

**Kompanion Financial Group  
Microfinance  
Closed Joint Stock Company**

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

# KOMPANION FINANCIAL GROUP MICROFINANCE CLOSED JOINT STOCK COMPANY

## TABLE OF CONTENTS

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	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010:	
Statement of comprehensive income	4
Statement of financial position	5
Statement of changes in equity	6
Statement of cash flows	7-8
Notes to the financial statements	9-37

# KOMPANION FINANCIAL GROUP MICROFINANCE CLOSED JOINT STOCK COMPANY

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of Kompanion Financial Group Microfinance Closed Joint Stock Company (the "Company") as at 31 December 2010, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with Kyrgyz legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2010 were authorized for issue on 15 April 2011 by the Management of the Company.

On behalf of the Management:

  
**Ulanbek Termechikov**  
Chairman of the Management Board

15 April 2011

Bishkek,  
Kyrgyz Republic



  
**Ainura Bakirova**  
Chief Accountant

15 April 2011

Bishkek,  
Kyrgyz Republic

## INDEPENDENT AUDITORS' REPORT

To the Management of Kompanion Financial Group Microfinance Closed Joint Stock Company.

We have audited the accompanying financial statements of Kompanion Financial Group Microfinance Closed Joint Stock Company ("the Company"), 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 information.

### 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 the financial statements.

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



## Auditors' opinion

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

## Other matter

The financial statements of the Company as at **and for the year ended** 31 December 2009 were audited by another auditor who expressed an **unmodified opinion** on those statements on 30 March 2010.

*Deloitte & Touche*

15 April 2011

Bishkek,  
Kyrgyz Republic

# KOMPANION FINANCIAL GROUP MICROFINANCE CLOSED JOINT STOCK COMPANY

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousand of Kyrgyz Som)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	3, 20	889,321	673,540
Interest expense	3	<u>(167,114)</u>	<u>(147,825)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		722,207	525,715
Provision for impairment losses on interest bearing assets	4	<u>(108,009)</u>	<u>(21,307)</u>
NET INTEREST INCOME		<u>614,198</u>	<u>504,408</u>
Net gain on operations with financial assets at fair value through profit or loss		48,117	93,247
Net foreign exchange loss	5	(85,983)	(116,763)
Provision for impairment losses on other assets	4	(4,126)	(117)
Fee and commission expense		(3,910)	(4,089)
Other income	20	<u>12,463</u>	<u>5,972</u>
NET NON-INTEREST EXPENSE		<u>(33,439)</u>	<u>(21,750)</u>
OPERATING INCOME		580,759	482,658
OPERATING EXPENSES	6, 20	<u>(462,773)</u>	<u>(400,589)</u>
PROFIT BEFORE INCOME TAX		117,986	82,069
Income tax expense	7	<u>(16,760)</u>	<u>(8,469)</u>
NET PROFIT		<u>101,226</u>	<u>73,600</u>
TOTAL COMPREHENSIVE INCOME		<u>101,226</u>	<u>73,600</u>

On behalf of the Management:

  
Ulanbek Termekchikov  
Chairman of the Management Board

15 April 2011

Bishkek,  
Kyrgyz Republic



  
Ainura Bakirova  
Chief Accountant

15 April 2011

Bishkek,  
Kyrgyz Republic

The notes on pages 9-37 form an integral part of these financial statements.

# KOMPANION FINANCIAL GROUP MICROFINANCE CLOSED JOINT STOCK COMPANY

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

(in thousand of Kyrgyz Som)

	Notes	31 December 2010	31 December 2009
<b>ASSETS:</b>			
Cash	8	-	481
Due from banks and other financial institutions	9, 20	200,299	304,325
Loans to customers	10	1,866,135	1,285,579
Property, equipment and intangible assets	11	128,996	117,509
Financial assets at fair value through profit or loss	12	105,031	81,727
Current income tax asset		-	5,900
Other assets	13	54,712	15,469
<b>TOTAL ASSETS</b>		<b>2,355,173</b>	<b>1,810,990</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Due to banks and other financial institutions	14	1,452,498	1,045,370
Current income tax liabilities		6,248	-
Deferred income tax liabilities	7	733	1,994
Other liabilities	15	78,304	52,885
Subordinated debt	16	286,917	268,231
<b>Total liabilities</b>		<b>1,824,700</b>	<b>1,368,480</b>
<b>EQUITY:</b>			
Share capital	17	265,000	265,000
Retained earnings		265,473	177,510
<b>Total equity</b>		<b>530,473</b>	<b>442,510</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,355,173</b>	<b>1,810,990</b>

On behalf of the Management:

  
Ulanbek Termechikov  
Chairman of the Management Board

15 April 2011

Bishkek,  
Kyrgyz Republic



  
Ainura Bakirova  
Chief Accountant

15 April 2011

Bishkek,  
Kyrgyz Republic

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# KOMPANION FINANCIAL GROUP MICROFINANCE CLOSED JOINT STOCK COMPANY

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousand of Kyrgyz Som)

	Share capital	Retained Earnings	Total equity
As at 31 December 2008	265,000	103,910	368,910
Total comprehensive income	-	73,600	73,600
As at 31 December 2009	265,000	177,510	442,510
Dividends paid	-	(13,263)	(13,263)
Total comprehensive income	-	101,226	101,226
As at 31 December 2010	265,000	265,473	530,473

On behalf of the Management:

Ulanbek Termechikov  
Chairman of the Management Board

15 April 2011

Bishkek,  
Kyrgyz Republic



Ainura Bakirova  
Chief Accountant

15 April 2011

Bishkek,  
Kyrgyz Republic

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# KOMPANION FINANCIAL GROUP MICROFINANCE CLOSED JOINT STOCK COMPANY

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousand of Kyrgyz Som)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		117,986	82,069
Adjustments for:			
Provision for impairment losses on interest bearing assets		108,009	21,307
Provision for impairment losses on other assets		4,126	160
(Recovery)/provision for vacations and bonuses		(2,577)	6,943
Foreign exchange loss		85,557	116,308
Net gain of financial assets at fair value through profit or loss		(48,117)	(93,247)
Depreciation and amortization		18,113	15,103
Gain on disposal of property, equipment and intangible assets		(270)	(43)
Net change in accrued interest income and expense		(17,168)	3,089
Cash flows from operating activities before changes in operating assets and liabilities		265,659	151,689
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Due from banks and other financial institutions		(13,626)	1,806
Loans to customers		(607,409)	(243,978)
Financial assets at fair value through profit or loss		(13,231)	94,068
Other assets		(43,369)	1,755
Increase in operating liabilities			
Other liabilities		25,785	6,301
Cash (outflow)/inflow from operating activities before taxation		(386,191)	11,641
Income tax paid		(5,873)	(9,103)
Net cash (outflow)/inflow from operating activities		(392,064)	2,538

# KOMPANION FINANCIAL GROUP MICROFINANCE CLOSED JOINT STOCK COMPANY

## STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousand of Kyrgyz Som)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>			
Purchase of property, equipment and intangible assets		(29,951)	(42,026)
Proceeds on sale of property, plant and equipment		621	1,625
Proceeds from repayment of investments held to maturity		-	208,024
Net cash (outflow)/inflow from investment activities		(29,330)	167,623
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		825,115	222,707
Repayments of borrowings		(483,328)	(304,844)
Dividends paid		(11,052)	-
Net cash inflow/(outflow) from financing activities		330,735	(82,137)
Effect of changes in foreign exchange rate on cash and cash equivalents		(5,422)	17,554
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(96,081)	105,578
CASH AND CASH EQUIVALENTS, at the beginning of the year	8	282,488	176,910
CASH AND CASH EQUIVALENTS, at the end of the year	8	186,407	282,488

Interest paid and received by the Company during the year ended 31 December 2010 amounted to KGS 169,121 thousand and KGS 908,496 thousand, respectively.

Interest paid and received by the Company during the year ended 31 December 2009 amounted to KGS 151,016 thousand and KGS 679,820 thousand, respectively.


On behalf of the Management:

  
Ulanbek Termechikov  
Chairman of the Management Board

15 April 2011

Bishkek,  
Kyrgyz Republic



  
Ainura Bakirova  
Chief Accountant

15 April 2011

Bishkek,  
Kyrgyz Republic

The notes on pages 9-37 form an integral part of these financial statements.

# KOMPANION FINANCIAL GROUP MICRO FINANCE CLOSED JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (in thousand of Kyrgyz Som)

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### 1. ORGANISATION

Kompanion Financial Group Microfinance Closed Joint Stock Company ("the Company") was established in the Kyrgyz Republic in 2004 as Kompanion Financial Group Micro Credit Limited Liability Company. On 9 April 2009 the Company was reorganized into a Closed Joint Stock Company. On 29 April 2009 the Company was re-registered at the Ministry of Justice of the Kyrgyz Republic under certificate #21732-3300-AO. The main activity of the Company is granting micro-credit loans to individuals and legal entities.

The Company is registered and located at 2/1 Jukeeva-Pudovkina St., Bishkek, Kyrgyz Republic.

The Company's operations are administered in the head office, which is located in Bishkek. As at 31 December 2010 and 2009, the Company had 12 and 10 branches in the Kyrgyz Republic, respectively.

As at 31 December 2010 and 2009, the Company had 929 and 835 employees, respectively.

The sole owner of the Company is an international non-governmental organization Mercy Corps ("the Founder") with headquarters in Portland, Oregon, USA and Edinburgh, Scotland.

These financial statements were approved by the Executive Management of the Company on 15 April 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 Company is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Kyrgyz Soms ("KGS"), unless otherwise stated. These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, 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 Company maintains its accounting records in accordance with Kyrgyz legislation which stipulates preparation of financial statements in conformity with IFRS.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 23.

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 statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

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 fair value through profit or loss.

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 revenue – other**

### *Recognition of fee and commission income and expense*

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 the statement of comprehensive income 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 or received.

## **Financial instruments**

The Company 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 the statement of comprehensive income.

## **Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 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.

## **Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 21.

## **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 90 days, which may be converted to cash within a short period of time and thus are considered liquid.

## **Loans and receivables**

Due from banks and other financial institutions, loans to customers, 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.

## **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 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; or
- 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 Company'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. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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 the statement of comprehensive income 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.

#### **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 Company and after the Company 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 statement of comprehensive income in the period of recovery.

#### **Derecognition of financial assets**

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the statement of comprehensive income.

On derecognition of a financial asset other than its entirety (e.g. when the Company retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

### **Other financial liabilities**

Other financial liabilities, including due to banks and other financial institutions, and other liabilities, are initially measured at fair value, net of transaction costs.

Other 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 Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired. 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 the statement of comprehensive income.

### **Derivative financial instruments**

In the normal course of business, the Company enters into various derivative financial instruments including swaps and back-to-back loans. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the statement of financial position. Gains and losses resulting from these instruments are included in net (loss)/gain from financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income.

### **Loans to customers**

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Company are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of comprehensive income according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.



## **Property, equipment and intangible assets**

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

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

Buildings	2%
Vehicles	10
Furniture and office equipment	20%
Computer equipment	20%
Intangible assets	20%

Capital expenditures for leasehold improvements are amortized over the shorter of the life of the related leased asset or the lease term. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its 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 statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax 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 Company 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 the statement of comprehensive income, 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.

### **Operating taxes**

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

### **Due to banks and other financial institutions and subordinated debt**

Due to banks and other financial institutions and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

### **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 the statement of comprehensive income in the period in which they arise.

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

	31 December 2010	31 December 2009
KGS/USD	47.0992	44.0917
KGS/EUR	61.7949	62.5229

### **Share capital**

Share capital is recognized at historical cost.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

## **Retirement obligations**

In accordance with the requirements of the Kyrgyz legislation certain percentages of pension payments are withheld from total disbursements to staff to be transferred to state pension fund, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the state pension fund. The Company does not have any pension arrangements separate from the state pension system of the Kyrgyz Republic. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

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

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

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

### **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.

#### *Impairment of loans and receivables*

The Company regularly reviews its loans and receivables to assess for impairment. The Company's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Company 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 Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods.

The Company 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 Company estimates changes in future cash flows based on past performance, past customer behaviour, 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 Company 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 losses of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Company 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 31 December 2010 and 2009, gross loans to customers totalled KGS 1,971,993 thousand and KGS 1,355,691 thousand, respectively, and allowance for impairment losses amounted to KGS 105,858 thousand and KGS 70,112, thousand respectively.



### Adoption of new standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by 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 Company's accounting policies that have affected the amounts reported for the current or prior years, except for amendments to IAS 1 "Presentation of Financial Statements" (revised 2007).

### Standards and interpretations issued and not yet adopted

The Company has not applied the following IFRS and IFRIC that have been issued:

- Financial instruments: Classification and Measurement - On 12 November 2009, the IASB issued IFRS 9 "Financial instruments" as the first step in its project to replace IAS 39 "Recognition and Measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets. Those requirements must be applied starting 1 January 2013, with earlier adoption permitted including for 2009. The IASB intends to expand IFRS 9 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting. IFRS 9 will be a complete replacement for IAS 39 – mandatory for 2013 and optional in earlier years.

The management anticipates that IFRS 9 that will be adopted in the Company'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 Company'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.

All other Standards and Interpretations are not applicable to the Company's operations. Management believe the adoption of these Standards and Interpretations will not have a significant impact on the results of the Company's operations.

### 3. NET INTEREST INCOME

	Year ended 31 December 2010	Year ended 31 December 2009
<b>Interest income comprises:</b>		
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers, including:		
Group	873,133	650,287
Individual	2,214	903
Interest on due from banks and other financial institutions	11,592	12,275
Interest on investments held to maturity	-	6,714
Other interest income	2,382	3,361
Total interest income on financial assets recorded at amortized cost	889,321	673,540
<b>Interest expense comprises:</b>		
Interest expense on liabilities recorded at amortized cost comprise:		
Interest expenses on due to banks and other financial institutions	134,054	120,113
Interest expense on subordinated debt	33,060	27,712
Total interest expense on financial assets recorded at amortized cost	167,114	147,825
<b>Net interest income before provision for impairment losses on interest bearing assets</b>	<b>722,207</b>	<b>525,715</b>

Group loans are unsecured loans granted to groups of borrowers who sign loan agreements with joint responsibility to repay the loan.

#### 4. ALLOWANCE FOR IMPAIRMENT LOSSES

	Loans to customers	Due from banks and other financial institutions	Financial assets at fair value through profit or loss	Total
31 December 2008	50,343	-	-	50,343
Additional provision recognized	21,307	-	-	21,307
Recovery of provision	(1,538)	-	-	(1,538)
31 December 2009	70,112	-	-	70,112
Additional provision recognized	42,306	14,250	51,453	108,009
Recovery of provision	(6,560)	-	-	(6,560)
31 December 2010	105,858	14,250	51,453	171,561
				<b>Other assets</b>
31 December 2008				153
Additional provision recognized				117
Recovery of provision				(57)
31 December 2009				213
Additional provision recognized				4,126
Recovery of provision				(75)
31 December 2010				4,264

#### 5. NET FOREIGN EXCHANGE LOSS

	Year ended 31 December 2010	Year ended 31 December 2009
Loss from revaluation of financial assets and liabilities	85,558	116,308
Dealing, net	425	455
<b>Total net foreign exchange loss</b>	<b>85,983</b>	<b>116,763</b>

Derivative financial instruments are used by the Company for trading purposes and to provide economic hedges against exposures to fluctuations in foreign currency exchange rates (Note 23).

## 6. OPERATING EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Salary and bonuses	266,564	231,704
Contributions to Social Fund of Kyrgyz Republic	46,196	42,822
Transportation costs	26,625	20,630
Rent of premises	25,899	24,052
Security	24,638	17,543
Depreciation and amortization	18,113	15,103
Communication, mail and courier expenses	7,643	5,523
Business trips and representative expenses	6,277	5,430
Professional services	5,116	7,350
Stationery	4,276	3,958
Advertising and subscription costs	3,681	3,524
Property and equipment maintenance	3,042	672
Utilities	2,744	2,236
Staff training	1,619	2,667
Charities and sponsorship	1,139	3,047
Taxes, other than income tax	345	722
Other expenses	18,856	13,606
<b>Total operating expenses</b>	<b>462,773</b>	<b>400,589</b>

## 7. INCOME TAXES

The Company provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations in the Kyrgyz Republic, which may differ from International Financial Reporting Standards. For the years ended 31 December 2010 and 2009 the income tax rate was 10%.

The Company is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2010 and 2009 comprise:

	31 December 2010	31 December 2009
<b>Deferred income tax assets:</b>		
Deferred income	24,231	16,882
Bonuses provision	7,528	5,560
Vacation provision	4,678	14,168
Premiums provision	3,800	-
Other provisions	172	149
<b>Total deferred income tax assets</b>	<b>40,409</b>	<b>36,759</b>
<b>Deferred income tax liabilities:</b>		
Property, equipment and intangible assets	47,741	56,698
<b>Total deferred income tax liabilities</b>	<b>47,741</b>	<b>56,698</b>
<b>Net deferred income tax liabilities at the statutory rate (10%)</b>	<b>733</b>	<b>1,994</b>
<b>Net deferred income tax liabilities</b>	<b>733</b>	<b>1,994</b>

The ratio between tax expenses and accounting profit for the years ended 31 December 2010 and 2009 are disclosed as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	117,986	82,069
Tax at the statutory tax rate	11,799	8,207
Tax effect of permanent differences	6,222	(1,638)
Current income tax expense	18,021	6,569
Current income tax expense	18,021	6,569
Deferred income tax (benefit)/expense	(1,261)	1,900
Income tax expense	16,760	8,469
	<b>2010</b>	<b>2009</b>
<b>Deferred income tax liabilities</b>		
Beginning of the year	1,994	94
(Decrease)/increase of deferred income tax for the year	(1,261)	1,900
End of the year	733	1,994

## 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is composed of the following items:

	31 December 2010	31 December 2009
Cash	-	481
Due from banks (with maturity of less than 3 months)	186,407	282,007
<b>Total cash and cash equivalents</b>	<b>186,407</b>	<b>282,488</b>

## 9. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2010	31 December 2009
Settlement and Savings Company, OJSC	66,872	87,743
Demir Kyrgyz International Bank, CJSC	61,002	9,216
Kyrgyz Investment and Credit Bank, CJSC	53,507	73,301
Asian Credit Fund MCF, LLP	23,817	-
Frontiers, CJSC	5,489	-
UniCreditBank OJSC	2,861	2,838
Commercial Bank Kyrgyzstan OJSC	848	401
Kazkommertsbank Kyrgyzstan, OJSC	124	116
Amanbank, OJSC	13	17,460
Bank Asia, OJSC	6	12,117
Ecobank, OJSC	4	4
Zalkar Bank, OJSC	4	101,040
Manas Bank, OJSC	2	2
BTA Bank CJSC	-	87
	214,549	304,325
Less allowance for impairment loss	(14,250)	-
<b>Total due from banks and other financial institutions</b>	<b>200,299</b>	<b>304,325</b>

As at 31 December 2010 and 2009, due from banks includes accrued interest of KGS 859 thousand and KGS 2,969 thousand, respectively.



## 10. LOANS TO CUSTOMERS

	31 December 2010	31 December 2009
Originated loans	1,971,993	1,355,691
Less allowance for impairment losses	<u>(105,858)</u>	<u>(70,112)</u>
<b>Total loans to customers</b>	<b><u>1,866,135</u></b>	<b><u>1,285,579</u></b>

As at 31 December 2010 and 2009, accrued interest income included in loans to customers amounted to KGS 41,143 thousand and 25,690 thousand respectively.

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

As at 31 December 2010 and 2009, loans to customers comprised of the following products:

	31 December 2010	31 December 2009
Group loans	1,953,961	1,325,432
Individual loans	<u>18,032</u>	<u>30,259</u>
	1,971,993	1,355,691
Less allowance for impairment losses	<u>(105,858)</u>	<u>(70,112)</u>
<b>Total loans to customers</b>	<b><u>1,866,135</u></b>	<b><u>1,285,579</u></b>

Group loans are unsecured loans granted to groups of borrowers who sign loan agreements with joint responsibility to repay the loan.

The Company provides loans to customers for development of small businesses.

	31 December 2010	31 December 2009
Unsecured loans – group loans	1,953,961	1,325,432
Loans secured by various collateral – individual loans	11,901	23,652
Unsecured loans – individual loans	<u>6,131</u>	<u>6,607</u>
	1,971,993	1,355,691
Less allowance for impairment losses	<u>(105,858)</u>	<u>(70,112)</u>
<b>Total loans to customers</b>	<b><u>1,866,135</u></b>	<b><u>1,285,579</u></b>

	31 December 2010	31 December 2009
<b>Analysis by sector:</b>		
Agriculture	1,272,150	810,206
Trade	548,872	426,619
Services	92,872	64,438
Manufacturing	47,493	45,728
Consumer loans	-	6,927
Others	<u>10,606</u>	<u>1,773</u>
	1,971,993	1,355,691
Less allowance for impairment losses	<u>(105,858)</u>	<u>(70,112)</u>
<b>Total loans to customers</b>	<b><u>1,866,135</u></b>	<b><u>1,285,579</u></b>



As at 31 December 2010 and 2009, the entire loan portfolio of KGS 1,971,993 thousand and KGS 1,355,691 thousand was disbursed to customers operating in the Kyrgyz Republic, which represents a significant geographical concentration and credit risk exposure.

As at 31 December 2010 and 2009, the Company had taken possession of collateral it held as security of KGS 242 thousand and KGS 203 thousand, respectively.

# 11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Leasehold improvements	Furniture and office equipment	Computer equipment	Vehicles	Intangible assets	Construction in progress	Total
<b>At cost</b>								
31 December 2008	32,915	356	15,410	20,475	18,523	18,329	3,192	109,200
Additions	6,928	571	5,144	7,044	3,145	1,108	18,086	42,026
Disposals	-	(243)	(172)	(287)	(193)	(1,163)	(250)	(2,308)
Transfers	20,758	-	-	-	-	-	(20,758)	-
31 December 2009	60,601	684	20,382	27,232	21,475	18,274	270	148,918
Additions	1,178	656	4,882	5,991	1,969	15,273	2	29,951
Disposals	-	(3)	(738)	1,498	-	-	-	(2,239)
Transfers	7	-	223	(223)	-	-	(7)	-
31 December 2010	61,786	1,337	24,749	31,502	23,444	33,547	265	176,630
<b>Accumulated depreciation and amortization</b>								
31 December 2008	(791)	(113)	(4,000)	(6,568)	(2,824)	(2,636)	-	(16,932)
Charge for the year	(842)	(538)	(3,587)	(4,542)	(1,969)	(3,625)	-	(15,103)
Impairment losses	-	-	-	(105)	-	-	-	(105)
Disposals	-	243	120	265	61	37	-	726
Recovery of impairment losses	-	-	-	5	-	-	-	5
31 December 2009	(1,633)	(408)	(7,467)	(10,945)	(4,732)	(6,224)	-	(31,409)
Charge for the year	(1,343)	(463)	(4,203)	(5,422)	(2,285)	(4,397)	-	(18,113)
Disposals	-	3	513	1,372	-	-	-	1,888
Transfers	-	-	(11)	11	-	-	-	-
31 December 2010	(2,976)	(868)	(11,168)	(14,984)	(7,017)	(10,621)	-	(47,634)
<b>Net book value</b>								
31 December 2009	58,968	276	12,915	16,287	16,743	12,050	270	117,509
31 December 2010	58,810	469	13,581	16,518	16,427	22,926	265	128,996

As at 31 December 2010 and 2009, the Company did not have property and equipment that was pledged as collateral.

As at 31 December 2010, property and equipment include fully depreciated equipment with an initial cost of KGS 76 thousand. As at 31 December 2009, property and equipment did not include fully depreciated equipment.

As at 31 December 2010 and 2009, intangible assets comprised of software.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Nominal value	31 December 2010 Net fair value		Nominal value	31 December 2009 Net fair value	
		Assets	Liabilities		Assets	Liabilities
<b>Derivative financial instruments</b>						
Foreign exchange swap contracts, gross	1,582,312	156,484	-	1,194,553	81,727	-
Less allowance for impairment losses		(51,453)	-		-	-
		<u>105,031</u>	<u>-</u>		<u>81,727</u>	<u>-</u>

As at 31 December 2010 and 2009, the Company placed US Dollar denominated non-interest deposits, foreign currency swaps amounting to KGS 1,582,312 thousand (21,680 thousand US Dollars) and KGS 1,194,553 thousand (27,092 thousand US Dollars), respectively.

The loans and foreign currency swaps in Kyrgyz Som from the same banks were received in the amount of KGS 1,425,828 thousand and KGS 1,112,826 thousand.

In addition to foreign currency swap agreements, derivative financial instruments include back-to-back loans, which in substance represent foreign currency swap arrangements. Back-to-back loans are agreements with commercial banks under which the Company receives a loan in KGS and places a deposit with the same Bank for the equivalent (or higher) amount of USD as collateral for the loan received. Upon maturity of the loan the Company repays KGS loan and receives back the amount of deposited USD.

## 13. OTHER ASSETS

	31 December 2010	31 December 2009
<b>Other financial assets</b>		
Account receivable	<u>5,025</u>	<u>1,496</u>
	<u>5,025</u>	<u>1,496</u>
<b>Other non-financial assets</b>		
Prepayments for services and property	34,971	5,450
Prepayments on taxes other than income tax	10,386	715
Inventory	4,781	3,776
Foreclosed property	242	203
Other	<u>3,571</u>	<u>4,042</u>
	53,951	15,682
Less allowance for impairment losses	<u>(4,264)</u>	<u>(213)</u>
<b>Total other assets</b>	<u>54,712</u>	<u>15,469</u>

#### 14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Counterparty	Currency	Interest rate	Maturity date	31 December 2010	31 December 2009
Dexia Microcredit Fund	USD	9.00%	20/06/2012	143,700	134,524
Dexia Microcredit Fund	USD	6.80%	19/02/2013	94,198	88,183
		6 months treasury bills of the Ministry of finance of KR + 4%			
Oikocredit	KGS		22/11/2013	93,491	-
Rural Impulse Fund II	USD	8.00%	25/08/2012	91,444	-
Rural Impulse Fund	USD	9.50%	19/08/2011	90,107	169,314
EBRD	USD	5.25%+6 month LIBOR	24/04/2012	72,952	111,476
Dexia Microcredit Fund	USD	6.60%	17/02/2012	72,464	-
Microcredit Enterprises	USD	9.00%	24/04/2012	72,327	66,138
Dexia Microcredit Fund	USD	7.00%	12/05/2012	72,309	-
Deutsche Bank	USD	7.75%	26/05/2012	71,150	-
Credit Suisse Fund	USD	9.50%	19/05/2011	59,340	111,102
Symbiotics SA	USD	7.75%	03/06/2012	59,299	-
Symbiotics SA	USD	8.00%	25/08/2012	48,408	-
Symbiotics SA	USD	7.00%	23/11/2013	48,408	-
Symbiotics Investment	USD	7.75%	03/12/2012	47,379	-
Simbiotics Investment	USD	7.00%	12/05/2012	36,684	-
EMF Microfinance Fund	USD	8.00%	18/08/2012	36,684	-
Finethic Microfinance	USD	9.50%	23/05/2011	35,604	66,662
Dual Return Fund	USD	9.50%	31/05/2011	35,604	66,661
Symbiotics SA	USD	7.75%	26/05/2012	35,579	-
Wallberg Invest S.A./	USD	6.80%	19/03/2013	24,911	-
EMF Microfinance Fund	USD	6.60%	17/02/2012	24,134	-
Credit Suisse MFMC	USD	6.60%	17/02/2012	24,134	-
Responsibility SICAV (Lux)	USD	6.60%	17/02/2012	24,134	-
Oikocredit	USD	10.50%	13/09/2011	14,326	27,037
SICAV	USD	9.50%	19/05/2011	11,868	22,221
Symbiotics SA	USD	7.75%	26/05/2012	11,860	-
EBRD	USD	5.75%+6 month LIBOR	24/05/2010	-	9,826
Credit Suisse Microfinance Fund	USD	9.75%	25/02/2010	-	22,762
Global Commerical Fund	USD	LIBOR + 500 basis points	31/10/2010	-	65,930
Finethic Microfinance	USD	9.75%	10/04/2010	-	22,762
Dual Return Fund	USD	9.75%	05/05/2010	-	22,225
Oikocredit	USD	11.00%	14/08/2010	-	12,077
		6 months treasury bills of the Ministry of finance of KR + 4.75%			
Oikocredit	KGS		17/02/2010	-	4,505
Microvest LP	USD	10.50%	30/06/2010	-	21,965
				1,452,498	1,045,370

As at 31 December 2010 and 2009, due to banks and other financial institutions include accrued interest amounting to KGS 26,132 thousand and KGS 11,442 thousand, respectively.

As at 31 December 2010 and 2009, due to banks and other financial institutions include deferred commission paid on origination of loans amounting to KGS 4,011 thousand and KGS 1,908 thousand, respectively.

The Company is required to comply with financial covenants in relation to borrowed funds disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Company has not breached any of these covenants during the years ended 31 December 2010 and 2009.

## 15. OTHER LIABILITIES

	31 December 2010	31 December 2009
<b>Other financial liabilities</b>		
Accounts payable for services and goods	4,354	11,898
	<u>4,354</u>	<u>11,898</u>
<b>Other non-financial liabilities</b>		
Deferred income	24,231	16,882
Provision for vacation and bonuses to employees	17,228	19,805
Taxes payable, other than income tax	15,459	4,049
Short-term liabilities within Community Development Initiative project	12,031	-
Dividends payable	2,211	-
Other	2,790	251
	<u>73,950</u>	<u>40,987</u>
<b>Total other liabilities</b>	<u>78,304</u>	<u>52,885</u>

## 16. SUBORDINATED DEBT

Counterparty	Currency	Maturity date year	Interest rate %	31 December 2010	31 December 2009
Deutsche Bank	USD	31/12/2014	10.50%	286,917	268,231
				<u>286,917</u>	<u>268,231</u>

As at 31 December 2010 and 2009, subordinated debt to Deutsche Bank included accrued interest expense amounting to KGS 2,502 thousand and KGS 1,796 thousand respectively.

As at 31 December 2010 and 2009, subordinated debt to Deutsche Bank include deferred commission paid on origination of loans amounting to KGS 1,530 thousand and KGS 2,342 thousand respectively.

## 17. SHARE CAPITAL

As at 31 December 2010 and 2009, the Company's authorized and paid share capital amounted to KGS 265,000 thousand.

During 2010, the Company declared and paid to the Company's Founder dividends in the amount of KGS 13,263 and KGS 11,052 thousand, respectively.



## **18. FINANCIAL COMMITMENTS AND CONTINGENCIES**

### **Capital commitments**

As at 31 December 2010 and 2009, the Company had no material commitments for capital expenditure.

### **Operating lease commitments**

As at 31 December 2010 and 2009, the Company had no material commitments under operating leases.

### **Legal proceedings**

From time to time and in the normal course of business, claims against the Company are received from customers and counterparties. Management is of the opinion that no material 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.

Company's 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 Company's principal business activities are within Kyrgyz Republic. Emerging markets such as Kyrgyz Republic 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 Kyrgyz Republic and its economy in general.

Laws and regulations affecting businesses in Kyrgyz Republic 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 Kyrgyz Republic. 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 civil unrest and an economic downturn. As a result of the parliamentary elections which followed, a 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 affecting the Company's access to and cost of capital and, more generally, its business, operating results, financial condition and prospects.

Inflation in the Kyrgyz Republic 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).



## 19. SUBSEQUENT EVENTS

During 2010, the Company has concluded swap agreements with AsiaUniversalBank OJSC, which due to political changes from April to June 2010 was not able to timely fulfill its commitments. At the end of 2010, the Company has agreed with Zalkar Bank OJSC, which is the legal successor of AsiaUniversalBank OJSC to the conclusion of Agreement on the settlement of mutual liabilities, which was signed on March 23, 2011. According to the agreement, maturity dates and interest rates for all swaps were revised. As at reporting date the Company has fulfilled its commitments on interest due to Zalkar Bank OJSC.

## 20. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is paid to the substance of the relationship rather than only their legal status. The Company had the following transactions outstanding with related parties:

	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
Due from banks and other financial institutions	23,817	200,299	-	304,325

Included in the statement of comprehensive income for the years ended 31 December 2010 and 2009 there are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	516	889,321	-	673,540
Operating expenses	(600)	(462,773)	(5,981)	(400,589)
Other income	11,796	12,463	-	5,972
<b>Key management personnel compensation</b>				
- short term employee benefit	11,956	312,760	9,120	274,526

## 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The carrying amount of financial assets approximates their fair value due to the short-term nature of such financial instruments.

The table below summarizes the Company's financial assets held at fair value by valuation methodology at 31 December 2010 and 2009, respectively:

Category as per the statement of financial position	Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Internal models (unobservable inputs) (Level 3)	31 December 2010 Total
<b>Assets:</b>				
Financial assets at fair value through profit or loss				
Foreign exchange contracts	-	105,031	-	105,031

Category as per the statement of financial position	Quoted prices in active markets (Level 1)	Internal models based on market prices (Level 2)	Internal models (unobservable inputs) (Level 3)	31 December 2010 Total
<b>Assets:</b>				
Financial assets at fair value through profit or loss	Foreign exchange contracts	-	81,727	-
				81,727

## 22. CAPITAL MANAGEMENT

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

The capital structure of the Company consists of equity attributable to the Founder, comprising issued capital and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a regular basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Company balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

As at 31 December 2010 and 2009, there have been no changes in the Company's capital structure.

## 23. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Company's business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are:

- Credit risk
- Operational risk
- Liquidity risk
- Market risk

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives.

### **Risk management policies and procedures**

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

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

Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. Each department is responsible for direct management of the relevant risks, and together with the legal department continuously monitor compliance with currently effective legislation.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of different committees.

Both external and internal risk factors are identified and managed throughout the Company's organizational structure.

Through the risk management framework, the Company manages the following risks:

## **Credit risk**

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Company's Management. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Branch Management. Daily risk management is performed by the Credit Administration Department.

The Company has developed policies and procedures for the management of credit exposures including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Company's credit risk. The Company's credit policy is reviewed and approved by the Board of Directors. The Company establishes limits on the amount of risk accepted in relation to one borrower, or group 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 but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

## **Operational risk**

The Company is exposed to operational risk which is the risk of losses that can be a result of any system inefficiencies or breaks of internal process, systems, presence of human error or effect of any external negative factor.

The Company's risk management policies are designed to identify and analyze this risk to set appropriate risk limits and controls.

## **Maximum Exposure**

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

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



	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	31 December 2010 Net exposure after offset and collateral
Due from banks and other financial institutions	200,299	-	200,299	-	200,299
Loans to customers	1,866,135	-	1,866,135	11,901	1,854,234
Financial assets at fair value through profit and loss	105,031	-	105,031	-	105,031
Other financial assets	5,025	-	5,025	-	5,025

	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	31 December 2009 Net exposure after offset and collateral
Cash	481	-	481	-	481
Due from banks and other financial institutions	304,325	-	304,325	-	304,325
Loans to customers	1,285,579	-	1,285,579	23,652	1,261,927
Financial assets at fair value through profit and loss	81,727	-	81,727	-	81,727
Other financial assets	1,496	-	1,496	-	1,496

As at 31 December 2010 and 2009, the Company did not hold any international rated financial assets.

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

In determining the credit risk of financial assets which do not have ratings, the Company uses internal scoring models based on risk ranking criteria. The scoring model takes into consideration the financial performance of the borrower, the ability of repayment and any delays in repayment and the collateral pledged against any borrowings. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The Company manages credit risk of financial assets by use of an internal rating system. Loans are classified based on internal evaluations and other analytical procedures, branches and Credit Administration Department classify loans according to their risk and the risk of potential losses, with classifications subject to the approval of the Credit Committee.

#### *Standard loans*

The financial condition of the borrower is assessed as stable and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. In case there are some minor negative indicators, the Company has confidence that the borrower will be able to cope with such (temporary) difficulties. Interest and principal are repaid in full and in a timely fashion or principal and/or interest are overdue for no more than 30 days. The borrower is considered as having the ability to repay the loan in accordance with its terms and conditions.

#### *Doubtful 1st category*

There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower repays the loan principal and the interest without delay and in full. Key characteristics are overdue amounts from 31 to 90 days, prolongation of loan, or the repayment of the loan depends to an extent on the realization of collateral. The amount of collateral is sufficient to cover principal amount, interest income accrued, and expenses related to the sale of collateral.



### *Doubtful 2nd category*

The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative equity and it is probable that the borrower will be unable to repay the loan and the interest in full. Possibility of loss of doubtful assets is very high, but due to several specific expected factors, that could improve the quality of asset, its classification as loss is deferred until a more precise assessment can be performed. Key characteristics are overdue amounts from 91 to 180 days, or the quality of collateral has deteriorated since origination or it is absent.

### *Losses*

In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralized or the value of the collateral covers less than 50 per cent of the borrowers' outstanding debt. Key characteristics are overdue amounts over 180 days, prolongation over 3 times or inability or refusal of the client to repay the loan, or absence of the borrower. Once all legal measures to recover the loan have been exhausted, the loan is accounted for as off-balance for at least five years in case of possible repayment.

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 and unimpaired					Financial assets that have been impaired	31 December 2010
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year		Total
Due from banks and other financial institutions	200,299	-	-	-	-	-	200,299
Loans to customers	1,859,539	-	-	-	-	6,596	1,866,135
Financial assets at fair value through profit and loss	105,031	-	-	-	-	-	105,031
Other financial assets	5,025	-	-	-	-	-	5,025

	Financial assets past due and unimpaired					Financial assets that have been impaired	31 December 2009
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year		Total
Cash	481	-	-	-	-	-	481
Due from banks and other financial institutions	304,325	-	-	-	-	-	304,325
Loans to customers	1,284,040	-	-	-	-	1,539	1,285,579
Financial assets at fair value through profit and loss	81,727	-	-	-	-	-	81,727
Other financial assets	1,496	-	-	-	-	-	1,496

### **Geographical concentration**

The Planning and Analysis Department exercises control over the risk related to changes in the legislation and regulatory arena and assess its influence on the Company's activity. This approach allows the Company to minimize potential losses from the investment climate fluctuations in the Kyrgyz Republic.

The geographical **concentration of assets and liabilities** is shown below:

	Kyrgyz Republic	OECD Countries	CIS countries	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>				
Due from banks and other financial institutions	190,732	-	9,567	200,299
Loans to customers	1,866,135	-	-	1,866,135
Financial assets at fair value through profit and loss	105,031	-	-	105,031
Other financial assets	5,025	-	-	5,025
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,166,923</b>	<b>-</b>	<b>9,567</b>	<b>2,176,420</b>
<b>FINANCIAL LIABILITIES:</b>				
Due to banks and other financial institutions	-	1,452,498	-	1,452,498
Subordinated debt	-	286,917	-	286,917
Other financial liabilities	4,354	-	-	4,354
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4,354</b>	<b>1,739,415</b>	<b>-</b>	<b>1,743,769</b>
<b>NET POSITION</b>	<b>2,162,569</b>	<b>(1,739,415)</b>	<b>9,567</b>	

	Kyrgyz Republic	OECD Countries	CIS countries	31 December 2009 Total
<b>FINANCIAL ASSETS:</b>				
Cash	481	-	-	481
Due from banks and other financial institutions	304,325	-	-	304,325
Loans to customers	1,285,579	-	-	1,285,579
Financial assets at fair value through profit and loss	81,727	-	-	81,727
Other financial assets	1,496	-	-	1,496
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,673,608</b>	<b>-</b>	<b>-</b>	<b>1,673,608</b>
<b>FINANCIAL LIABILITIES:</b>				
Due to banks and other financial institutions	-	1,045,370	-	1,045,370
Subordinated debt	-	268,231	-	268,231
Other financial liabilities	11,989	-	-	11,989
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>11,989</b>	<b>1,313,601</b>	<b>-</b>	<b>1,325,590</b>
<b>NET POSITION</b>	<b>1,661,619</b>	<b>(1,313,601)</b>	<b>-</b>	

### Liquidity risk

Liquidity risk refers to availability of funds to repay liabilities as they fall due and meeting the demand in cash in the process of crediting customers.

The Management controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period. Current liquidity is managed by the Chief Financial Officer, which supports current liquidity on sufficient level to minimize the liquidity risk.

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>						
Due from banks and other financial institutions	1,164	-	14,250	-	-	15,414
Loans to customers	155,412	203,628	1,476,485	28,757	1,853	1,866,135
Financial assets at fair value through profit and loss	-	43,477	60,620	934	-	105,031
Total interest bearing financial assets	156,576	247,105	1,551,355	29,691	1,853	1,986,580
Due from banks and other financial institutions	184,885	-	-	-	-	184,885
Other financial assets	5,025	-	-	-	-	5,025
TOTAL FINANCIAL ASSETS	346,486	247,105	1,551,355	29,691	1,853	2,176,490
<b>FINANCIAL LIABILITIES:</b>						
Due to banks and financial institutions	73,231	-	244,519	1,134,748	-	1,452,498
Subordinated debt	-	-	-	286,917	-	286,917
Total interest bearing financial liabilities	73,231	-	244,519	1,421,665	-	1,739,415
Other financial liabilities	4,354	-	-	-	-	4,354
TOTAL FINANCIAL LIABILITIES	77,585	-	244,519	1,421,665	-	1,743,769
Liquidity gap	268,901	247,105	1,306,836	(1,391,974)	1,853	
Interest sensitivity gap	83,345	247,105	1,306,836	(1,391,974)	1,853	
Cumulative interest sensitivity gap	83,345	330,450	1,637,286	245,312	247,165	
Cumulative interest sensitivity gap as a percentage of total assets	4%	15%	75%	11%	11%	
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2009 Total
<b>FINANCIAL ASSETS:</b>						
Loans to customers	56,622	151,883	1,044,342	32,244	488	1,285,579
Financial assets at fair value through profit and loss	(250)	44,384	37,593	-	-	81,727
Total interest bearing financial assets	56,372	196,267	1,081,935	32,244	488	1,367,306
Cash	481	-	-	-	-	481
Due from banks and other financial institutions	120,220	161,787	22,318	-	-	304,325
Other financial assets	1,496	-	-	-	-	1,496
TOTAL FINANCIAL ASSETS	178,569	358,054	1,104,253	32,244	488	1,673,608
<b>FINANCIAL LIABILITIES:</b>						
Due to banks and other financial institutions	-	59,185	404,177	582,008	-	1,045,370
Subordinated debt	2,342	-	-	-	265,889	268,231
Total interest bearing financial liabilities	2,342	59,185	404,177	582,008	265,889	1,313,601
Other financial liabilities	11,898	-	-	-	-	11,898
TOTAL FINANCIAL LIABILITIES	14,240	59,185	404,177	582,008	265,889	1,325,499
Liquidity gap	164,329	298,869	700,076	(549,764)	(265,401)	
Interest sensitivity gap	54,030	137,082	677,758	(549,764)	(265,401)	
Cumulative interest sensitivity gap	54,030	191,112	868,870	319,106	53,705	
Cumulative interest sensitivity gap as a percentage of total assets	3%	11%	52%	19%	3%	

Substantially all of the Company's interest earning assets are at fixed rates of interest and interest bearing liabilities are at both fixed and floating 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 Company's liquidity and its susceptibility to fluctuation of interest rates and exchange rates.

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

	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
<b>FINANCIAL LIABILITIES</b>							
Due to banks and other financial institutions	8.42%	429,353	7,214	447,764	872,148	-	1,756,479
Subordinated debt	10.50%	-	15,063	15,063	438,546	-	468,672
<b>Total financial liabilities</b>		<u>429,353</u>	<u>22,277</u>	<u>462,827</u>	<u>1,310,694</u>	<u>-</u>	<u>2,225,151</u>

	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
<b>FINANCIAL LIABILITIES</b>							
Due to banks and other financial institutions	9.17%	1,571	56,383	118,663	349,167	630,735	1,156,519
Subordinated debt	10.50%	-	6,282	6,422	12,774	343,458	368,936
<b>Total financial liabilities</b>		<u>1,571</u>	<u>62,665</u>	<u>125,085</u>	<u>361,941</u>	<u>974,193</u>	<u>1,525,455</u>

### Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Company is exposed. There have been no changes as to the way the Company measures risk or to the risk it is exposed in 2010.

The Company is exposed to interest rate risks as Company borrows funds at both fixed and floating rates. The risk is managed by the Company maintaining an appropriate mix between fixed and floating rate borrowings.

The Credit Administration and Treasury Departments also manage interest rate and market risks by matching the Company's interest rate position, which provides the Company with a positive interest margin. The Planning and Analysis Department conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in interest rates and its influence on the Company's profitability.



### Interest rate sensitivity risk

The following table details the Company's sensitivity to 1% increase, decrease in interest rates in 2010 and 2009, respectively. Management of the Company believes that given the current economic conditions in the Kyrgyz Republic that a 1% increase is a realistic movement in the interest rates. This is sensitivity rate used when reporting interest rate internally to key management personnel and represents management's assessment of the possible change in interest rates. The sensitivity analysis includes only outstanding assets and liabilities with floating rates.

Impact on profit before tax based on asset values as at 31 December 2010 and 2009:

	31 December 2010		31 December 2009	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
<b>Liabilities:</b>				
Due to banks and other financial institutions	(159)	159	(64)	64
<b>Net impact on profit before tax</b>	<u>(159)</u>	<u>159</u>	<u>(64)</u>	<u>64</u>

Impact on equity:

	31 December 2010		31 December 2009	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
<b>Liabilities:</b>				
Due to banks and other financial institutions	(159)	159	(57)	57
<b>Net impact on equity</b>	<u>(159)</u>	<u>159</u>	<u>(57)</u>	<u>57</u>

### 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 Company's financial position and cash flows are exposed to effects of fluctuations in foreign currency exchange rates. The management controls currency risk by management of the open currency position on the estimated basis of KGS devaluation and other macroeconomic indicators, which gives the Company an opportunity to minimize losses from significant currency rates fluctuations toward its functional currency.

The Company enters into various cross currency swaps and back-to-back loans to economically hedge the currency risk exposure. The resulting gain from such transactions for the year ended 31 December 2010 and 2009 was recognized in the statement of comprehensive income account of KGS 48,117 and KGS 93,247, respectively.

The Company's exposure to foreign currency exchange rate risk is presented in the tables below:

	KGS	USD USD 1 = KGS 47.0992	Other currencies	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>				
Due from banks and other financial institutions	99,225	100,765	309	200,299
Loans to customers	1,866,135	-	-	1,866,135
Other financial assets	5,025	-	-	5,025
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,970,385</b>	<b>100,765</b>	<b>309</b>	<b>2,176,490</b>
<b>FINANCIAL LIABILITIES:</b>				
Due to banks and financial institutions	93,750	1,358,748	-	1,452,498
Subordinated debt	-	286,917	-	286,917
Other financial liabilities	4,354	-	-	4,354
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>98,104</b>	<b>1,645,665</b>	<b>-</b>	<b>1,743,769</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,872,281</b>	<b>(1,544,900)</b>	<b>309</b>	
	<b>KGS</b>	<b>USD USD 1 = KGS 47.0992</b>	<b>Other currencies</b>	<b>31 December 2010 Total</b>
Derivative financial instrument position	(922,227)	1,027,258	-	105,031
	<b>KGS</b>	<b>USD USD 1 = KGS 44.0917</b>	<b>Other currencies</b>	<b>31 December 2009 Total</b>
<b>FINANCIAL ASSETS:</b>				
Cash	481	-	-	481
Due from banks and other financial institutions	133,914	170,411	-	304,325
Loans to customers	1,285,579	-	-	1,285,579
Other financial assets	1,496	-	-	1,496
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,421,470</b>	<b>170,411</b>	<b>-</b>	<b>1,673,608</b>
<b>FINANCIAL LIABILITIES:</b>				
Due to banks and financial institutions	4,505	1,040,865	-	1,045,370
Subordinated debt	-	268,231	-	268,231
Other financial liabilities	11,898	-	-	11,898
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>16,403</b>	<b>(1,309,096)</b>	<b>-</b>	<b>1,325,499</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,405,067</b>	<b>(1,138,685)</b>	<b>-</b>	
	<b>KGS</b>	<b>USD</b>	<b>Other currencies</b>	<b>31 December 2010 Total</b>
Derivative financial instrument position	(1,194,553)	1,276,290	-	81,727

### Currency risk sensitivity

The following table details the Company's sensitivity to a 10% increase and decrease in the US Dollar/Kyrgyz Som exchange rates in 2010 and 2009. Management of the Company believe that given the current economic conditions in the Kyrgyz Republic that a 10% 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 10% change in currency rates as at 31 December 2010 and 2009, respectively.

Impact on net profit based on asset values as at 31 December 2010 and 2009:

	31 December 2010 KGS/USD		31 December 2009 KGS/USD	
	+10%	-10%	+10%	-10%
Impact on profit and loss	46,588	(46,588)	12,497	(12,497)

Impact on equity:

	31 December 2010 KGS/USD		31 December 2009 KGS/USD	
	+10%	-10%	+10%	-10%
Impact on equity	46,588	(46,588)	12,497	(12,497)

### Limitations of sensitivity analysis

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

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the 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 have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, 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 Company's view of possible near-term market changes that cannot be predicted with any certainty.