Demir Kyrgyz International Bank

Independent Auditors' Report

Financial Statements
For the year ended 31 December 2003

DEMIR KYRGYZ INTERNATIONAL BANK

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Closed Joint-Stock Bank Demir Kyrgyz International Bank (hereinafter - the "Bank") as of 31 December 2003 and the related profit and loss account, statements of cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2003, and the results of its operations and its cash flows for the year then ended, in accordance with the requirements of the National Bank of the Kyrgyz Republic.

Without qualifying our opinion, we draw attention to Note 2 to the accompanying financial statements. In recent years, the Kyrgyz Republic experienced significant financial and economic difficulties. It is not possible to determine the future effect that the current economic crisis may have on the Bank's borrowers, customers, and suppliers. As the ultimate outcome of these matters cannot presently be determined, the accompanying financial statements do not include any adjustment that might result from these uncertainties. Such adjustments, if any, will be reported when and/or if they become known and estimable.

This report is intended solely for the information and use of the National Bank of the Kyrgyz Republic, the shareholders, the Supervisory Board and the Management of the Bank and is not intended to be and should not be used by anyone other than the specified parties.

16 January 2004

DEMIR KYRGYZ INTERNATIONAL BANK

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003
(in Kyrgyz Soms and in thousands)

	Notes	2003	2002
Interest income	5,24	10,331	7,343
Interest expense	5,24	(821)	(4,589)
NET INTEREST INCOME BEFORE (PROVISION)/RECOVERY OF PROVISION FOR LOAN LOSSES		9,510	2,754
(Provision)/recovery of provision for loan losses	6	(220)	923
NET INTEREST INCOME		9,290	3,677
Net gain on foreign exchange operations		26,392	24,826
Fees and commissions income	7	53,768	55,975
Fees and commissions expense	7	(7,000)	(6,504)
Net gain on investment securities	8	2,644	-
Other income	9	6,051	273
NET NON-INTEREST INCOME		81,855	74,570
OPERATING INCOME		91,145	78,247
OPERATING EXPENSES	10	(59,624)	(52,372)
PROFIT BEFORE OTHER PROVISIONS AND LOSSES, AND INCOME TAX		31,521	25,875
(Provision)/recovery of provision for losses on other transactions	6	(17,197)	2,078
PROFIT BEFORE INCOME TAX		14,324	27,953
Income tax expense	11	(4,091)	(2,395)
NET PROFIT		**10,233**	**25,558**

On behalf of the Management Board

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Ahmet Parmaksiz	**Aigul Kodjomuratova**
General Manager	**Chief Accountant / Financial Controller**

Bishkek
Kyrgyz Republic

16 January 2004

The notes on pages 6 to 29 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 1.

DEMIR KYRGYZ INTERNATIONAL BANK

BALANCE SHEET
AS OF 31 DECEMBER 2003
(in Kyrgyz Soms and in thousands)

	Notes	2003	2002
ASSETS:			
Cash on hand	12	113,673	36,921
Balances with the NBKR	12	103,362	124,263
Loans and advances to banks	13,24	313,310	426,703
Securities purchased under agreement to resell	14	50,056	-
Loans and advances to customers, gross	15	12,196	4,159
Less allowance for loan losses	6	(303)	(83)
Loans and advances to customers, net		11,893	4,076
Investment securities:			
- securities held-to-maturity	16	-	31,427
- securities available for sale	16	56,836	-
Fixed assets, less accumulated depreciation	17	68,135	52,990
Intangible assets, less accumulated amortization	17	6,571	6,839
Current income tax assets	11	1,165	3,580
Other assets, less allowance for losses	18	5,017	15,379
TOTAL ASSETS		**730,018**	**702,178**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits from banks	19,24	83	376
Customer accounts	20	586,825	591,918
Other liabilities	21	6,548	14,952
Total liabilities		593,456	607,246
SHAREHOLDERS' EQUITY:			
Share capital	22	100,000	54,052
Reserves		36,562	40,880
Total shareholders' equity		136,562	94,932
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**730,018**	**702,178**
FINANCIAL COMMITMENTS AND CONTINGENCIES	23	48,051	4,106

On behalf of the Management Board

Ahmet Parmaksiz	**Aigul Kodjomuratova**
General Manager	**Chief Accountant / Financial Controller**

Bishkek
Kyrgyz Republic

16 January 2004

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DEMIR KYRGYZ INTERNATIONAL BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003
(in Kyrgyz Soms and in thousands)

	Share capital	Additional paid in capital	Revenu e reserve	Revaluation reserve	Total shareholders' equity
Balance 1 January 2002	**54,052**	**1**	**15,321**	**(6)**	**69,368**
Net profit	-	-	25,558	-	25,558
Results on securities available-for-sale	-	-		6	6
Balance 31 December 2002	**54,052**	**1**	**40,879**	**-**	**94,932**
Share issue	32,489	-	-	-	32,489
Net profit	-	-	10,233	-	10,233
Results on securities available-for-sale	-	-	-	404	404
Dividends paid	13,459	-	(14,955)	-	(1,496)
Balance 31 December 2003	**100,000**	**1**	**36,157**	**404**	**136,562**

On behalf of the Management Board

Ahmet Parmaksiz
General Manager

Aigul Kodjomuratova
Chief Accountant / Financial Controller

Bishkek
Kyrgyz Republic

16 January 2004

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DEMIR KYRGYZ INTERNATIONAL BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2003
(in Kyrgyz Soms and in thousands)

	Notes	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest, fees and commissions received		60,927	62,151
Interest, fees and commissions paid		(7,836)	(10,741)
Foreign exchange gains		26,456	19,704
Other operating income		5,057	287
Salaries and employment benefits		(24,881)	(22,629)
Administrative expenses		(20,879)	(18,301)
Cash flows from operating activities before changes in operating assets and liabilities		38,844	30,471
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Securities purchased under agreement to resell		(50,001)	-
Loans to customers		(7,982)	(959)
Other assets		(6,373)	(2,876)
Increase/(decrease) in operating liabilities:			
Deposits from banks		(293)	(33,229)
Customer accounts		6,195	132,474
Other liabilities		350	16,646
Cash inflow from operating activities before income taxes		(19,260)	142,527
Income taxes paid		(1,676)	(5,974)
Net cash (outflow)/inflow from operating activities		**(20,936)**	**136,553**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment securities purchased		(162,796)	(108,364)
Investment securities redeemed		143,451	84,253
Tangible fixed assets purchased		(21,634)	(8,905)
Tangible fixed assets sold		1,033	384
Intangible assets purchased		(4,929)	(245)
Net cash outflows from investing activities		**(44,875)**	**(32,877)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase		34,516	-
Dividends paid		(14,955)	-
Repayment of subordinated debt		-	(54,633)
Net cash inflows/(outflows) from financing activities		**19,561**	**(54,633)**
Effects of exchange rate changes on cash and cash equivalents		(11,292)	(517)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(57,542)	48,526
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	12	587,887	539,361
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**12**	**530,345**	**587,887**

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to 836 thousand KGS and 10,268 thousand KGS, respectively. Interest paid and received by the Bank in cash during the year ended 31 December 2002 amounted to 4,589 thousand KGS and 7,199 thousand KGS, respectively.

On behalf of the Management Board

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Ahmet Parmaksiz
General Manager

Aigul Kodjomuratova
Chief Accountant / Financial Controller

Bishkek
Kyrgyz Republic
16 January 2004

The notes on pages 6 to 29 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 1.

1. ORGANISATION

Demir Kyrgyz International Bank (the "Bank") is a closed joint-stock bank, which was incorporated in the Kyrgyz Republic on 2 May 1997. The address of its registered office is as follows: 245, Chui Avenue, Bishkek 720001, Kyrgyz Republic. The Bank's Head office is located in Bishkek and it has one branch in Osh. The number of employees of the Bank at 31 December 2003 and 2002 was 97 and 87, respectively.

The Bank is regulated by the National Bank of the Kyrgyz Republic ("NBKR") and conducts its business under licence number 35. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies instruments, originating loans and guarantees.

As of 31 December 2003, the following shareholders ownership structure was as follows.

Shareholder	**%**
Halit Cingillioglu	35%
Aydin Dogan	35%
International Finance Corporation (IFC)	15%
European Bank for Reconstruction and Development (EBRD)	15%
Total	**100%**

2. OPERATING ENVIRONMENT

In recent years, the Kyrgyz Republic has undergone substantial political, economic and social change. As an emerging market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result, operations carried out in the Kyrgyz Republic involve significant risks that are not typically associated with those in developed markets. The Kyrgyz banking industry's operations reflect uncertainty surrounding the future direction of economic and regulatory policy in the Kyrgyz Republic. Interest rates in the Kyrgyz Republic are therefore relatively high by international standards, reflecting these risks.

The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank's financial statements in the period when they become known and estimable.

3. BASIS OF PRESENTATION

Accounting basis - The Bank maintains its accounting records in accordance with the requirements of the NBKR. These financial statements of the Bank have been prepared in accordance with those requirements. These financial statements are presented in thousands of Kyrgyz Soms ("KGS"), unless otherwise indicated. These financial statements are prepared on accrual basis under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities.

The preparation of financial statements in conformity with the requirements of the NBKR requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses on loans and impairment and the fair value of financial instruments.

4. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments - The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents - Cash and cash equivalents include cash, unrestricted balances on correspondent and time deposit accounts with the NBKR with original maturity within 90 days, advances to banks, which may be converted to cash within a short period of time.

Loans and advances to banks - In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

Repurchase and reverse repurchase agreements - The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business.

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

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the purchase and sale are recorded with the gain or loss included in net gains on investment securities. The obligation to return them is recorded at fair value as a trading liability. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities is recognized as interest income or expense, accrued using effective interest method, during the period that the related transactions are open.

Originated loans - Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as trading investments.

Loans granted by the Bank are initially recognized in accordance with the policy stated above. The difference between nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

Write off of loans - Loans are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Shareholders' Council and, in certain cases, with the respective decision of the Court.

Non-accrual loans - Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 90 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowance for losses - The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost.

The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial asset. For financial assets that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realize the loan.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by the previous experience.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted in arriving at loans and advances to customers and banks. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity - Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost plus accrued coupon income. Amortized discounts are recognized in the interest income using the effective interest method over the period to maturity. During 2003 the portfolio of held-to-maturity securities was reclassified as available-for-sale because the management changed their intent not to hold them to maturity. In accordance with IAS No. 39 "Financial Instruments: Recognition and Measurement" ("IAS No. 39") the Bank will not classify securities into held-to-maturity portfolio for two subsequent years (Note 8).

Securities available-for-sale - Securities available-for-sale represent debt investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in revaluation reserves (equity account), plus accrued coupon income.

The Bank uses quoted market prices to determine fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and workable methods of reasonably estimating their fair value. The financial result of sales of securities available-for-sale that are valued at cost and no fair value exist for them is calculated using specific identification method.

Fixed and intangible assets - Fixed and intangible assets are carried at historical cost less accumulated depreciation. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

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

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

Taxation - Taxes on income are computed in accordance with the laws of the Kyrgyz Republic. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:
- the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in the each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

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

Deposits from banks and customers - Customers and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Provisions - Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital and share premium - Share capital is recognized at cost. External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Dividends on ordinary shares are recognized in shareholders’ equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS No. 10 “Events After the Balance Sheet Date” and disclosed accordingly.

Retirement and other benefit obligations - The Bank does not have any pension arrangements separate from the State pension system of the Kyrgyz Republic, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Contingencies - Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense - Interest income and expense are recognized on an accrual basis calculated using the effective yield method. The recognition of interest income is suspended when loans become overdue by more then 90 days. Interest income includes also interest income earned on investment and trading securities. Commissions and other income are credited to income when the related transactions are completed. Loan origination fees, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Non-interest expenses are recognized on an accrual basis.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated to Kyrgyz Som at official NBKR rates of exchange at the balance sheet date. Transactions denominated in foreign currencies are reported at the NBKR rates of exchange at the date of the transaction. Differences between the contractual exchange rate of a certain transaction and the NBKR exchange rate on the date of the transaction are included in foreign exchange gain or loss. Any gains or losses on assets and liabilities denominated in foreign currencies arising from a change in official exchange rates are recognized as net gain on foreign exchange transactions.

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

	31 December 2003	**31 December 2002**
KGS/USD	44.1902	46.0949
KGS/EUR	55.0323	47.8719

Offset of financial assets and liabilities - Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fiduciary activities - The Bank provides depositary services to its customers, that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

5. NET INTEREST INCOME

Net interest income comprises:

	2003	2002
Interest income		
Interest on loans and advances to banks	5,758	5,359
Interest on debt securities	3,016	1,126
Interest on loans and advances to customers	1,557	858
Total interest income	**10,331**	**7,343**
Interest expense		
Interest on customer accounts	789	854
Interest on deposits from banks	32	86
Interest on subordinated debt	-	3,649
Total interest expense	**821**	**4,589**
Net interest income before (provision)/recovery of provision for loan losses	**9,510**	**2,754**

6. ALLOWANCE FOR LOSSES AND PROVISIONS

The movements in allowance for losses on interest earning assets, were as follows:

Provision for loan losses

	2003	2002
At beginning of the period	83	1,086
Provision / (recovery)	220	(923)
Write-offs of assets	-	(80)
At end of the period	**303**	**83**

The movements in allowances for other losses, were as follows:

Provision for other losses	Foreclosed assets	Other assets	Guarantees and other commitments	Total
31 December 2001	-		64	64
Provision/(recovery)	2,715	-	(4,793)	**(2,078)**
Write- offs	(1,033)	-	-	(1,033)
Recoveries	-	-	4,796	4,796
31 December 2002	**1,682**	**-**	**67**	1,749
Provision/(recovery)	13,232	3,503	462	**17,197**
31 December 2003	**14,914**	**3,503**	**529**	18,946

An amount of 4,793 thousand KGS is a recovery of reserves on guarantees and other commitments written off in 2000. The same amount was reversed as the customer paid back fully in cash during 2002.

Allowances for losses on assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

7. FEES AND COMMISSIONS INCOME AND EXPENSE

Fees and commissions income and expense comprise:

	2003	2002
Fees and commissions income:		
Cash withdrawal	25,602	27,657
Transfer and SWIFT	18,746	17,311
Account maintenance	2,805	4,770
Account opening	1,588	1,315
Other	5,028	4,922
Total fees and commissions income	**53,768**	**55,975**

Fees and commissions expense:	**2003**	**2002**
Cash operations	3,130	3,110
Settlement operations with other banks	2,500	2,339
Customs' charges on cash delivery	907	824
Other	463	231
Total fees and commissions expense	**7,000**	**6,504**

8. NET GAIN ON INVESTMENT SECURITIES

Net gain on investments securities for the year ended 31 December 2003 amounting to 2,644 thousand KGS resulted from sale of held-to-maturity securities. After derecognition of a portion of held-to-maturity securities, the whole portfolio of held-to-maturity securities was reclassified to available for sale securities portfolio, and is subsequently accounted for at fair value. Due to the reclassification from held-to-maturity securities to available-for-sale securities, in accordance with IAS No. 39 the Bank will not hold securities in held-to-maturity portfolio for two subsequent years (see Note 16).

9. OTHER INCOME

Other income for the years ended 31 December 2003 and 2002 amounting to 6,051 thousand KGS and 273 thousand KGS, respectively, includes income from rent of the Bank's premises (third floor) amounting to 1,428 thousand KGS and 61 thousand KGS, respectively. Other income for the year ended 31 December 2003 also includes gain on sale of foreclosed assets amounting to 2,635 thousand KGS and gain on sale of tangible fixed assets amounting to 995 thousand KGS.

10. OPERATING EXPENSES

	2003	2002
Salaries and social security costs	24,881	22,629
Depreciation	11,648	11,642
Taxes, other than income tax	4,155	3,161
Insurance charges	2,880	1,877
Communications	1,956	1,839
Entertainment/business promotions	1,955	602
Professional services fees	1,284	1,687
Office rent	1,230	1,571
Office security	1,152	678
Equipment services	1,113	703
Business trip	1,071	843
Marketing expenses	1,050	890
Stationers and supplies	1,005	890
Training	724	502
Utilities	604	490
Vehicle maintenance	533	476
Other	2,383	1,892
Total operating expenses	**59,624**	**52,372**

11. INCOME TAXES

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Kyrgyz Republic's statutory tax regulations which may differ from International Financial Reporting Standards. During the years ended 31 December 2003 and 2002, the Kyrgyz Republic's tax rate for corporations' profits was 20%.

	2003	2002
Current income tax assets	1,165	3,580
Income tax assets	**1,165**	**3,580**

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain losses and other expenses and tax-free regime for certain income and revenues under local tax regulations. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2003 and 2002 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2003 and 2002 comprises:

	2003	2002
Deferred tax assets		
Reserve on foreclosed assets	4,804	2,699
Amortization of intangible assets	1,186	956
Interest accrued	-	386
Total deferred tax assets	**5,990**	**4,041**
Deferred tax liabilities:		
Depreciation of fixed assets	3,177	1,999
Total deferred tax liabilities	**3,177**	**1,999**
Net deferred tax assets before valuation allowance	2,813	2,042
Less valuation allowance	(2,813)	(2,042)
Net deferred tax liability	-	**-**

Relationships between tax expenses and accounting profit for the year ended 31 December 2003 and 2002 are explained as follows:

	2003	2002
Profit before income taxes	14,324	27,953
Tax at the statutory tax rate (20%)	2,864	5,591
Tax effect of permanent differences (20%)	455	(196)
Change in valuation allowance	772	(521)
Loss carry forward	-	(1,626)
Effect of changes in income tax rate	-	(853)
Tax expense	4,091	2,395
Current tax expense	4,091	2,395
Income tax expense	**4,091**	**2,395**

12. CASH AND CASH EQUIVALENTS

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

	2003	2002
Cash on hand	113,673	36,921
Balances with the NBKR	103,362	124,263
Loans and advances to banks	313,310	426,703
Cash and cash equivalents	**530,345**	**587,887**

The balances with the NBKR of 103,362 thousand KGS and 124,263 thousand KGS as of 31 December 2003 and 2002 include 54,138 thousand KGS and 55,989 thousand KGS, respectively, which represents the minimum reserve deposit required by the National Bank of the Kyrgyz Republic ("NBKR"). The NBKR requires credit institutions to maintain reserves on the Bank's correspondent account with the NBKR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw from such accounts is not restricted by the statutory legislation.

13. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

	2003	2002
Loans to banks	249,808	385,031
Advances to banks	63,496	41,626
Accrued interest	6	46
	313,310	**426,703**

As of 31 December 2003 and 2002, the Bank had a significant exposure with Citibank, USA. The total balances with this bank were 128,300 thousand KGS and 357,411 thousand KGS as of 31 December 2003 and 2002, respectively. As of 31 December 2003 the Bank also had a significant exposure with Union Bank of California, USA, with total balance of 100,615 thousand KGS.

As of 31 December 2003 and 2002 the Bank had loans and advances to banks totalling 244,798 thousand KGS and 367,710 thousand KGS, respectively, which represent significant geographical concentration in the United States of America, forming 78% and 86% of the loan portfolio, respectively.

14. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As of 31 December 2003 the Bank purchased T-bills from the National Bank of the Kyrgyz Republic amounting to 50,056 thousand KGS under agreements to resell them within seven months. A coupon ranging from 5.55% to 7.05% of the nominal value is payable on T-bills. As of 31 December 2003 included in securities purchased under agreement to resell was accrued interest income amounting to 55 thousand KGS.

15. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

	2003	2002
Originated loans	12,038	4,102
Accrued interest	158	57
	12,196	4,159
Less allowance for loan losses	(303)	(83)
	11,893	**4,076**

	2003	2002
Loans collateralized by real estate	7,620	2,375
Loans collateralized by equipment	1,114	-
Loans collateralized by vehicles	1,336	606
Loans collateralized by others	1,420	1,006
Unsecured loans	548	115
Accrued interest income	158	57
	12,196	4,159
Less allowance for loan losses	(303)	(83)
Total loans and advances to customers	**11,893**	**4,076**

Movements in allowances for loan losses for the years ended 31 December 2003 and 2002 are disclosed in Note 6.

As of 31 December 2002 and 2001 the Bank had only loans issued to the residents of the country.

Analysis by sector

	2003	2002
Individuals	9,388	2,734
Production	1,105	-
Trading	1,015	922
Staff loans	530	446
Accrued interest	158	57
	12,196	4,159
Less allowance for loan losses	(303)	(83)
Total loans and advances to customers	**11,893**	**4,076**

16. INVESTMENT SECURITIES

	2003	2002
Securities available-for-sale:		
NBKR notes	29,954	-
T-bills	20,212	-
Eurobonds, Turkey	6,610	-
Accrued interest	60	-
	56,836	**-**
Securities held-to-maturity:		
Eurobonds, Turkey	-	13,498
T-bills	-	9,031
NBKR notes	-	8,785
Accrued interest	**-**	113
	-	**31,427**

As of 31 December 2003 included in securities available-for-sale and as of 31 December 2002 included in securities held-to-maturity was accrued interest income on Eurobonds issued by the Government of Turkey amounting to 60 thousand KGS and 113 thousand KGS, respectively.

T-bills are KGS denominated government securities issued at discount to face value. Eurobonds are securities issued by the Government of Turkey, and are freely tradable internationally. The Bank's portfolio of Turkish Eurobonds consists of securities with maturity in November 2004. The interest on these bonds is payable semi-annually.

During 2003 the Bank sold securities purchased in 2003 and initially classified as held-to-maturity amounting to 51,642 thousand KGS with a gain on sale amounting to 2,644 thousand KGS (see Note 8). The rest of the securities in held-to-maturity portfolio amounting to 34,321 thousand KGS were reclassified as available-for-sale securities. In accordance with IAS No. 39 the Bank will not classify any financial assets as held-to-maturity during the current financial year and during the two following financial years (see Note 4).

17. FIXED AND INTANGIBLE ASSETS

	Building	**CIP**	**Equipment under installation**	**Computers and Office equipment**	**Motor vehicles**	**Intangible assets**	**Total**
At cost							
At 31 December 2001	**45,932**	**-**	**-**	**17,915**	**1,829**	**40,424**	**106,100**
Additions	-	1,247	5,553	957	1,426	829	10,012
Disposals	-	-	-	(5,397)	(964)	(14,051)	(20,412)
At 31 December 2002	**45,932**	**1,247**	**5,553**	**13,475**	**2,291**	**27,202**	**95,700**
Additions	9,286	-	-	9,398	2,950	4,929	26,563
Transfers	-	(1,247)	(5,553)	6,800	-	-	-
Disposals	(1,528)	-	-	(5,111)	(546)	(12,031)	(19,216)
At 31 December 2003	**53,690**	**-**	**-**	**24,562**	**4,695**	**20,100**	**103,047**
Accumulated depreciation							
At 31 December 2001	**4,822**	**-**	**-**	**10,963**	**1,326**	**27,437**	**44,548**
Charge for the period	1,202	-	-	3,150	313	6,977	11,642
Disposals	-	-	-	(5,304)	(964)	(14,051)	(20,319)
At 31 December 2002	**6,024**	**-**	**-**	**8,809**	**675**	**20,363**	**35,871**
Charge for the period	1,031	-	-	4,601	819	5,197	11,648
Disposals	(1,528)	-	-	(5,077)	(542)	(12,031)	(19,178)
At 31 December 2003	**5,527**	**-**	**-**	**8,333**	**952**	**13,529**	**28,341**
Net book value							
At 31 December 2003	48,163	-	-	16,229	3,743	6,571	74,706
At 31 December 2002	39,908	1,247	5,553	4,666	1,616	6,839	59,829

Equipment for installation represents Automated Teller Machines (ATMs), which were installed and put into operation in January and February 2003. Construction in progress (CIP) represents cabins for ATMs. Included in intangible assets is software for ATMs in amount of 584 thousand KGS, which was installed in January and February 2003 along with the ATMs.

18. OTHER ASSETS

Other assets comprise:

	2003	2002
Foreclosed assets	14,914	14,115
Accounts receivable from insurance company	3,503	-
Other prepayments	2,283	1,419
Inventory	669	667
Traveller's cheques for sale	550	761
Other	1,515	99
	23,434	17,061
Less allowance for losses	(18,417)	(1,682)
Total other assets	**5,017**	**15,379**

Movements in allowances for losses for the years ended 31 December 2003 and 2002 are disclosed in Note 6.

In February 2000, the Bank foreclosed on the collateral for two large loans. Previously these loans, with principal balances totalling 530,584 USD were classified as doubtful, with a 50 percent loan loss reserve, and were accounted for on non-accrual basis. In January 2000, the Bank classified the loans as losses and created additional 50% loan loss allowance. It was agreed between the Bank and the borrower to fix the value of collateral to 29,174 thousand KGS, which represented full repayment of the outstanding principal and partial repayment of interest due on the loans. The foreclosed assets consist of real estate, with the largest item being an unfinished apartment building. The assets were foreclosed by the Bank with the intention to subsequently realize them.

At the time of the foreclosure in February 2000, the Bank reversed the allowance for loan losses provided against the above loans in 1999 and in January 2000. The foreclosed assets were recorded at a value that approximates the cost of the Bank's investment at the time, which included interest receivable covered by the fair value of the assets. Under former local banking regulations foreclosed assets should have been sold within three years and the Bank should have made write-offs on a regular basis, unless the foreclosed assets are realized. In line with the Regulation of the NBKR #20/2 "On classification of assets and loan loss reserves formation" dated 26 April 2002 ("Regulation") item 9.1., which stated that the foreclosed assets should be initially classified as Substandard (25% reserve), the Bank's management, by following the conservative approach, decided to classify the building on Moskovskaya street as Doubtful (50% reserve), which resulted in an allowance of 243,013 USD, and respectively reverse over accrued amount of value decrease, which was 85,498 USD on 24 June 2002. Due to fact that after completion of the building's infrastructure the Bank shall transfer 42.51% of the building to the share participants based on the Amicable agreement conditions and further have 50% provision of the value of the building after the above stated transfer, the Bank's management proposed to start monthly accrual till the end of 2002 in the amount of 6,078.84 USD in KGS equivalent. Taking into consideration changes of the above stated Regulation, the Bank accrued 1,682 thousand KGS as provision in 2002. As of 31 December 2003 to comply with the Regulation, the Bank has established a 100% allowance for losses on foreclosed assets amounting to 14,914 thousand KGS (see Note 6).

As of 31 December 2003, accounts receivable from insurance company amounting to 3,503 thousand KGS represent insurance proceeds expected to be received from the Turkish insurance company Demir Segorta. During 2003 there was an incident of cash burglary for this amount, and the Bank initiated investigation through law enforcement agencies. The Bank claimed that it has insurance coverage for such events in their insurance policy. However, the insurance company disclaimed to pay insurance coverage stating that the Bank's failure to follow securities rules and requirements. The Bank sued the insurance company and the case started in August 2003. Per the Bank's opinion there is a strong possibility that the Bank will gain the insurance proceeds. As of 31 December 2003 the Bank has formed a 100% reserve on the account receivable from Demir Segorta (see Note 6).

19. DEPOSITS FROM BANKS

Deposits from banks comprise:

	2003	2002
Demand deposits	83	376
Total deposits from banks	**83**	**376**

20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2003	2002
Repayable on demand	564,556	568,832
Time deposits	18,917	18,035
Cash collateral	3,242	4,926
Accrued interest	110	125
Total customer accounts	**586,825**	**591,918**

21. OTHER LIABILITIES

	2003	2002
Accrued expenses	1,423	1,738
Allowance for losses on guarantees	529	67
Collateral for safety boxes	409	352
IMT one time payment	329	939
Payables for operations with cheques	40	32
Shareholders’ contribution	-	11,432
Other	3,818	392
Total other liabilities	**6,548**	**14,952**

Movements in provisions for the years ended 31 December 2003 and 2002 are disclosed in Note 6.

During the Extraordinary shareholders meeting on 25 November 2002 the shareholders of the Bank decided to increase the paid-in-capital of Demir Kyrgyz International Bank to 100 million KGS in line with the requirement of the National Bank of Kyrgyz Republic on capital increase. The capital increase was done by adding the dividends paid in 2003 and contributed back by the shareholders in the amount of 13,459 thousand KGS and additional contribution in the amount of 32,489 thousand KGS. As of 31 December 2002 one of the shareholders – Mr. Halit Cingillioglu had paid his portion in the amount of 11,432 thousand KGS. During the year ended 31 December 2003 the new share issue was finalized at receipt of contributions from other shareholders. The amount of 11,432 thousand KGS was transferred from other liabilities to shareholders’ equity (see Note 22).

22. SHAREHOLDERS’ EQUITY

At 31 December 2003 and 2002 share capital authorised, issued and fully paid comprised of 100,000 and 54,052 ordinary shares, respectively, with par value of 1,000 KGS. All ordinary shares are ranked equally and carry one vote. As at 31 December 2003 and 2002 the balance of the share capital amounted to 100,000 thousand KGS and 54,052 thousand KGS, respectively. During the year ended 31 December 2003 the Bank issued 45,948 ordinary shares.

On 25 November 2002 the shareholders of the Bank have decided to increase the Bank’s share capital. Nominal value of new shares to be issued equals to 45,948 thousand KGS. Such issuance has not been closed as at 31 December 2002, the contribution was made only by one shareholder, which is described in Note 21. The contribution by other shareholders was made during the year ended 31 December 2003.

In 2003 the Meeting of shareholders of the Bank made a decision to pay dividends for 2002 in the total amount of 13,459 thousand KGS after tax paid in amount of 1,496 thousand KGS. The dividends were paid during 2003. This amount was transferred back to the Bank as an increase to the share capital.

23. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2003 and 2002, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	31 Dec 2003		**31 Dec 2002**	
	Nominal Amount	**Risk Weighted Amount**	**Nominal Amount**	**Risk Weighted Amount**
Guarantees issued and similar commitments	23,552	20,310	3,511	3,511
Commitments on credits and unused credit lines	18,467	9,233	-	-
Letters of credit and other transaction related contingent obligations	6,032	1,207	-	-
Total contingent liabilities and credit commitments	**48,051**	**30,750**	**3,511**	**3,511**

As of 31 December 2003, guarantees of 3,242 thousand KGS were secured by cash deposited at customer accounts (Note 20).

The Bank has made a provision of 528 thousand KGS and 67 thousand KGS against commitments under guarantees given issued as of 31 December 2003 and 2002.

Capital commitments - The Bank had no material commitments for capital expenditures outstanding as of 31 December 2003 and 2002.

Operating leases – In the normal course of business, the Bank entered into operating lease agreement for branch facilities. Lease payment commitment for 6 months of 2003 amounted to 595 thousand KGS. On 25 November 2002 the Supervisory Board approved purchasing and renovation of the building for the Osh branch, which took place in November 2003.

Fiduciary activities - The Bank provides depositary services to its customers. As of 31 December 2003 and 2002 the Bank held the clients' securities on its accounts for nominal holding in the amount of 342,376 and 224,511 securities, respectively.

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

Taxes **–** Kyrgyz commercial legislation, and tax legislation in particular, may give rise to varying interpretation and amendments, which may be retrospective. In additions, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans **-** Employees receive pension benefits from the Kyrgyz Republic in accordance with the laws and regulations of the country. As of 31 December 2003 and 2002, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

24. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24, are those counter parties that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

	2003		**2002**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans and advances to banks	14,224	313,304	11,305	426,657
Interest income accrued on loans and advances to banks	-	6	1	46
Deposits from financial institutions	1	83	1	376

During the years ended 31 December 2003 and 2002 the Bank originated loans and advances to banks - related parties amounting to 535,919 thousand KGS and 147,415 thousand KGS, respectively, and received loans and advances repaid of 532,997 thousand KGS and 138,214 thousand KGS, respectively.

During the years ended 31 December 2003 and 2002 the Bank received advances from banks - related parties of 31,893 thousand KGS and 135,466 thousand KGS, respectively, and repaid deposits and advances totaling 31,893 thousand KGS and 161,306 thousand KGS, respectively.

Included in the profit and loss account for the years ended 31 December 2003 and 2002 are the following amounts which arose due to transactions with related parties:

	2003		2002	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	194	10,331	77	7,343
Interest expense	(19)	(821)	(3,360)	(4,589)

All transactions with related parties entered by the Bank during the years ended 31 December 2003 and 2002 and outstanding as of 31 December 2003 and 2002 were made in the normal course of business and under arm-length conditions.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2003 and 2002 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

***Cash and balances with the National Bank of the Kyrgyz Republic* -** For these short-term instruments the carrying amount is a reasonable estimate of fair value.

***Loans and advances to banks* –** As of 31 December 2003 and 2002, the carrying amount of short-term deposits and advances given is a reasonable estimate of their fair value.

***Securities purchased under repurchase agreements* -** As of 31 December 2003, the fair value of securities purchased under agreements to resell amounting to 49,365 thousand KGS is determined based on market value of backed securities and other assets with reference to an active market.

***Loans and advances to customers* -** The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Securities available-for-sale - As of 31 December 2003 securities available-for-sale are stated at fair value amounting to 56,776 thousand KGS, plus accrued coupon income totaling 60 thousand KGS. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. As of 31 December 2002 the Bank had securities held-to-maturity with the fair value, determined as cost adjusted for amortization of premiums and discounts, of 31,414 thousand KGS, plus accrued interest income totaling 113 thousand KGS, and after sale of a significant portion of securities during 2003 all securities in held-to-maturity portfolio were reclassified to available-for-sale portfolio (Note 16).

Deposits from banks - As of 31 December 2003 and 2002 the carrying amount of short-term deposits and deposits repayable on demand of 83 thousand KGS and 376 thousand KGS, respectively, is a reasonable estimate of their fair value.

Customer accounts - As of 31 December 2003 and 2002 the carrying amount of short-term deposits and current accounts of the Bank's customers of 586,825 thousand KGS and 591,918 thousand KGS, respectively, is a reasonable estimate of their fair value.

26. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital and the Bank's provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimate	Description of position
0%	Cash and balances with the National Bank of the Kyrgyz Republic
0%	State debt securities in Kyrgyz Soms
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
0%	Standby letters of credit secured by customer funds
50%	Other standby letters of credit and other transaction related contingent obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Guarantees issued and similar commitments

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

Capital amounts and ratios	Actual Amount in thousand KGS	For Capital Adequacy purposes (amount in thousand KGS)	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As of 31 December 2003				
Total capital	136,562	130,249	62%	8 %
Tier 1 capital	119,757	119,757	57%	4 %
As of 31 December 2002				
Total capital	94,932	95,082	58%	8 %
Tier 1 capital	69,373	69,373	42%	4 %

27. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

Liquidity risk

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs, guarantees and from margin and other calls on derivatives settled by cash. 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 Bank's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following table presents an analysis of interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined (incl. allowance for losses)	2003 Total KGS thousand
ASSETS								
Loans and advances to banks	313,310	-	-	-	-	-	-	313,310
Securities purchased under agreement to resell	-	-	50,056	-	-	-	-	50,056
Loans and advances to customers, less allowance for loan losses	1,438	65	8,706	1,244	-	743	(303)	11,893
Investment securities	33,686	12,889	10,261	-	-	-	-	56,836
Total interest bearing assets	348,434	12,954	69,023	1,244	-	743	(303)	432,095
Cash and balances with the NBKR	217,035	-	-	-	-	-	-	217,035
Fixed and other intangible assets, less accumulated depreciation	-	-	-	26,543	48,163	-	-	74,706
Current income tax assets	1,165	-	-	-	-	-	-	1,165
Other assets, less allowance for losses	23,434	-	-	-	-	-	(18,417)	5,017
TOTAL ASSETS	590,068	12,954	69,023	27,787	48,163	743	(18,720)	730,018
LIABILITIES								
Deposits from banks	83	-	-	-	-	-	-	83
Customer accounts	569,878	884	16,063	-	-	-	-	586,825
Total interest bearing liabilities	569,961	884	16,063	-	-	-	-	586,908
Other liabilities	6,019	-	-	-	-	-	529	6,548
TOTAL LIABILITIES	575,980	884	16,063	-	-	-	529	593,456
Liquidity gap	14,088	12,070	52,960	27,786	48,164	743		
Interest sensitivity gap	(221,527)	12,070	52,960	1,244	-	743		
Cumulative interest sensitivity gap	(221,527)	(209,457)	(156,497)	(155,253)	(155,253)	(154,510)		
Cumulative interest sensitivity gap as a percentage of total assets	30.3%	28.7%	21.4%	21.3%	21.3%			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined (incl. allowance for losses)	2002 Total KGS thousand
ASSETS								
Loans and advances to banks	426,703	-	-	-	-	-	-	426,703
Loans and advances to customers, less allowance for loan losses	57	203	3,535	364	-	-	(83)	4,076
Investment securities	8,785	9,031	6,972	6,639	-	-	-	31,427
Total interest bearing assets	435,545	9,234	10,507	7,003	-	-	(83)	462,206
Cash and balances with the NBKR	161,184	-	-	-	-	-	-	161,184
Fixed and other intangible assets, less accumulated depreciation	-	-	-	19,921	39,908	-	-	59,829
Current income tax assets	3,580	-	-	-	-	-	-	3,580
Other assets, less allowance for losses	17,061	-	-	-	-	-	(1,682)	15,379
TOTAL ASSETS	**617,370**	**9,234**	**10,507**	**26,924**	**39,908**	**-**	**(1,765)**	**702,178**
LIABILITIES								
Deposits from banks	376	-	-	-	-	-	-	376
Customer accounts	583,378	940	7,600	-	-	-	-	591,918
Total interest bearing liabilities	583,754	940	7,600	-	-	-	-	592,294
Other liabilities	14,885	-	-	-	-	-	67	14,952
TOTAL LIABILITIES	**598,639**	**940**	**7,600**	**-**	**-**	**-**	**67**	**607,246**
Liquidity gap	18,731	8,294	2,907	26,924	39,908	-		
Interest sensitivity gap	(148,209)	8,294	2,907	7,003	-	-		
Cumulative interest sensitivity gap	(148,209)	(139,915)	(137,008)	(130,005)	(130,005)	(130,005)		
Cumulative interest sensitivity gap as a percentage of total assets	21.1%	19.9%	19.5%	18.5%	18.5%			

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

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

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Bank's previous experience indicate that these deposits are a stable and long-term source of finance for the Bank.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

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 rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above. Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

	2003		**2002**		
	KGS	**USD**	**KGS**	**USD**	**EUR**
ASSETS					
Loans and advances to banks	-	1%	6%	1.5%	-
Securities purchased under agreement to resell	6%	-	-	-	-
Loans and advances to customers	33%	23%	33%	25%	-
Investment securities:					
- available for sale	4%	10%	-	-	-
- held-to-maturity	-	-	4%	9%	-
LIABILITIES					
Deposits from banks	-	-	-	-	3.5%
Customer accounts	4%	1%	8%	1%	-

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. Additionally, as disclosed in maturity analysis above, the maturity dates applicable to the majority of the Bank's assets and liabilities are relatively short-term. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Currency risk

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

	KGS	USD 1USD= KGS 44.1902	Other currency	Currency undefined (incl. allowance for losses)	2003 KGS thousand Total
ASSETS					
Cash and balances with the NBKR	120,614	94,413	2,008	-	217,035
Loans and advances to banks	-	281,595	31,715	-	313,310
Securities purchased under agreement to resell	50,056	-	-	-	50,056
Loans and advances to customers, less allowance for loan losses	1,205	10,991	-	(303)	11,893
Investment securities	50,166	6,670	-	-	56,836
Fixed and other intangible assets, less accumulated depreciation	74,706	-	-	-	74,706
Current income tax assets	1,165	-	-	-	1,165
Other assets, less allowance for losses	17,973	5,068	393	(18,417)	5,017
TOTAL ASSETS	**315,885**	**398,737**	**34,116**	**(18,720)**	**730,018**
LIABILITIES					
Deposits from banks	1	82	-	-	83
Customer accounts	164,228	389,900	32,697	-	586,825
Other liabilities	899	5,032	88	529	6,548
TOTAL LIABILITIES	**165,128**	**395,014**	**32,785**	**529**	**593,456**
OPEN BALANCE SHEET POSITION	**150,757**	**3,723**	**1,332**		

	KGS	USD 1USD= KGS 46.0949	Other currency	Currency undefined (incl. allowance for losses)	2002 KGS thousand Total
ASSETS					
Cash and balances with the NBKR	139,368	20,543	1,273	-	161,184
Loans and advances to banks	-	407,023	19,680	-	426,703
Loans and advances to customers, less allowance for loan losses	602	3,557	-	(83)	4,076
Investment securities	17,816	13,611	-	-	31,427
Fixed and other intangible assets, less accumulated depreciation	59,829	-	-	-	59,829
Current income tax assets	3,580	-	-	-	3,580
Other assets, less allowance for losses	16,209	832	20	(1,682)	15,379
TOTAL ASSETS	**237,404**	**445,566**	**20,973**	**(1,765)**	**702,178**
LIABILITIES					
Deposits from banks	322	54	-	-	376
Customer accounts	146,958	432,267	12,693	-	591,918
Other liabilities	1,225	13,083	577	67	14,952
TOTAL LIABILITIES	**148,505**	**445,404**	**13,270**	**67**	**607,246**
OPEN BALANCE SHEET POSITION	88,899	162	7,703		

The off-balance sheet currency position represents the difference between the notional amounts of foreign currency derivative instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values reported on the balance sheet.

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and product by industry sector are approved by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee which is called once a week. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.
The credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

Geographical concentration

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

	Kyrgyz Republic	OECD countries	Other non-OECD countries	Undefined (incl. Allowance for losses)	2003 KGS thousand Total
ASSETS					
Cash and balances with the NBKR	217,035	-	-	-	217,035
Loans and advances to banks	-	269,596	43,714	-	313,310
Securities purchased under agreement to resell	50,056	-	-	-	50,056
Loans and advances to customers, less allowance for loans losses	12,196	-	-	(303)	11,893
Investment securities	50,166	6,670	-	-	56,836
Fixed and other intangible assets, less accumulated depreciation	74,706	-	-	-	74,706
Current income tax assets	1,165	-	-	-	1,165
Other assets, less allowance for losses	19,381	4,053	-	(18,417)	5,017
TOTAL ASSETS	**424,705**	**280,319**	**43,714**	**(18,720)**	**730,018**
LIABILITIES					
Deposits from banks	81	-	2	-	83
Customer accounts	586,825	-	-	-	586,825
Other liabilities	6,019	-	-	529	6,548
TOTAL LIABILITIES	**592,925**	**-**	**2**	**529**	**593,456**
NET BALANCE SHEET POSITION	**(168,220)**	**280,319**	**43,712**		

	Kyrgyz Republic	OECD countries	Other non-OECD countries	Undefined (incl. Allowance for losses)	2002 KGS thousand Total
ASSETS					
Cash and balances with the NBKR	161,184	-	-	-	161,184
Loans and advances to banks	-	390,942	35,761	-	426,703
Loans and advances to customers, less allowance for loan losses	4,159	-	-	(83)	4,076
Investment securities	17,816	13,611	-	-	31,427
Fixed and other intangible assets, less accumulated depreciation	59,829	-	-	-	59,829
Current income tax assets	3,580	-	-	-	3,580
Other assets, less allowance for losses	16,300	761	-	(1,682)	15,379
TOTAL ASSETS	**262,868**	**405,314**	**35,761**	**(1,765)**	**702,178**
LIABILITIES					
Deposits from banks	53	-	323	-	376
Customer accounts	591,918	-	-	-	591,918
Other liabilities	3,454	11,431	-	67	14,952
TOTAL LIABILITIES	**595,425**	**11,431**	**323**	**67**	**607,246**
NET BALANCE SHEET POSITION	**(332,557)**	**393,883**	**35,438**		