

Aiyl Bank OJSC

Financial Statements

for the year ended 31 December 2010

Contents

Independent Auditors' Report	
Statement of Comprehensive Income	4
Statement of Financial Position	5
Statement of Cash Flows	6
Statement of Changes in Equity	7
Notes to the Financial Statements	8-50



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Independent Auditors' Report

To the Management of Aiyl Bank OJSC

We have audited the accompanying financial statements of Aiyl Bank OJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 about 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 opinion.

Opinion

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

KPMG Bishkek LLC

KPMG Bishkek LLC

4 March 2011

	Note	2010 KGS'000	2009 KGS'000
Interest income	4	550,844	514,073
Interest expense	4	(103,511)	(224,354)
Net interest income		447,333	289,719
Fee and commission income	5	23,911	7,779
Fee and commission expense	6	(3,753)	(2,006)
Net fee and commission income		20,158	5,773
Net foreign exchange income	7	9,634	2,802
Other operating income		5,904	9,887
Operating income		483,029	308,181
Impairment losses	8	(34,039)	(9,510)
General administrative expenses	9	(295,726)	(247,229)
Profit before income tax		153,264	51,442
Income tax expense	10	(18,124)	(5,249)
Profit and total comprehensive income for the year		135,140	46,193

The financial statements as set out on pages 4 to 50 were approved by the Management on 4 March 2011:

Ms. M. Taranchiyeva
Chief Executive Officer

Ms. N Usupbayeva
Acting Chief Accountant

	Note	2010 KGS'000	2009 KGS'000
ASSETS			
Cash and cash equivalents	11	139,976	67,739
Placements with banks	12	-	19,395
Loans to customers	13	2,670,477	2,373,486
Investments in securities	14	33,905	8,540
Property, equipment and intangible assets	15	101,638	74,424
Other assets	16	14,425	6,735
Total assets		2,960,421	2,550,319
LIABILITIES			
Current accounts and deposits from customers	17	200,473	37,765
Repurchase agreement		30,991	-
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	18	1,265,460	1,394,754
Other borrowed funds	19	277,364	77,393
Current tax liability		9,530	3,794
Deferred tax liability	10	3,537	2,874
Other liabilities	20	42,524	34,205
Total liabilities		1,829,879	1,550,785
EQUITY			
Share capital	21	560,000	560,000
Additional paid-in capital		34,304	26,887
General banking reserve		401,098	366,454
Retained earnings		135,140	46,193
Total equity		1,130,542	999,534
Total liabilities and equity		2,960,421	2,550,319

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

	2010 KGS'000	2009 KGS'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	551,335	499,033
Interest payments	(110,826)	(208,012)
Fee and commission receipts	23,776	7,665
Fee and commission payments	(3,753)	(2,006)
Net receipts from foreign exchange	11,756	3,083
Other income receipts	5,901	9,370
General administrative expenses payments	(273,871)	(225,067)
(Increase)/decrease in operating assets		
Placements with banks	20,587	37,327
Loans to customers	(335,097)	(70,083)
Other assets	(2,610)	1,216
Increase/(decrease) in operating liabilities		
Current accounts and deposits from customers	161,707	21,346
Repurchase agreement	30,962	-
Other borrowed funds	196,602	(52,795)
Other liabilities	374	(217)
Net cash provided from operating activities before income tax paid	276,843	20,860
Income tax paid	(11,725)	(2,680)
Cash flows from operations	265,118	18,180
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments in securities	(65,456)	(8,853)
Redemption of investments in securities	42,843	400
Purchases of property and equipment and intangible assets	(38,489)	(11,505)
Sales of property and equipment and intangible assets	138	964
Cash flows used in investing activities	(60,964)	(18,994)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from additional paid-in capital	-	397
Repayment of amounts owed to the Ministry of Finance of the Kyrgyz Republic	(120,001)	(27,605)
Dividends paid	(11,549)	(6,544)
Cash flows used in financing activities	(131,550)	(33,752)
Net increase/(decrease) in cash and cash equivalents	72,604	(34,566)
Effect of changes in exchange rates on cash and cash equivalents	(367)	338
Cash and cash equivalents as at the beginning of the year	67,739	101,967
Cash and cash equivalents as at the end of the year (Note 11)	139,976	67,739

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

Aiyi Bank OJSC
Statement of Changes in Equity for the year ended 31 December 2010

KGS'000	Share capital	Additional paid-in capital	General banking reserve	Retained earnings	Total
Balance as at 1 January 2009	480,000	83,444	357,185	26,175	946,804
Profit and total comprehensive income for the year	-	-	-	46,193	46,193
Transfer	63,353	(63,353)	9,269	(9,269)	-
Contribution by the Government of the Kyrgyz Republic	16,647	6,796	-	-	23,443
Dividends declared	-	-	-	(16,906)	(16,906)
Balance as at 31 December 2009	560,000	26,887	366,454	46,193	999,534
Profit and total comprehensive income for the year	-	-	-	135,140	135,140
Transfer	-	-	34,644	(34,644)	-
Contribution by the Government of the Kyrgyz Republic	-	7,417	-	-	7,417
Dividends declared	-	-	-	(11,549)	(11,549)
Balance as at 31 December 2010	560,000	34,304	401,098	135,140	1,130,542

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

1 Background

(a) Organisation and operations

Aiyl Bank OJSC (the “Bank”) was established in the Kyrgyz Republic as an open joint stock company. The Bank obtained general banking license №048 in 2006. The Bank is the successor of the Kyrgyz Agricultural Financial Corporation JSC, which was established by the Government of the Kyrgyz Republic in 1996 under the auspices of the World Bank for the purpose of providing loans to farmers and agricultural commodity producers.

The principal activities of the Bank are commercial banking, lending and operations with securities. Initially the Bank obtained a banking license for the granting of loans and provision of settlement services to agricultural customers in the national currency of the Kyrgyz Republic, the acquisition of government securities, and cash foreign currency exchange operations. In December 2008, the Bank additionally obtained licenses for the following operations: opening of current customer accounts and provision of corporate and retail banking services, money transfer and payment card services, agency arrangement services as well as non-cash foreign currency exchange operations. Also in December 2009, the Bank obtained a license to open customer deposit accounts and provide leasing operations, guaranties and letters of credits. The activities of the Bank are regulated by the National Bank of the Kyrgyz Republic (“the NBKR”). The Bank participates in the mandatory deposit insurance system of the Kyrgyz Republic.

The Bank has 22 branches, 25 regional subdivisions and 48 village subdivisions from which it conducts business throughout the Kyrgyz Republic.

The legal address of the headquarters is the Kyrgyz Republic, Bishkek, 720011, Pushkin Street, 50.

The majority of the Bank’s assets and liabilities are located in the Kyrgyz Republic.

The average number of people employed by the Bank during the period was 598 (2009: 516 employees).

The Bank is wholly-owned by the Government of the Kyrgyz Republic (the “Government”) through the Ministry of State Property Management of the Kyrgyz Republic.

In May 2008, Jogorku Kenesh (the Parliament) of the Kyrgyz Republic approved a programme for the sale of 67% of the Bank’s ordinary shares as part of a programme to privatise the Bank.

(b) Business environment

The Bank’s operations are primarily located in Kyrgyzstan. Consequently, the Bank is exposed to the economic and financial markets of Kyrgyzstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kyrgyzstan. These risks have increased as a result of political and social events that have taken place in the country in 2010. The financial statements reflect management’s assessment of the impact of the Kyrgyzstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Bank is the Kyrgyz som (KGS) as, being the national currency of the Kyrgyz Republic, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KGS is also the presentation currency for the purposes of these financial statements.

Financial information presented in KGS is rounded to the nearest thousand.

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loans to customers in respect of loan impairment estimates - note 13.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Bank.

(a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, nostro accounts with the NBKR and other banks and highly liquid financial assets with original maturities of less than one month, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 Significant accounting policies, continued

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- investments in securities that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iv) Fair value measurement principles, continued

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vi) Derecognition, continued

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(viii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings	50 years
- Other constructions	10 to 25 years
- Office equipment	5 to 10 years
- Computers	5 to 10 years
- Motor vehicles	5 to 8 years

3 Significant accounting policies, continued

(d) Property and equipment, continued

(ii) *Depreciation, continued*

Depreciation methods, useful lives and residual values are reviewed at each financial period end and adjusted if appropriate. Estimates in respect of certain items of property and equipment were revised in 2010 (see note 15).

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 10 years.

(f) Impairment

(i) *Financial assets carried at amortised cost*

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) *Financial assets carried at amortised cost, continued*

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Non financial assets*

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

3 Significant accounting policies, continued

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Kyrgyz legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method. For loans with interest rates linked to the inflation rate, interest expenses are recognised using inflation rate for the preceding period as effective interest rate.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3 Significant accounting policies, continued

(k) Comparative information

In the statement of financial position for the year ended 31 December 2009 cash on hand, nostro account with the National Bank of the Kyrgyz Republic, nostro accounts with other banks and investments in state securities with maturities less than one month were presented separately in the statements of financial position and in the current year they are presented in one line as cash and cash equivalents. Furthermore, in the prior year intangible assets were presented separately in the statement of financial position, while this year they are presented in one line as property, equipment and intangible assets.

Comparative figures have been reclassified to reflect these changes.

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standard on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.
- Revised IAS 24 *Related Party Disclosures (2010)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Bank has not yet determined the potential effect of the amendment.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010 KGS'000	2009 KGS'000
Interest income		
Loans to customers	547,782	512,801
Investments in securities	2,947	915
Cash and cash equivalents	115	16
Reverse repurchase agreements	-	341
	550,844	514,073
Interest expense		
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	89,274	217,210
Other borrowed funds	10,421	7,144
Current accounts and deposits from customers	3,702	-
Repurchase agreements	114	-
	103,511	224,354
	447,333	289,719

Included within various line items under interest income for the year ended 31 December 2010 is a total of KGS 6,351 thousand (2009: KGS 6,945 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2010 KGS'000	2009 KGS'000
Cash transaction fees	19,662	5,522
Settlement	3,003	1,686
Other	1,246	571
	23,911	7,779

6 Fee and commission expense

	2010 KGS'000	2009 KGS'000
Cash transaction fees	1,787	1,165
Settlement	1,329	632
Other	637	209
	3,753	2,006

7 Net foreign exchange income

	2010 KGS'000	2009 KGS'000
Gain on spot transactions	11,756	3,083
Loss from revaluation of financial assets and liabilities	(2,122)	(281)
	9,634	2,802

8 Impairment losses

	2010 KGS'000	2009 KGS'000
Loans to customers	34,865	10,841
Placements with banks	(446)	446
Other assets	(380)	(1,777)
	34,039	9,510

9 General administrative expenses

	2010 KGS'000	2009 KGS'000
Employee compensation	168,300	134,461
Payroll related taxes	29,958	26,276
Personnel expenses	198,258	160,737
Repairs and maintenance	17,134	10,691
Security	15,611	9,428
Depreciation and amortisation	11,074	12,256
Rent	9,721	7,778
Financial aid to employees	8,451	9,204
Taxes other than on income	6,851	13,905
Professional services	6,464	5,435
Communication and information services	6,023	5,518
Utilities	4,150	3,375
Stationery and office supplies	3,772	2,789
Advertising and marketing	2,553	907
Legal expenses	1,952	1,214
Travel expenses	1,353	1,704
Representative expenses	1,014	1,527
Other	1,345	761
	295,726	247,229

10 Income tax expense

	2010 KGS'000	2009 KGS'000
Current tax expense		
Current year	17,073	6,138
Under/(over) provided in prior years	388	(714)
	17,461	5,424
Deferred tax expense		
Origination and reversal of temporary differences	663	(175)
Total income tax expense	18,124	5,249

In 2010 the applicable tax rate for current and deferred tax is 10% (2009: 10%).

10 Income tax expense, continued

Reconciliation of effective tax rate:

	2010 KGS'000	%	2009 KGS'000	%
Profit before income tax	153,264	100.0	51,442	100.0
Income tax at the applicable tax rate	15,326	10.0	5,144	10.0
Non-deductible costs	2,410	1.6	819	1.6
Under/(over) provided in prior years	388	0.3	(714)	(1.4)
	18,124	11.9	5,249	10.2

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as at 31 December 2010 and 2009. This deferred tax liability has been recognised in these financial statements. These deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows:

2010 KGS'000	Balance 1 January 2010	Recognised in profit or loss	Balance 31 December 2010
Property and equipment	3,344	339	3,683
Other liabilities	(470)	324	(146)
	2,874	663	3,537

2009 KGS'000	Balance 1 January 2009	Recognised in profit or loss	Balance 31 December 2009
Property and equipment	3,049	295	3,344
Other liabilities	-	(470)	(470)
	3,049	(175)	2,874

11 Cash and cash equivalents

	2010 KGS'000	2009 KGS'000
Cash on hand	55,374	16,763
Nostro account with the NBKR	37,253	18,199
Nostro accounts with other banks		
- rated A- to A+	4,618	-
- rated from BB- to BB+	12,415	18,181
- rated below B+	2,530	131
- not rated	21,507	3,972
Total nostro accounts with other banks	41,070	22,284
Investments in securities with maturity of less than 1 month	6,279	10,493
	139,976	67,739

11 Cash and cash equivalents, continued

None of the cash equivalents are impaired or past due.

As at 31 December 2010 and 2009 the Bank has no banks, whose balances exceed 10% of equity.

12 Placements with banks

	31 December 2010 KGS'000	31 December 2009 KGS'000
Loans and deposits		
Kyrgyz Bank	-	19,841
Total loans and deposits	-	19,841
Impairment reserve	-	(446)
Total placements with banks	-	19,395

(a) Assets pledged as collateral for borrowings

As at 31 December 2009, withdrawal of placements amounting to KGS 19,841 thousand was restricted under the terms of a short-term loan from Asia Universal Bank OJSC (refer note 19).

(b) Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2010 and 2009 are as follows:

	2010 KGS'000	2009 KGS'000
Balance at the beginning of the year	446	-
Net (recovery)/charge for the year	(446)	446
Balance at the end of the year	-	446

13 Loans to customers

	2010 KGS'000	2009 KGS'000
Small business loans	2,727,541	2,464,454
Consumer loans	67,468	6,677
Gross loans to customers	2,795,009	2,471,131
Impairment allowance	(124,532)	(97,645)
Net loans to customers	2,670,477	2,373,486

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

	Small business loans KGS'000	Consumer loans KGS'000	Total KGS'000
Balance at the beginning of the year	97,307	338	97,645
Net charge for the year	33,711	1,154	34,865
Write-offs	(8,560)	-	(8,560)
Recovery of write-offs	576	6	582
Balance at the end of the year	123,034	1,498	124,532

13 Loans to customers, continued

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2009 are as follows:

	Small business loans KGS'000	Consumer loans KGS'000	Total KGS'000
Balance at the beginning of the year	91,197	280	91,477
Net charge for the year	10,783	58	10,841
Write-offs	(4,709)	-	(4,709)
Recovery of write-offs	36	-	36
Balance at the end of the year	97,307	338	97,645

(a) **Credit quality of loans to customers**

The following table provides information on the credit quality of loans to customers as at 31 December 2010:

	Gross loans KGS'000	Impairment allowance KGS'000	Net loans KGS'000	Impairment allowance to gross loans, %
Small business loans				
- not overdue	2,685,370	(95,846)	2,589,524	3.6%
- overdue less than 30 days	7,815	(834)	6,981	10.7%
- overdue 30-89 days	9,451	(2,554)	6,897	27.0%
- overdue 90-179 days	6,339	(5,234)	1,105	82.6%
- overdue 180-360 days	18,566	(18,566)	-	100.0%
Total small business loans	2,727,541	(123,034)	2,604,507	4.5%
Consumer loans				
- not overdue	67,408	(1,438)	65,970	2.1%
- overdue 180-360 days	60	(60)	-	100.0%
Total consumer loans	67,468	(1,498)	65,970	2.2%
Total loans	2,795,009	(124,532)	2,670,477	4.5%

13 Loans to customers, continued

(a) Credit quality of loans to customers, continued

The following table provides information on the credit quality of the loans to customers portfolio as at 31 December 2009:

	Gross loans KGS'000	Impairment allowance KGS'000	Net loans KGS'000	Impairment allowance to gross loans, %
Small business loans				
- not overdue	2,401,807	(63,355)	2,338,452	2.6%
- overdue less than 30 days	6,073	(629)	5,444	10.4%
- overdue 30-89 days	25,172	(6,335)	18,837	25.2%
- overdue 90-179 days	17,432	(13,018)	4,414	74.7%
- overdue 180-360 days	13,970	(13,970)	-	100.0%
Total small business loans	2,464,454	(97,307)	2,367,147	3.9%
Consumer loans				
- not overdue	6,354	(162)	6,192	2.5%
- overdue less than 30 days	68	(8)	60	11.8%
- overdue 30-89 days	108	(39)	69	36.1%
- overdue 90-179 days	97	(79)	18	81.4%
- overdue 180-360 days	50	(50)	-	100.0%
Total consumer loans	6,677	(338)	6,339	5.1%
Total loans	2,471,131	(97,645)	2,373,486	4.0%

As at 31 December 2010 included in the loan portfolio are restructured loans to customers that would otherwise be past due or impaired of KGS 37,412 thousand (2009: KGS 27,604 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of not overdue loans, unless the borrower fails to comply with the renegotiated terms.

(b) Key assumptions and judgments for estimating the loan impairment

The Bank estimates loan impairment based on its past historical loss experience for each type of loan. In determining the impairment losses for loans to customers, management assumed that loss migration rates are constant and can be estimated based on historic loss migration pattern for the past 6 months.

The increase in the estimates of loan impairment during the year ended 31 December 2010 largely resulted from significant civil disorder, including damage to property and loss of lives, in the southern regions of the Kyrgyz Republic in June 2010. The Bank's management has made an assessment of the impact of these events on the collectability of loans to customers and factored this into the migration rate assumptions above.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment allowance on loans to customers as at 31 December 2010 would be KGS 26,705 thousand lower/higher (31 December 2009: KGS 23,735 thousand).

13 Loans to customers, continued

(c) **Analysis of collateral**

The following table provides the analysis of loans to customers, net of impairment, by types of collateral as at 31 December 2010:

	2010 KGS'000	% of loan portfolio	2009 KGS'000	% of loan portfolio
Real estate	2,335,397	87.5	2,133,764	89.9
Guarantee and joint liability	109,016	4.1	154,324	6.5
Other collateral	13,844	0.5	14,241	0.6
No collateral	212,220	7.9	71,157	3.0
	2,670,477	100.0	2,373,486	100.0

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Impaired or overdue loans to customers with a gross value of KGS 23,605 thousand (2009: KGS 48,950 thousand) are secured by collateral with a fair value of KGS 25,324 thousand (2009: KGS 48,402 thousand). For the remaining impaired loans of KGS 18,626 thousand (2009: KGS 14,020 thousand), there is no collateral or it is impracticable to determine the fair value of collateral.

(d) **Assets pledged**

As at 31 December 2010 loans to customers with a gross value of KGS 950,082 thousand serve as collateral for a loan provided to the Bank by the Special Fund for Refinancing Banks (note 19(e)) (31 December 2009: nil).

(e) **Industry and geographical analysis of the loan portfolio**

Loans to customers were issued primarily to customers located within the Kyrgyz Republic who operate in the following economic sectors:

	2010 KGS'000	2009 KGS'000
Agricultural loans		
Livestock loans, including:		
- Loans for cattle herd expansion	1,090,668	1,070,712
- Loans for sheep breeding	519,298	541,374
- Loans for horse breeding	261,131	291,850
- Other	31,794	32,217
Plant production loans, including:		
- Loans for grain crops	129,306	119,235
- Loans for vegetable farming	57,616	17,279
- Loans for agronomical services	19,367	114,547
- Loans for cotton growing	14,642	334
- Other	17,401	3,081
Poultry, bee-farming and other agricultural loans	28,420	7,690
Total agricultural loans	2,169,643	2,198,319

13 Loans to customers, continued

(e) Industry and geographical analysis of the loan portfolio, continued

	2010 KGS'000	2009 KGS'000
Trade loans	377,321	124,794
Manufacturing and primary processing loans	97,299	112,344
Transportation	33,203	-
Construction loans	25,433	23,710
Services loans	24,642	5,287
Consumer loans	67,468	6,677
Total loans to customers	2,795,009	2,471,131
Impairment allowance	(124,532)	(97,645)
	2,670,477	2,373,486

(f) Significant credit exposures

As at 31 December 2010 and 31 December 2009, the Bank did not have borrowers or groups of related borrowers, whose loan balances exceeded 10% of equity.

As at 31 December 2010 the Bank had borrowers from the South regions of the Kyrgyz Republic, namely Osh, Jalalabad and Nookan regions, with the gross value of KGS 435,835 thousand and impairment allowance of KGS 49,851 thousand (31 December 2009: gross value of KGS 417,642 thousand and impairment allowance of KGS 18,838 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 22(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 Investments in securities

	2010 KGS'000	2009 KGS'000
Held by the Bank		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	-	8,540
Pledged under sale and repurchase agreements		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	33,905	-
	33,905	8,540

None of the investments in securities are impaired or past due.

The fair value of financial assets above that are pledged as collateral for liabilities at 31 December 2010 is KGS 33,930 thousand (2009: nil).

15 Property, equipment and intangible assets

KGS'000	Land, buildings and construction	Office equipment	Computers	Motor vehicles	Computer software	Total
<i>Cost</i>						
Balance at 1 January 2010	57,293	30,489	24,674	20,792	20,273	153,521
Additions	7,861	20,448	5,959	4,214	7	38,489
Disposals	(132)	(374)	(1,747)	(254)	-	(2,507)
Transfers	-	96	(96)	-	-	-
Balance at 31 December 2010	65,022	50,659	28,790	24,752	20,280	189,503
<i>Depreciation, amortisation and impairment losses</i>						
Balance at 1 January 2010	(14,171)	(20,059)	(19,514)	(16,325)	(9,028)	(79,097)
Depreciation and amortisation for the year	(2,941)	(3,332)	(1,564)	(957)	(2,280)	(11,074)
Disposals	105	298	1,729	174	-	2,306
Transfers	-	(91)	91	-	-	-
Balance at 31 December 2010	(17,007)	(23,184)	(19,258)	(17,108)	(11,308)	(87,865)
<i>Carrying amount</i>						
At 31 December 2010	48,015	27,475	9,532	7,644	8,972	101,638

15 Property, equipment and intangible assets, continued

KGS'000	Land, buildings and construction	Office equipment	Computers	Motor vehicles	Computer software	Total
<i>Cost</i>						
Balance at 1 January 2009	56,500	25,309	24,661	21,492	18,740	146,702
Additions	793	5,788	1,207	1,547	2,170	11,505
Disposals	-	(551)	(1,251)	(2,247)	(637)	(4,686)
Transfers	-	(57)	57	-	-	-
Balance at 31 December 2009	57,293	30,489	24,674	20,792	20,273	153,521
<i>Depreciation, amortisation and impairment losses</i>						
Balance at 1 January 2009	(11,000)	(17,600)	(18,507)	(16,160)	(7,813)	(71,080)
Depreciation and amortisation for the year	(3,171)	(3,010)	(2,258)	(1,965)	(1,852)	(12,256)
Disposals	-	551	1,251	1,800	637	4,239
Balance at 31 December 2009	(14,171)	(20,059)	(19,514)	(16,325)	(9,028)	(79,097)
<i>Carrying amount</i>						
At 31 December 2009	43,122	10,430	5,160	4,467	11,245	74,424
At 1 January 2009	45,500	7,709	6,154	5,332	10,927	75,622

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2010 (2009: nil).

At 31 December 2010 the carrying value of buildings pledged as collateral for borrowings from the Special Fund for Refinancing Banks is equal to KGS 17,746 thousand (refer note 19(e)) (2009: nil).

At 31 December 2010, the Bank's property and equipment included fully depreciated assets of KGS 41,810 thousand (31 December 2009: KGS 41,500 thousand).

Change in estimates

During the year ended 31 December 2010, the Bank concluded an operational efficiency review of certain items of property and equipment which resulted in changes in their expected useful lives. As a result, the expected useful lives of these assets increased. The effect of these changes on depreciation expense, recognised in general administrative expenses, in current and future periods is as follows:

KGS'000	2010	2011	2012	Later
(Decrease)/increase in depreciation expense	(2,369)	(2,419)	(1,408)	6,196

16 Other assets

	2010 KGS'000	2009 KGS'000
Other receivables	4,520	1,976
Total other financial assets	4,520	1,976
Prepayments	9,114	4,469
Inventories	2,809	3,179
Other	78	1,408
Impairment allowance	(2,096)	(4,297)
Total other non-financial assets	9,905	4,759
Total other assets	14,425	6,735

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2010 and 2009 are as follows:

	2010 KGS'000	2009 KGS'000
Balance at the beginning of the year	4,297	5,085
Net recovery for the year	(380)	(1,777)
Reversals	-	989
Write-offs	(1,821)	-
Balance at the end of the year	2,096	4,297

As at 31 December 2010, included in other assets were amounts of KGS 1,976 thousand (31 December 2009: KGS 3,727 thousand), which are impaired and a 100% impairment allowance has been provided.

17 Current accounts and deposits from customers

	2010 KGS'000	2009 KGS'000
Current accounts and demand deposits		
- Corporate	73,215	34,311
- Retail	23,475	3,454
Term deposits		
- Corporate	82,448	-
- Retail	21,335	-
	200,473	37,765

As at 31 December 2010, the Bank maintained two customer deposit balances of KGS 89 thousand (2009: nil) that serve as collateral for loans to customers granted by the Bank.

As at 31 December 2010 and 2009, the Bank has no customers, whose balances exceed 10% of equity.

18 Amounts owed to the Ministry of Finance of the Kyrgyz Republic

	2010 KGS'000	2009 KGS'000
Subordinated loans for international projects	1,029,789	1,139,162
Other	235,671	255,592
	1,265,460	1,394,754

The subordinated liabilities will, in the event of the winding-up of the Bank, be subordinated to the claims of depositors and all other creditors of the Bank.

(a) Subordinated loans for international projects

As at 31 December 2010 and 31 December 2009, the Bank has the following subordinated loans for international projects:

Counterparty	Currency	Interest rate	Issue date	Maturity	31	31 December
					December	2009
					'000 KGS	'000 KGS
International Development Association, First Rural Finance Project	KGS	Inflation rate	24 December 1997	29 June 2012	162,332	207,484
International Development Association, Second Rural Finance Project	KGS	Inflation rate + 2%	05 September 2001	30 April 2017	481,293	511,673
Asian Development Bank, Agricultural Area Development Project	KGS	Inflation rate	29 May 2002	1 December 2021	366,628	403,275
International Development Association, Agro-business and Marketing Project	KGS	Inflation rate + 2%	26 April 2007	1 May 2025	19,536	16,730
					1,029,789	1,139,162

(i) First and Second Rural Finance Projects

The International Development Association (“the IDA”) and the Kyrgyz Republic signed a Development Credit Agreements dated 31 July 1997 (“the First Rural Finance Project”) and 1 October 1999 (“the Second Rural Finance Project”). In accordance with these agreements the IDA agreed to lend to the Kyrgyz Republic an amount in various currencies equivalent to Special Drawing Rights (“SDR”) 11,900 thousand and SDR 11,100 thousand, respectively. The objectives of the First Rural Finance Project are to assist the Kyrgyz Republic in improving the availability of commercially based credit and in developing financial institutions capable of providing financial services to the rural population of the Kyrgyz Republic. The objective of the Second Rural Finance Project is to assist the Kyrgyz Republic in developing a sustainable rural finance system and in supporting viable economic activities in rural areas.

To implement the Second Rural Finance Project the Ministry of Finance of the Kyrgyz Republic (“the MFKR”) (on behalf of the Kyrgyz Republic) and the Bank signed a Subsidiary Loan Agreement dated 17 March 2000. In accordance with the Subsidiary Loan Agreement, the MFKR agreed to provide the Bank with a loan facility and make an equity investment in KGS which is equivalent of USD 12,750 thousand and USD 2,250 thousand (which is equivalent of SDR 11,100 thousand), respectively. The loan is denominated in KGS. On 26 January 2004, the Bank and MFKR signed an additional agreement changing the interest rate.

18 Amounts owed to the Ministry of Finance of the Kyrgyz Republic, continued

(a) Subordinated loans for international projects, continued

(ii) *Asian Development Bank Agricultural Area Development Project*

On 16 May 2000, the Asian Development Bank (“the ADB”) and the Kyrgyz Republic signed a Loan Agreement (“the Agricultural Area Development Project”). On 14 August 2000 the MFKR (on behalf of the Kyrgyz Republic) and the Bank signed a Subsidiary Loan Agreement. In accordance with the Subsidiary Loan Agreement, the MFKR agreed to provide the Bank with a loan facility in KGS which is equivalent of SDR 7,266 thousand.

(iii) *Agro-business and Marketing Project*

On 3 February 2005, IDA and the Kyrgyz Republic signed an agreement for a development loan (the “Agro-business and Marketing Project”). One of the components of the Project is a credit line issued in KGS in the amount equivalent to SDR 3,350 thousand. On 27 December 2005, MFKR (on behalf of the Kyrgyz Republic) and the Bank signed an agreement for a subsidiary loan, whereby the funds of the credit line are issued to the ultimate beneficiaries.

(b) Other

As at 31 December 2010, other amounts owed to the MFKR included loans received from MFKR for the financing of agricultural manufacturers in the amount of KGS 234,151 thousand (31 December 2009: KGS 253,744 thousand), and other borrowings of KGS 1,520 thousand (31 December 2009: KGS 1,848 thousand).

The main purpose of the MFKR loans for the financing of agricultural manufacturers is to finance autumn and spring seeding. These MFKR loans received by the Bank under separate loan agreements are subject to an interest rate of 11%-13% per annum and mature between three months and one and a half years. The loans to agricultural manufacturers have an interest rate of 18%-20% per annum.

19 Other borrowed funds

	2010 KGS'000	2009 KGS'000
Special Fund for Refinancing Banks	239,521	-
Public Fund Raiffeisen Cooperative Development Fund in Kyrgyzstan	14,390	12,718
European Bank for Reconstruction and Development	13,490	37,897
Public Fund Social Development Fund in Talas Oblast	7,203	7,203
Kyrgyzstan New Zealand Rural Trust	2,760	-
Asia Universal Bank OJSC	-	19,575
	277,364	77,393

The table below provides details of other borrowed funds as at 31 December 2010 and 31 December 2009:

Counterparty	Currency	Interest rate	Issue date	Maturity	31 December 2010 KGS'000	31 December 2009 KGS'000
Public Fund Raiffeisen Cooperative Development Fund in Kyrgyzstan	USD	10%-13%	26 March 2004	on demand	14,390	12,718
European Bank for Reconstruction and Development	KGS	6-m Libor + 5%	21 July 2006	15 June 2011	13,490	37,897
Public Fund Social Development Fund in Talas Oblast	KGS	6%	05 February 2008	25 December 2012	7,203	7,203
Asia Universal Bank OJSC	KGS	3%	08 April 2009	14 April 2010	-	19,575
Kyrgyzstan New Zealand Rural Trust	KGS	5%	15 September 2010	15 June 2012	2,760	-
Special Fund for Refinancing Banks, credit line #1	KGS	7%	22 May 2010	15 July 2014	189,424	-
Special Fund for Refinancing Banks, credit line #2	KGS	7%	06 July 2010	06 December 2015	50,097	-
					277,364	77,393

(a) Concentration of other borrowed funds

As at 31 December 2010, the Bank had one lender whose balance exceeded 10% of equity (2009: nil). The gross value of the balance as at 31 December 2010 was KGS 239,521 thousand.

19 Other borrowed funds, continued

(b) Loan from Public Fund Raiffeisen Cooperatives Development Fund in Kyrgyzstan

On 18 March 2004, the Bank signed a loan agreement with Public Fund Raiffeisen Cooperative Development Fund in Kyrgyzstan (the "Fund") for the purpose of granting sub-loans to agricultural cooperatives ("sub-borrowers"). Loans are granted after approval of sub-borrowers' applications by the Fund. The repayment of the loan's principal and interest is made twice a year. The Fund bears the credit risk in relation to sub-loans, which the Bank is not able to recover. The loan has been granted in KGS. The loan carries an interest rate of 10% per annum.

(c) Loan from European Bank for Reconstruction and Development

On 15 June 2006, the Bank signed a loan agreement with the European Bank for Reconstruction and Development ("EBRD") to open a credit line for a period of five years with a limit of up to USD 2,000,000. The purpose of the loan is supporting small and medium businesses in the Kyrgyz Republic. The loan carries an interest rate of 6-month Libor plus 5% per annum. The principle is payable in seven equal semi-annual installments starting from the second year after the loan agreement date.

(d) Loan from Kyrgyzstan New Zealand Rural Trust Fund

On 27 August 2007, the Bank signed a loan agreement with Kyrgyzstan New Zealand Rural Trust to open a credit line to grant sub-loans to inhabitants of villages located in Naryn, Atbashi and Aktaly districts of Naryn oblast for the purpose of development and increase of living standards in the given region. The total amount of the credit line is New Zealand Dollars (NZD) 210,000 which will be denominated in USD at the date of provision of each tranche. As at 31 December 2010, the Bank received the first tranche in the amount of USD 57,854 which is equivalent to NZD 80,000. Interest is payable quarterly starting from 15 March 2011. The loan carries an interest rate of 5% per annum. The principal is payable in six equal instalments starting from 15 March 2011.

(e) Special Fund for Refinancing Banks

(i) First credit line

On 7 May 2010, the Bank signed a loan agreement with the Special Fund for Refinancing Banks of the Kyrgyz Republic (the "SFRB") to open a credit line for a period of four years. The credit line is for KGS 200,000 thousand collateralised partially by buildings of KGS 17,746 thousand (note 15) and partially by loans to customers of KGS 950,082 thousand (note 13(d)). The purpose of the loan is for lending to inhabitants of rural areas, especially those living in remote settlements in high mountains in the Kyrgyz Republic. The loan carries an interest rate of 7% per annum. The principle is payable in fifteen equal quarterly installments starting from November 2010.

(ii) Second credit line

On 6 July 2010, the Bank signed a second loan agreement with the SFRB to open a credit line for a period of five years. The credit line is for KGS 200,000 thousand collateralised partially by buildings of KGS 17,746 thousand (note 15) and partially by loans to customers of KGS 950,082 thousand (note 13(d)). The purpose of the loan is for lending of small and medium business located in Osh and Jalalabad oblasts of the Kyrgyz Republic. As at 31 December 2010, the Bank received the first tranche in the amount of KGS 50,000 thousand. The loan carries an interest rate of 7% per annum. The principle is payable in fifteen equal quarterly installments starting from January 2011.

20 Other liabilities

	2010 KGS'000	2009 KGS'000
Other financial liabilities	3,082	2,666
Total other financial liabilities	3,082	2,666
Other taxes payable	15,412	10,761
Grant for unsecured loans issued under the UNDP project	12,089	12,089
Vacation accrual	6,166	4,702
Deferred grant income from United Nations Development Program	1,136	1,136
Other non-financial liabilities	4,639	2,851
Total other non-financial liabilities	39,442	31,539
Total other liabilities	42,524	34,205

Deferred grant income from United Nations Development Program

On 2 June 2006, the Bank entered into a Micro-Capital Grant Agreement with the United Nations Development Program in the Kyrgyz Republic (“the UNDP”) as part of the Addressing the Social Consequences of Transition in the Fergana Valley project (“the Project”), implemented by the UNDP and funded by the European Commission. In accordance with the grant agreement the Bank received the total amount stipulated in the agreement of KGS 12,089 thousand for the purpose of providing non-collateralised loans to economically active, poor customers of the Bank in Project target villages in Batken and Lyalak regions in the south of the Kyrgyz Republic. The full amount of the grant has been utilised for the intended purposes and the loans are outstanding. In 2009 it was agreed with the UNDP that going forward the grant was to be utilised for loan losses arising from the loans issued under the Project. As at 31 December 2010 no such loan losses have been incurred.

On 25 April 2007, the Bank signed an agreement with the UNDP for the issue of microcredit funds within the Temir village Community, a Kyrgyz Republic project, implemented by the UNDP and funded by the Canadian International Development Agency. In accordance with the grant agreement, the Bank received the total amount stipulated in the agreement of KGS 1,136 thousand (USD 30,000). The purpose of the grant is lending for income-generating activities in order to decrease the level of poverty, to develop alternative income-generating activities and finally to reduce the negative anthropological impact in Temir village. In accordance with the agreement, the UNDP has a right to assess the efficiency of usage of the funds. If the UNDP is not satisfied with the usage of the funds, the funds may be withdrawn.

21 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 56,000 ordinary shares (31 December 2009: 56,000). All shares have a nominal value of KGS 10 thousand. During the year ended 31 December 2010 no new ordinary shares were issued (2009: 8,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Additional paid-in capital

The Government of the Kyrgyz Republic provides the Bank with the office premises, on a free basis for 3 years starting from 1 January 2009. Increase in additional paid-in capital comprises the expenses on rent of the Head office, which is determined annually based on fair value of the rent of the premises estimated by independent appraiser.

(c) General banking reserve

According to the legislation of the Kyrgyz Republic, the Bank has an obligation to create reserves from retained earnings. The general banking reserve, which has been created from retained earnings, is intended to support the Bank's future expenses.

As at 31 December 2010 and 31 December 2009 the general banking reserve amounted to KGS 401,098 thousand and KGS 366,454 thousand respectively.

(d) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Kyrgyz Republic. During the year ended 31 December 2010 and 31 December 2009, the following dividends were declared by the Bank:

	31 December 2010	31 December 2009
Per ordinary share, in 000'KGS	0.21	0.30

22 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor continuously 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.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework including the following principal duties:

- determining the critical parameters for managing the risks that the Bank faces and determining acceptable levels for these risks;
- supervision of the actions taken by the Bank's management in order to detect, evaluate, monitor and control risks;
- approval of large transactions equal to between 5% and 20% of the Bank's total assets, depending on the nature of the transaction, as well as all active operations with related parties of the Bank.

22 Risk management, continued

(a) Risk management policies and procedures, continued

The Board of Directors meets as necessary, but at least once a month.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters by delegating authorities and determining who is responsible for the implementation of policies and procedures to minimise the Bank's risks.

The Management Board meets as necessary, but at least once a week.

The assessment of the Bank's risks implies the detection and analysis of internal and external factors which influence the business activity of the Bank. This function is carried out by the Bank's Risk Manager, who is responsible for the general risk management, the implementation of risk management policies and procedures, and the control of the methods used for identifying, measuring, managing and reporting both financial and non-financial risks. The Risk Manager reports directly to the Board of Directors and reports potential increase in banking risks monthly.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees, an Asset and Liability Management Committee and a Liquidity Committee. In order to facilitate efficient decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Credit committees bear the responsibility for approving and issuing loans within established limits. Credit committees are divided between the Bank's Credit Committee and Branch Credit Committees. Credit Committees are appointed by the Board of Directors and have the following limits:

- Bank's Credit Committee - authority to approve loans within the limits not exceeding the powers of the Board of Directors.
- Branch Credit Committees – authority to approve loans within a limit of KGS 500 thousand.

Assets and Liabilities Committee (ALCO) - the main responsibilities of the ALCO are the following: regulation of the assets and liabilities structure to sustain liquidity, maintenance of interest margin and spread stability, regulation of assets and liabilities to comply with prudential norms, operational risk management related to financial instruments.

Liquidity Committee (LC) - the main objectives of the LC are the effective management of the liquidity of the Bank and making decisions on treasury transactions within the limits established by the ALCO. The LC's principal responsibilities include:

- attracting and allocating financial resources and exchanging assets on the interbank market;
- determining the allocation of the Bank's short-term resources and the volume of transactions in foreign currencies;
- establishing foreign currency buy and sell rates as well as the amounts of assets and liabilities maintained in foreign currencies.

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

22 Risk management, continued

(b) Market risk

Market risk is the risk that movement in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rates and currency positions, which are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

KGS'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Cash and cash equivalents	6,279	-	-	-	-	6,279
Loans to customers	120,279	98,113	374,272	2,076,824	989	2,670,477
Investments in securities	3,670	12,124	18,111	-	-	33,905
	130,228	110,237	392,383	2,076,824	989	2,710,661
LIABILITIES						
Current accounts and deposits from customers	116,270	57,575	17,128	9,500	-	200,473
Repurchase agreement	30,991	-	-	-	-	30,991
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	1,123,211	8,213	3,116	130,920	-	1,265,460
Other borrowed funds	17,790	29,270	31,560	185,036	13,708	277,364
	1,288,262	95,058	51,804	325,456	13,708	1,774,288
	(1,158,034)	15,179	340,579	1,751,368	(12,719)	936,373

22 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

KGS'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2009						
ASSETS						
Cash and cash equivalents	10,493	-	-	-	-	10,493
Placements with banks	-	-	19,395	-	-	19,395
Loans to customers	245,727	164,080	221,102	1,739,109	3,468	2,373,486
Investments in securities	1,973	1,982	4,585	-	-	8,540
	258,193	166,062	245,082	1,739,109	3,468	2,411,914
LIABILITIES						
Current accounts and deposits from customers	32,675	-	5,090	-	-	37,765
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	1,141,011	-	19,593	234,150	-	1,394,754
Other borrowed funds	2,005	32,277	25,898	16,937	276	77,393
	1,175,691	32,277	50,581	251,087	276	1,509,912
	(917,498)	133,785	194,501	1,488,022	3,192	902,002

The inflation linked financial liabilities were presented in the above tables in the first column as their repricing dates matches to the time period of less than 3 months.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2010 and 2009.

	2010		2009	
	Average effective interest rate, %		Average effective interest rate, %	
	KGS	USD	KGS	USD
Interest bearing assets				
Cash and cash equivalents	0.02%	-	0.13%	-
Loans to customers	20.37%	-	21.43%	-
Investments in securities	6.32%	-	5.09%	-
Interest bearing liabilities				
Current accounts and deposits from customers	7.90%	-	-	-
Repurchase agreement	6.70%	-	-	-
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	4.56%	-	15.65%	-
Other borrowed funds	7.17%	5.50%	8.81%	-

22 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities.

For amounts due to the MFKR as at 31 December 2010 and 2009, an analysis of sensitivity of profit or loss and equity to changes in inflation rates based on a simplified scenario of a 100 basis point (bp) fall or rise effective at the beginning of the period is as follows:

	2010		2009	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
100 bp parallel fall	8,787	8,787	6,479	6,479
100 bp parallel rise	(8,787)	(8,787)	(6,479)	(6,479)

For all other financial instruments, an analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
100 bp parallel fall	(1,417)	(1,417)	(3,074)	(3,074)
100 bp parallel rise	1,417	1,417	3,074	3,074

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank does not hedge its exposure to currency risk.

22 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2010:

	KGS KGS'000	USD KGS'000	Other currencies KGS'000	Total KGS'000
ASSETS				
Cash and cash equivalents	86,278	27,868	25,830	139,976
Loans to customers	2,670,477	-	-	2,670,477
Investments in securities	33,905	-	-	33,905
Other financial assets	560	1,057	2,903	4,520
Total assets	2,791,220	28,925	28,733	2,848,878
LIABILITIES				
Current accounts and deposits from customers	185,961	13,658	854	200,473
Repurchase agreement	30,991	-	-	30,991
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	1,265,460	-	-	1,265,460
Other borrowed funds	262,974	14,390	-	277,364
Other financial liabilities	3,082	-	-	3,082
Total liabilities	1,748,468	28,048	854	1,777,370
Net position as at 31 December 2010	1,042,752	877	27,879	1,071,508

22 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the currency structure of financial assets and liabilities as at 31 December 2009:

	KGS KGS'000	USD KGS'000	Other currencies KGS'000	Total KGS'000
ASSETS				
Cash and cash equivalents	39,710	17,755	10,274	67,739
Placements with banks	-	19,395	-	19,395
Loans to customers	2,373,486	-	-	2,373,486
Investments in securities	8,540	-	-	8,540
Other financial assets	1,373	200	403	1,976
Total assets	2,423,109	37,350	10,677	2,471,136
LIABILITIES				
Current accounts and deposits from customers	36,426	640	699	37,765
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	1,394,754	-	-	1,394,754
Other borrowed funds	64,675	12,718	-	77,393
Other financial liabilities	2,666	-	-	2,666
Total liabilities	1,498,521	13,358	699	1,512,578
Net position as at 31 December 2009	924,588	23,992	9,978	958,558

A weakening of the KGS, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010		2009	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
10% appreciation of USD against KGS	79	79	2,159	2,159
10% appreciation of other currencies against KGS	2,509	2,509	898	898

A strengthening of the KGS against the above currencies at 31 December 2010 and 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

22 Risk management, continued

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2010	2009
	KGS'000	KGS'000
ASSETS		
Nostro accounts and cash equivalents	84,602	50,976
Placements with banks	-	19,395
Loans to customers	2,670,477	2,373,486
Investments in securities	33,905	8,540
Other financial assets	4,520	1,976
Total maximum exposure	2,793,504	2,454,373

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

As at 31 December 2010 the Bank does not have any debtors or groups of connected debtors (2009: none), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

22 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Liquidity Committee carries out daily monitoring of the liquidity position and performs regular “stress tests” taking into the account various possible market development scenarios both in normal and adverse conditions. Under normal market conditions, liquidity reports covering the liquidity of the Bank are presented to the Management of the Bank on a weekly basis. Decisions on the Bank’s liquidity management are made by the ALCO and implemented by the LC and Treasury Department of the Bank.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the NBKR.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity including interest payments. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability. The expected cash flows on these financial liabilities may vary from this analysis.

22 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Current accounts and deposits from customers	97,750	18,573	58,812	18,489	10,196	203,820	200,473
Repurchase agreement	31,044	-	-	-	-	31,044	30,991
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	169	104,200	114,430	174,591	1,865,064	2,258,454	1,265,460
Other borrowed funds	-	19,330	19,983	52,707	238,523	330,543	277,364
Other financial liabilities	1,334	-	1,748	-	-	3,082	3,082
Total liabilities	130,297	142,103	194,973	245,787	2,113,783	2,826,943	1,777,370

The maturity analysis for financial liabilities as at 31 December 2009 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Current accounts and deposits from customers	32,595	80	-	-	5,090	37,765	37,765
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	145	15,391	77,556	80,475	2,268,238	2,441,805	1,394,754
Other borrowed funds	-	1,905	23,940	59,419	76,579	161,843	77,393
Other financial liabilities	2,666	-	-	-	-	2,666	2,666
Total liabilities	35,406	17,376	101,496	139,894	2,349,907	2,644,079	1,512,578

The table above show the undiscounted cash flows of non-derivative financial liabilities on the basis of their earliest possible contractual maturity. For inflation linked financial liabilities current inflation rate was applied to predict future interest payments.

In accordance with Kyrgyz legislation, depositors can withdraw their term deposits at any time, forfeiting in most cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

- demand and less than 1 month: KGS 1,081 thousand
- from 1 to 3 months: KGS 18,513 thousand (2009: nil)
- from 3 to 6 months: KGS 57,571 thousand (2009: nil)
- from 6 to 12 months: KGS 17,125 thousand (2009: nil)
- more than 1 year: KGS 9,493 thousand (2009: nil).

22 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2010:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	139,976	-	-	-	-	-	-	139,976
Loans to customers	4,451	98,788	472,385	2,076,824	989	-	17,040	2,670,477
Investments in securities	-	3,670	30,235	-	-	-	-	33,905
Property, equipment and intangible assets	-	-	-	-	-	101,638	-	101,638
Other assets	4,579	6,391	627	-	-	2,828	-	14,425
Total assets	149,006	108,849	503,247	2,076,824	989	104,466	17,040	2,960,421
Non-derivative liabilities								
Current accounts and deposits from customers	97,753	18,517	74,703	9,500	-	-	-	200,473
Repurchase agreement	30,991	-	-	-	-	-	-	30,991
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	3,991	88,072	198,105	643,185	332,107	-	-	1,265,460
Other borrowed funds	-	17,791	60,829	185,036	13,708	-	-	277,364
Current tax liability	-	9,530	-	-	-	-	-	9,530
Deferred tax liability	-	-	-	3,537	-	-	-	3,537
Other liabilities	16,327	748	1,748	23,701	-	-	-	42,524
Total liabilities	149,062	134,658	335,385	864,959	345,815	-	-	1,829,879
Net position	(56)	(25,809)	167,862	1,211,865	(344,826)	104,466	17,040	1,130,542

22 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2009:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	67,739	-	-	-	-	-	-	67,739
Placements with banks	-	-	19,395	-	-	-	-	19,395
Loans to customers	104,231	116,986	385,182	1,739,109	3,468	-	24,510	2,373,486
Investments in securities	-	1,973	6,567	-	-	-	-	8,540
Property, equipment and intangible assets	-	-	-	-	-	74,424	-	74,424
Other assets	3,060	89	239	148	-	3,199	-	6,735
Total assets	175,030	119,048	411,383	1,739,257	3,468	77,623	24,510	2,550,319
Non-derivative liabilities								
Current accounts and deposits from customers	32,595	80	-	5,090	-	-	-	37,765
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	242	-	130,734	817,273	446,505	-	-	1,394,754
Other borrowed funds	2,005	-	45,577	16,817	276	12,718	-	77,393
Current tax liability	-	3,794	-	-	-	-	-	3,794
Deferred tax liability	-	-	-	2,874	-	-	-	2,874
Other liabilities	18,281	61	279	15,459	125	-	-	34,205
Total liabilities	53,123	3,935	176,590	857,513	446,906	12,718	-	1,550,785
Net position	121,907	115,113	234,793	881,744	(443,438)	64,905	24,510	999,534

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

22 Risk management, continued

(d) Liquidity risk, continued

As at 31 December 2010, the Bank has:

- KGS 150,000 thousand million undrawn loan facility from the Special Fund for Refinancing Banks with maturity in December 2015. Interest would be payable at 7%.
- NZD 130 thousand undrawn loan facility from Kyrgyzstan New Zealand Rural Trust with maturity on 15 April 2014. Interest would be payable at 5%.

23 Capital management

The NBKR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBKR, banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level of 12%.

The Bank was in compliance with the statutory capital ratio as at 31 December 2010 and 2009, with the ratios of 40.9% and 40.8%, respectively.

24 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2010 KGS'000	2009 KGS'000
Less than 1 year	1,863	3,454
Between 1 and 5 years	1,551	2,652
	3,414	6,106

The Bank leases a number of premises under operating lease. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the year ended 31 December 2010, KGS 9,721 thousand was recognised in the profit or loss in respect of operating leases (2009: KGS 7,778 thousand).

Leases as lessor

The Bank leases out a number of premises under operating leases. Non-cancellable operating lease rentals are receivable as follows:

	2010 KGS'000	2009 KGS'000
Less than 1 year	3,150	4,329
Between 1 and 5 years	189	-
	3,339	4,329

During the year ended 31 December 2010, KGS 3,706 thousand was recognised as income in the profit and loss in respect of operating leases (2009: KGS 4,985 thousand).

25 Contingencies

(a) Insurance

The insurance industry in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

Management is not aware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open till six calendar years.

These circumstances may create tax risks in the Kyrgyz Republic that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kyrgyz tax legislation, official pronouncements of court decisions. However, the interpretations of the relevant authorities could differ and the effect on financial position of the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Control relationships

The Bank's ultimate controlling party is the Government of the Kyrgyz Republic through the State Committee of the Kyrgyz Republic on State property. No publicly available financial statements are produced by the Bank's ultimate controlling party.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2010 KGS'000	2009 KGS'000
Members of the Board of Directors	3,529	3,110
Members of the Management Board	7,011	5,808
	10,540	8,918

The outstanding balances and average interest rates as at 31 December for transactions with the members of the Board of Directors and the Management Board are as follows:

	2010 KGS'000	Average interest rate, %	2009 KGS'000	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers	558	18.0%	1,834	21.5%
LIABILITIES				
Current accounts and deposits from customers	110	12.0%	228	-

26 Related party transactions, continued

(b) Transactions with the members of the Board of Directors and the Management Board, continued

The loans are in Kyrgyz som and repayable by 2012.

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2010 KGS'000	2009 KGS'000
Profit or loss		
Interest income	224	173
Interest expenses	(1)	-

(c) Transactions with other related parties

Other related parties include the Government of the Kyrgyz Republic and other state-owned entities. The outstanding balances and the related average interest rates as at 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 with other related parties are as follows.

	31 December 2010 KGS'000	Average interest rate, %	31 December 2009 KGS'000	Average interest rate, %
Statement of financial position				
ASSETS				
Cash and cash equivalents				
- In KGS	43,532	-	28,692	-
Investments in securities				
- In KGS	33,905	6.3%	8,540	5.1%
LIABILITIES				
Current accounts and deposits from customers				
- In KGS	83,611	5.1%	-	-
- In USD	2,706	-	-	-
- In other currency	89	-	-	-
Amounts owed to the Ministry of Finance of the Kyrgyz Republic				
- In KGS	1,265,460	4.6%	1,394,754	15.6%
Other borrowed funds				
- In KGS	239,521	7.0%	-	-
Profit (loss)				
Interest expense	(98,308)	-	(217,210)	-
Fee and commission income	2,229	-	-	-
Fee and commission expenses	(1,075)	-	(81)	-
Other income	1,889	-	2,773	-

Taxes are disclosed in notes 9, 10 and 20.

27 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010:

KGS'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	139,976	-	139,976	139,976
Loans to customers	2,670,477	-	2,670,477	2,588,571
Investments in securities	33,905	-	33,905	33,930
Other financial assets	4,520	-	4,520	4,520
	2,848,878	-	2,848,878	2,766,997
Current accounts and deposits from customers	-	200,473	200,473	200,587
Repurchase agreement	-	30,991	30,991	30,991
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	-	1,265,460	1,265,460	1,165,565
Other borrowed funds	-	277,364	277,364	279,057
Other financial liabilities	-	3,082	3,082	3,082
	-	1,777,370	1,777,370	1,679,282

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2009:

KGS'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	67,739	-	67,739	67,739
Placements with banks	19,395	-	19,395	19,395
Loans to customers	2,373,486	-	2,373,486	2,366,232
Investments in securities	8,540	-	8,540	8,488
Other financial assets	1,976	-	1,976	1,976
	2,471,136	-	2,471,136	2,463,830
Current accounts and deposits from customers	-	37,765	37,765	37,765
Amounts owed to the Ministry of Finance of the Kyrgyz Republic	-	1,394,754	1,394,754	1,224,368
Other borrowed funds	-	77,393	77,393	78,537
Other financial liabilities	-	2,666	2,666	2,666
	-	1,512,578	1,512,578	1,343,336

The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

27 Financial assets and liabilities: fair values and accounting classifications, continued

Accounting classifications and fair values

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

28 Events after the reporting period

On 15 February 2011, the Board of Directors accepted the voluntary termination of the employment contract by Ms. M. Taranchiyeva in her capacity of the Chief Executive Officer of the Bank, in view of transfer to another job, and appointed Mr. T. Akmatov to the said position.