LIABILITIES** | 5,074,4 | 217 | 330,79 | 5,405,4 |
| **NET BALANCE SHEET POSITION** | (2,221,2 | 36,6 | 2,60 | |

| | Kyrgyz Republic | Other non-OECD countries | OECD countries | 31 December 2009 Total |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Cash on hand | 302,067 | - | - | 302,067 |
| Balances with the NBKR | 414,998 | - | - | 414,998 |
| Due from banks | - | 37,350 | 1,433,699 | 1,471,049 |
| Loans to customers, net | 1,036,464 | 476 | 5,944 | 1,042,884 |
| Available-for-sale investments | 162,689 | - | - | 162,689 |
| Investments held to maturity | 148,904 | - | - | 148,904 |
| Other financial assets | 14,404 | - | 208 | 14,612 |
| **TOTAL FINANCIAL ASSETS** | 2,079,526 | 37,826 | 1,439,851 | 3,557,203 |
| **FINANCIAL LIABILITIES** | | | | |
| Due to banks | 29 | 3,621 | 6,207 | 9,857 |
| Customer accounts | 2,924,080 | - | 277,541 | 3,201,621 |
| Other financial liabilities | 15,519 | - | - | 15,519 |
| **TOTAL FINANCIAL** | 2,939,628 | 3,621 | 283,748 | 3,226,997 |

| | | | | |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **NET BALANCE SHEET POSITION** | (860,102) | 34,205 | 1,156,103 | |

### Collateral

The amount and type of collateral required depends on an assessment of the contracting party's credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained for lending purposes are real estate properties, vehicles and cash.

Management monitors the market value of collateral, requests additional collateral in accordance with an underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

### Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually become due.

The ALMC controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Bank monitors future expected cash flows on client and banking operations daily, which is a part of the asset/liability management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The analysis of interest rate and liquidity risk is presented in the following table:

| | Weighted avg. effective int. rate | Up to 1 month | 1–3 month | 3 month to– 1 year | 1 year to 5 years | Over 5 years | 31 December 2010 Total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | |
| Due from banks | 0.63% | 2,031,074 | 235,496 | 70,649 | - | - | 2,337,219 |
| Loans to customers | 16.13% | 111,256 | 308,028 | 455,156 | 492,317 | 52,056 | 1,418,813 |
| Available-for-sale investments | 10.12% | 14,973 | - | - | - | - | 14,973 |
| Investments held to maturity | 5.43% | 29,174 | 92,959 | 61,230 | - | - | 183,363 |
| **Total interest bearing financial assets** | | 2,186,477 | 636,483 | 587,035 | 492,317 | 52,056 | 3,954,368 |
| Cash on hand | - | 275,930 | - | - | - | - | 275,930 |
| Balances with the NBKR | - | 957,168 | - | - | - | - | 957,168 |
| Due from banks | - | 632,185 | - | - | - | - | 632,185 |
| Other financial assets | - | 10,938 | - | - | - | - | 10,938 |
| **Total Financial Assets** | | 4,062,698 | 636,483 | 587,035 | 492,317 | 52,056 | 5,830,589 |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Customer accounts | 5.83% | 93,028 | 146,850 | 264,491 | 95,987 | - | 600,356 |
| **Total interest-bearing financial liabilities** | | 93,028 | 146,850 | 264,491 | 95,987 | - | 600,356 |
| Due to banks | - | 3,357 | - | - | - | - | 3,357 |
| Customer accounts | - | 4,376,638 | 53,824 | 253,762 | 97,722 | - | 4,781,946 |
| Other financial liabilities | - | 19,810 | - | - | - | - | 19,810 |
| **TOTAL FINANCIAL LIABILITIES** | | 4,492,833 | 200,674 | 518,253 | 193,709 | - | 5,405,469 |
| Liquidity gap | | (430,135) | 435,809 | 68,782 | 298,608 | 52,056 | - |
| Interest sensitivity gap | | 2,093,449 | 489,633 | 322,544 | 396,330 | 52,056 | |
| Cumulative interest sensitivity gap | | 2,093,449 | 2,583,082 | 2,905,626 | 3,301,956 | 3,354,012 | |
| Cumulative interest sensitivity gap as a percentage of total assets | | 36% | 44% | 50% | 57% | 58% | |

| | Weighted avg. effective int. rate | Up to 1 month | 1–3 month | 3 month to– 1 year | 1 year to 5 years | Over 5 years | 31 December 2009 Total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | |
| Due from banks | 0.52% | 721,394 | 18,939 | 3,410 | - | 6610 | 750,353 |
| Loans to customers | 17.50% | 128,828 | 24,699 | 573,652 | 296,360 | 19,345 | 1,042,884 |
| Available-for-sale investments | 6.93% | 39,062 | 56,904 | 66,723 | - | - | 162,689 |
| Investments held-to maturity | 0.90% | 148,904 | - | - | - | - | 148,904 |
| **Total interest-bearing financial assets** | | 1,038,188 | 100,542 | 643,785 | 296,360 | 25,955 | 2,104,830 |
| Cash on hand | - | 302,067 | - | - | - | - | 302,067 |
| Balances with the NBKR | - | 414,998 | - | - | - | - | 414,998 |
| Due from banks | - | 720,696 | - | - | - | - | 720,696 |
| Other financial assets | - | 14,612 | - | - | - | - | 14,612 |
| **Total Financial Assets** | | 2,490,561 | 100,542 | 643,785 | 296,360 | 25,955 | 3,557,203 |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Customer accounts | 5.81% | 146,199 | 76,943 | 326,059 | 14,055 | - | 563,256 |
| **Total interest-bearing financial liabilities** | | 146,199 | 76,943 | 326,059 | 14,055 | - | 563,256 |
| Due to banks | | 9,857 | - | - | - | - | 9,857 |
| Customer accounts | - | 2,638,365 | - | - | - | - | 2,638,365 |
| Other financial liabilities | - | 15,519 | - | - | - | - | 15,519 |
| **TOTAL FINANCIAL LIABILITIES** | | 2,809,940 | 76,943 | 326,059 | 14,055 | - | 3,226,997 |
| Liquidity gap | | (319,379) | 23,599 | 317,726 | 282,305 | 25,955 | |
| Interest sensitivity gap | | 891,989 | 23,599 | 317,726 | 282,305 | 25,955 | |
| Cumulative interest sensitivity gap | | 891,989 | 915,588 | 1,233,314 | 1,515,619 | 1,541,574 | |
| Cumulative interest sensitivity gap as a percentage of total assets | | 25% | 26% | 35% | 43% | 43% | |

In the table above, the maturity period correspond to contractual terms. However, individuals are legally entitled to terminate deposit agreements ahead of schedule. The above tables suggest a potential liquidity gap for a period of up to 1 month. These tables provide a simplistic view of funding maturities and are for information purposes only. The tables include the maturity dates for customer accounts and short-term deposits, as they fall due. Based on prior experience, the Bank considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over.

The Bank is aware of the importance of maintaining the stability of deposits. In order to achieve this it is essential that the Bank ensures depositor confidence in the Bank's liquidity, by continuing to position itself as a leading financial institution in Kyrgyzstan.

Substantially all of the Bank's interest earning assets and interest bearing liabilities are at fixed rates.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows.

| | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | 31 December 2010 Total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | | |
| Due to banks | - | 3,357 | - | - | - | - | 3,357 |
| Customer accounts | 5.83% | 4,472,583 | 205,604 | 534,015 | 204,901 | - | 5,417,103 |
| Other financial liabilities | - | 19,810 | - | - | - | - | 19,810 |
| Guarantees issued and similar commitments | - | 352,916 | - | - | - | - | 352,916 |
| Commitments on loans and unused credit lines | - | 482,555 | - | - | - | - | 482,555 |
| **Total financial liabilities** | | 5,331,221 | 205,604 | 534,015 | 204,901 | - | 6,275,741 |

| | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | 31 December 2009 Total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | | |
| Due to banks | - | 9,857 | - | - | - | - | 9,857 |
| Customer accounts | 5.81% | 2,787,291 | 80,982 | 340,879 | 15,688 | - | 3,224,840 |
| Other financial liabilities | - | 15,519 | - | - | - | - | 15,519 |
| Guarantees issued and similar commitments | - | 141,392 | - | - | - | - | 141,392 |
| Commitments on loans and unused credit lines | - | 307,780 | - | - | - | - | 307,780 |
| **Total financial liabilities** | | 3,261,839 | 80,982 | 340,879 | 15,688 | - | 3,699,388 |

## Interest rate risk

Effective interest rates are represented by categories of financial assets and liabilities to determine interest rate exposure and the effectiveness of the interest rate policy used by the Bank.

| | 31 December 2010 % | | 31 December 2009 % | |
|---|---|---|---|---|
| | **KGS** | **USD** | **KGS** | **USD** |
| **FINANCIAL ASSETS** | | | | |
| Due from banks | - | 0.63 | - | 0.52 |
| Loans to customers | 16.78 | 15.79 | 17.6 | 17.39 |
| Available-for-sale investments | 10.12 | - | 6.93 | - |
| Investments held to maturity | 5.43 | - | 0.90 | - |
| **FINANCIAL LIABILITIES** | | | | |
| Customer accounts | 8.16 | 2.61 | 8.72 | 3.67 |

As disclosed in the maturity analysis above, the maturity dates applicable to the majority of the Bank’s assets and liabilities are relatively short-term. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

## Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency (primarily USD), branch and in total. These limits also comply with minimum NBKR requirements. The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

| | KGS | USD | EUR | Other currency | 31 December 2010 |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash on hand | 169,038 | 79,236 | 15,879 | 11,777 | 275,930 |
| Balances with the NBKR | 957,168 | - | - | - | 957,168 |
| Due from banks | - | 2,582,983 | 338,511 | 47,910 | 2,969,404 |
| Loans to customers | 643,293 | 775,484 | 15 | 21 | 1,418,813 |
| Available-for-sale investments | 14,973 | - | - | - | 14,973 |
| Investments held to maturity | 183,363 | - | - | - | 183,363 |
| Other financial assets | 6,648 | 4,061 | 181 | 48 | 10,938 |
| **TOTAL FINANCIAL ASSETS** | 1,974,483 | 3,441,764 | 354,586 | 59,756 | 5,830,589 |
| **FINANCIAL LIABILITIES** | | | | | |
| Due to banks | 277 | 2,957 | 123 | - | 3,357 |
| Customer accounts | 1,571,515 | 3,390,010 | 363,793 | 56,984 | 5,382,302 |
| Other financial liabilities | 3,310 | 16,308 | 107 | 85 | 19,810 |
| **TOTAL FINANCIAL LIABILITIES** | 1,575,102 | 3,409,275 | 364,023 | 57,069 | 5,405,469 |
| **OPEN BALANCE SHEET POSITION** | 399,381 | 32,489 | (9,437) | 2,687 | 425,120 |

| | KGS | USD | EUR | Other currency | 31 December 2009 |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash on hand | 171,609 | 115,437 | 11,476 | 3,545 | 302,067 |
| Balances with the NBKR | 414,998 | - | - | - | 414,998 |
| Due from banks | - | 1,193,022 | 245,422 | 32,605 | 1,471,049 |
| Loans to customers | 390,175 | 652,129 | 580 | - | 1,042,884 |
| Available-for-sale investments | 162,689 | - | - | - | 162,689 |
| Investments held to maturity | 148,904 | - | - | - | 148,904 |
| Other financial assets | 4,211 | 9,314 | 886 | 201 | 14,612 |
| **TOTAL FINANCIAL ASSETS** | 1,292,586 | 1,969,902 | 258,364 | 36,351 | 3,557,203 |
| **FINANCIAL LIABILITIES** | | | | | |
| Due to banks | 2,609 | 7,232 | 16 | - | 9,857 |
| Customer accounts | 967,618 | 1,937,541 | 258,377 | 38,085 | 3,201,621 |
| Other financial liabilities | 355 | 14,746 | 343 | 75 | 15,519 |
| **TOTAL FINANCIAL LIABILITIES** | 970,582 | 1,959,519 | 258,736 | 38,160 | 3,226,997 |
| **OPEN BALANCE SHEET POSITION** | 322,004 | 10,383 | (372) | (1,809) | |

The Bank has extended loans and advances denominated in foreign currencies. Although these loans are generally funded by the same currencies, their appreciation against the Som can adversely affect borrowers' repayment ability and therefore increases the likelihood of future loan losses.

### Currency risk sensitivity

The following table details the Bank's Sensitivity to a 5% increase and decrease in the US Dollar/Som exchange rate in 2010 and 2009. Bank management believes that given the current economic conditions in Kyrgyzstan that a 5% decrease is a realistic movement in the Som exchange rates against the US Dollar. This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 5% change in currency rate as at 31 December 2010 and 2009, respectively.

The impact on net profit and equity based on asset values as at 31 December 2010 and 2009 is as follows:

| | **31 December 2010** | | | |
|---|---|---|---|---|
| | **USD/KGS** 47.0992 | | **EUR/KGS** 61.7949 | |
| | 5% | -5% | 5% | -5% |
| Impact on profit and loss | 1,462 | (1,462) | (425) | 425 |

| | **31 December 2009** | | | |
|---|---|---|---|---|
| | **USD/KGS** 44.0917 | | **EUR/KGS** 63.5229 | |
| | 5% | -5% | 5% | -5% |
| Impact on profit and loss | 467 | (467) | (17) | 17 |

### Limitations of the sensitivity analysis

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

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the Bank's financial position may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in assumptions may not impact liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty.