CJSC Demir Kyrgyz International Bank

Financial Statements

for the year ended 31 December 2006

Contents

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Independent Auditors' Report

Board of Directors
CJSC Demir Kyrgyz International Bank

Report on the Financial Statements

We have audited the accompanying financial statements of CJSC Demir Kyrgyz International Bank (the "Bank"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 auditor's 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 principles used and 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 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Bishkek LLC

14 February 2007

	Notes	2006 KGS'000	2005 KGS'000
Interest income	4	84,702	46,489
Interest expense	4	(3,931)	(1,828)
Net interest income		**80,771**	**44,661**
Fee and commission income	5	60,720	68,859
Fee and commission expense	6	(4,999)	(5,623)
Net fee and commission income		**55,721**	**63,236**
Net foreign exchange gain	7	20,662	20,379
Other income	8	4,047	11,061
Operating income		**161,201**	**139,337**
Impairment losses	9	(1,779)	(1,982)
Administrative expenses	10	(83,390)	(76,703)
Operating expenses		**(85,169)**	**(78,685)**
Profit before tax		**76,032**	**60,652**
Income tax expense	11	(7,661)	(10,812)
Net income		**68,371**	**49,840**

The financial statements as set out on pages 5 to 38 were approved on 14 February 2007.

Ahmet Parmaksiz
General Manager

Cholpon Suvanbekova
Chief Accountant

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

	Notes	2006 KGS'000	2005 KGS'000
ASSETS			
Cash		268,309	141,013
Due from the National Bank of the Kyrgyz Republic		290,515	255,551
Placements with banks	12	430,965	421,433
Amounts receivable from banks under reverse repurchase agreements	13	85,932	21,023
Loans to customers	14	378,539	202,170
Available-for-sale assets	15	-	50,122
Held to maturity investments	16	11,296	-
Property and equipment	17	78,533	82,179
Intangible assets	18	10,218	8,466
Other assets	19	8,940	9,474
Total Assets		**1,563,247**	**1,191,431**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits and balances from banks		1,280	15,815
Current accounts and deposits from customers	20	1,243,347	927,799
Income tax liabilities	21	5,780	4,668
Other liabilities	22	9,009	7,573
Total Liabilities		**1,259,416**	**955,855**
Shareholders' Equity			
Share capital	23	132,540	132,540
Share premium		1	1
Revaluation reserve for available-for-sale assets		-	116
Retained earnings		171,290	102,919
Total Shareholders' Equity		**303,831**	**235,576**
Total Liabilities and Shareholders' Equity		**1,563,247**	**1,191,431**
Commitments and Contingencies	24,25		

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

	Notes	2006 KGS'000	2005 KGS'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		78,741	43,695
Interest paid		(3,841)	(1,844)
Fees and commissions received		60,720	67,382
Fees and commissions paid		(4,999)	(5,623)
Realised foreign exchange gain		19,272	20,661
Other operating income		4,047	11,189
Salaries and employment benefits		(36,659)	(35,385)
Other administrative expenses		(29,910)	(29,218)
Cash flows from operating activities before changes in net operating assets		**87,371**	**70,857**
(Increase)/decrease in operating assets:			
Amounts receivable under reverse repurchase agreements		(64,909)	(13,719)
Loans to customers		(177,887)	(97,865)
Other assets		(1,044)	15,194
Increase/(decrease) in operating liabilities:			
Deposits and balances from banks		(14,535)	15,735
Current accounts and deposits from customers		317,754	3,049
Other liabilities		277	(4,100)
Cash flows from operating activities before income tax paid		**147,027**	**(10,849)**
Income tax paid		(6,549)	(11,053)
Cash flows from operating activities		**140,478**	**(21,902)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities		(54,703)	(163,157)
Proceeds from redemption of investment securities		98,149	160,519
Purchases of property and equipment		(6,890)	(19,158)
Sales of property and equipment		11	487
Purchases of intangible assets		(4,330)	(5,643)
Cash flows from investing activities		32,237	(26,952)
Net increase/(decrease) in cash and cash equivalents		**172,715**	**(48,854)**
Effects of exchange rate changes on cash and cash equivalents		(923)	(864)
Cash and cash equivalents at the beginning of the year		817,997	867,715
Cash and cash equivalents at the end of the year	26	**989,789**	**817,997**

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

	Share capital	Share premium	Revaluation reserve for available-for-sale assets	Retain earnin	
	KGS'000	KGS'000	KGS'000	KG	
Balance at 1 January 2005	**132,540**	**1**	**55**	**5**	
Net income for the year	-	-	-	4	
Net unrealised gains on available-for-sale assets	-	-	61		
Balance at 31 December 2005	**132,540**	**1**	**116**	**10**	
Net income for the year	-	-	-	6	
Net realised gains on available-for-sale assets transferred to the income statement on disposal	-	-	(116)		
Balance at 31 December 2006	**132,540**	**1**	**-**	**17**	

The statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the financial s

1 Background

(a) Principal activities

The Bank was established in the Kyrgyz Republic on 2 May 1997 as a closed joint-stock company and was granted a licence for banking activities in the national currency №35 on 2 May 1997, and a licence for banking activities in foreign currencies №35/1 on 2 May 1997 (renewed on 11 March 1999 and on 20 April 2005). The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of the Kyrgyz Republic ("NBKR").

The Bank has two branches operating in Bishkek and Osh. The registered address of the Bank's head office is 245, Chui Avenue, Bishkek 720001, Kyrgyz Republic. The majority of the Bank's assets and liabilities are located in the Kyrgyz Republic.

The average number of persons employed by the Bank during the year was 133 (2005: 134)

(b) Shareholders

As of 31 December 2006 and 2005, the Bank's ownership structure was as follows:

Shareholders	2006 %	2005 %
Halit Cingillioglu	70	70
International Finance Corporation (IFC)	15	15
European Bank for Reconstruction and Development (EBRD)	15	15
	100	100

(c) Kyrgyzstan business environment

The Kyrgyz Republic has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Kyrgyz Republic involve risks, which do not typically exist in other markets. The accompanying 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale assets are stated at fair value.

(c) Functional and presentation currency

The national currency of the Kyrgyz Republic is Kyrgyz som ("KGS"). Management has determined the Bank's functional currency to be the KGS as it reflects the economic substance of the underlying events and circumstances of the Bank. The KGS is also the Bank's presentation currency for the purposes of these financial statements.

Financial information presented in KGS has been rounded to the nearest thousand.

(d) Convertibility of the Kyrgyz som

The KGS is not a convertible currency outside the Kyrgyz Republic and, accordingly, any conversion of KGS amounts to USD should not be construed as a representation that KGS amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

(e) Use of estimates and judgments

Management has made 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 in respect of loan impairment estimates is described in Note 14.

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows at 31 December 2006 and 31 December 2005:

Currency	**2006**	**2005**
1 United States Dollar	38.1238	41.3011
1 Euro	50.1805	48.9686

(b) Cash and cash equivalents

The Bank considers cash, balances with the NBKR and placements with banks with original maturity up to 3 months to be cash and cash equivalents. The regulatory reserve is considered to be a cash equivalent due to the absence of formal restrictions on its withdrawal.

(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;

- a derivative (except for a derivative that is a designated and effective hedging instrument); or,

- upon initial recognition, designated by the entity as at fair through the profit or loss.

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

3 Significant accounting policies, continued

(c) Financial instruments (continued)

(i) Classification (continued)

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, those that the Bank upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;

- those that the Bank designates as available-for-sale; or

- those that meet the definition of loans and receivables.

Available-for-sale assets are financial assets are those 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 balance sheet 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 trade date.

(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 amortized cost using the effective interest method;

- held to maturity investments which are measured at amortized cost using the effective interest method; and

- 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.

3 Significant accounting policies, continued

(c) Financial instruments (continued)

(iii) Measurement (continued)

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. Amortised cost is calculated using the effective interest method. 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

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(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 recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement

- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

3 Significant accounting policies, continued

(c) Financial instruments (continued)

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

(d) Reverse repurchase agreements

Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the reverse repo agreement using the effective interest method.

(e) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

(f) Property and equipment

(i) Owned assets

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

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 the income statement 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
Furniture and equipment	5 years
Vehicles	5 years

3 Significant accounting policies, continued

(g) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 years.

(h) 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 an impact on the estimated future cash flows of the loan that can be reliably estimated.

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.

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 are few 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 the income statement 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.

3 Significant accounting policies, continued

(h) Impairment (continued)

(ii) Other assets

Other assets, except for deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of other 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 other assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss revered 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.

(i) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet 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.

3 Significant accounting policies, continued

(k) Interest income and expenses and fee and commission income

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

Other fee and commission income is recognised when the corresponding service is provided.

(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 2006, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new Standards on its financial statements.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's capital.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received can not be specially identified. IFRIC 8 will become mandatory for the Bank's 2007 financial statements, which retrospective application required.
- IFRIC 9 *Reassessment of Embedded Derivative* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Bank's 2007 financial statements.

4 Net interest income

	2006 KGS '000	2005 KGS '000
Interest income		
Loans to customers	57,680	26,412
Placements with banks and other financial institutions	22,287	17,429
Amounts receivable under reverse repurchase agreements	3,818	827
Investment securities	917	1,821
	84,702	**46,489**
Interest expense		
Current accounts and deposits from customers	(3,931)	(1,828)
	80,771	**44,661**

The amount of interest income on impaired loans recognised in income for the year ended 31 December 2006 amounted to KGS 112 thousand (2005: KGS 109 thousand).

5 Fee and commission income

	2006 KGS '000	2005 KGS '000
Transfer operations	25,753	26,623
Cash operations	21,095	24,523
Guarantee and letter of credit issuance	1,879	4,811
Account maintenance	2,551	2,658
Plastic card service	2,267	1,477
Account opening	1,238	1,177
Other	5,937	7,590
	60,720	**68,859**

6 Fee and commission expense

	2006 KGS '000	2005 KGS '000
Correspondent bank services	2,508	2,818
Cash operations	1,200	1,693
Other	1,291	1,112
	4,999	**5,623**

7 Net foreign exchange gain

	2006 KGS ’000	2005 KGS ’000
Gain on spot transactions	19,272	20,324
Gain from revaluation of financial assets and liabilities	1,390	55
	20,662	**20,379**

8 Other income

	2006 KGS ’000	2005 KGS ’000
Bank property rental	3,433	3,435
Sale of foreclosed assets	-	6,755
Other	614	871
	4,047	**11,061**

9 Impairment losses

	2006 KGS ’000	2005 KGS ’000
Impairment losses		
Loans to customers	2,743	2,947
Off-balance sheet commitments	-	202
	2,743	**3,149**
Reversals of impairment losses		
Off-balance sheet commitments	(964)	-
Foreclosed assets	-	(1,167)
	(964)	**(1,167)**
Net impairment losses	**1,779**	**1,982**

10 Administrative expenses

	2006 KGS '000	2005 KGS '000
Employee compensation and payroll related taxes	38,035	35,339
Depreciation and amortisation	13,103	10,948
Taxes other than on income	5,407	4,960
Maintenance	4,764	4,485
Insurance	3,919	4,077
Communications and information services	2,306	1,853
Security	2,216	2,076
Entertainment/business promotions	2,069	1,675
Office rent	1,780	1,647
Training	1,761	976
Professional services	1,720	1,531
Travel expenses	1,500	1,168
Advertising and marketing	1,292	1,043
Utilities	780	784
Office supplies	609	915
Other	2,129	3,226
	83,390	**76,703**

11 Income tax expense

	2006 KGS '000	2005 KGS '000
Current tax expense		
Current year	7,510	10,675
Over provided in prior years	(110)	-
	7,400	**10,675**
Deferred tax expense		
Origination and reversal of temporary differences	261	137
	261	**137**
Total income tax expense in the income statement	**7,661**	**10,812**

11 Income tax expense, continued

During the year ended 31 December 2005, the corporate income tax rate was 20%. In accordance with the Law of the Kyrgyz Republic # 32 On changes and additions to the Tax Code of the Kyrgyz Republic issued on 1 February 2006, the statutory income tax rate for the period starting from 1 January 2006 is 10%.

Reconciliation of effective tax rate:

	2006 KGS '000	%	2005 KGS '000	%
Income before tax	76,032	100	60,652	100
Income tax at the applicable tax rate	7,603	10	12,130	20
Non-deductible costs	168	-	625	1
Over provided in prior years	(110)	-	-	-
Effect of change in tax rate	-	-	(1,943)	(3)
	7,661	**10**	**10,812**	**18**

12 Placements with banks

	2006 KGS '000	2005 KGS '000
Loans and deposits	347,526	346,542
Nostro accounts	83,217	74,780
Accrued interest	222	111
	430,965	**421,433**

Concentration of placements with banks

As at 31 December 2006 and 2005 the Bank had 6 and 2 banks, respectively, whose balances exceeded 10% of total placements with banks. The gross value of these balances as of 31 December 2006 and 2005 were KGS 308,392 thousand and KGS 309,758 thousand, respectively.

13 Amounts receivable from banks under reverse repurchase agreements

As of 31 December 2006 and 2005, amounts receivable under reverse repurchase agreements were collateralized by the NBKR notes with fair values of KGS 85,932 thousand and KGS 21,023 thousand respectively.

14 14 Loans to customers

Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Kyrgyz Republic, who operate in the following economic sectors:

	2006	**2005**
	KGS '000	**KGS '000**
Retail customers		
Mortgage loans (including construction)	26,338	19,357
Vehicle loans	2,651	2,243
Staff loans	2,311	2,320
Other consumer loans	5,438	5,178
Commercial customers		
Trade	161,724	39,781
Manufacturing	107,975	97,999
Real estate (including construction)	52,892	27,081
Services	23,236	11,789
Other	1,070	-
Accrued interest	3,056	1,831
	386,691	**207,579**
Provision for impairment	(8,152)	(5,409)
	378,539	**202,170**

Significant credit exposures

There were no significant credit exposures at 31 December 2006. As at 31 December 2005 the Bank had one group of related borrowers, whose loan balances exceeded more than 10% of loans to customers. The gross value of these loans as of 31 December 2005 was and KGS 29,713 thousand.

14 Loans to customers, continued

Contractually overdue loans

Information in relation to loans with contractually overdue principal or interest as at 31 December 2006 and 2005, is summarised as follows:

	2006 KGS '000	2005 KGS '000
Gross loans with contractually overdue principal or interest	14	5,714
Provision for impairment	(14)	(1,320)
Net contractually overdue loans recorded in the balance sheet	**-**	**4,394**

Analysis of movements in the provision for impairment

	2006 KGS '000	2005 KGS '000
Balance at the beginning of the year	5,409	2,462
Net charge for the year	2,743	2,947
Balance at the end of the year	**8,152**	**5,409**

As described in Note 2 (e), the Bank uses its experience and judgment to estimate the amount of impairment loss as for loans and advances to customers. The Bank considers whether objective evidence of impairment exists for loans on an individual basis at each balance sheet date. For the purpose of estimating impairment amount the calculation of the present value of the estimated future cash flows of a collateralised loans reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The Bank has reviewed its current loan portfolio and has identified 6 loans (2005: 12) which display indicators of impairment. The gross book value of these loans as at 31 December 2006 was KGS 2,542 thousand (2005: KGS 5,941 thousand). The impairment loss recognised as at 31 December 2006 in respect of these loans was KGS 460 thousand (2005: KGS 1,273 thousand). Changes in these estimates could effect the loan impairment provision.

For loans for which no impairment is identified the assessment is performed based on the NBKR statutory requirements that require a 2% general provision on any loan unless it is a subject to 120% collateral by Government securities or by cash deposit with the Bank. The Bank has created a provision on these loans amounting KGS 7,692 thousand (2005: KGS 4,135 thousand). Changes in these estimates could effect the provision.

Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 31, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

15 Available-for-sale assets

	2006	2005
	KGS '000	**KGS '000**
NBKR notes	-	44,994
Government treasury bills	-	5,128
	-	**50,122**

16 Held to maturity investments

	2006	2005
	KGS '000	**KGS '000**
Government treasury bills	2,301	-
NBKR notes	8,995	-
	11,296	**-**

17 Property and equipment

KGS' 000	Buildings	Furniture and equipment	Vehicles	Equipment for installation	Construction-in-progress	Total
Cost						
At 1 January 2005	51,967	27,845	4,691	-	1,972	86,475
Additions	5,861	5,513	1,461	10,765	544	24,144
Transfers	2,014	5,541	-	(5,039)	(2,516)	-
Disposals	-	(4,873)	(331)	-	-	(5,204)
At 31 December 2005	59,842	34,026	5,821	5,726	-	105,415
Additions	328	6,554	8	-	-	6,890
Transfers	-	3,420	-	(3,420)	-	-
Disposals	-	(439)	-	-	-	(439)
At 31 December 2006	60,170	43,561	5,829	2,306	-	111,866
Depreciation						
At 1 January 2005	6,559	10,402	1,890	-	-	18,851
Depreciation charge	1,464	6,517	989	-	-	8,970
Disposals	-	(4,254)	(331)	-	-	(4,585)
At 31 December 2005	8,023	12,665	2,548	-	-	23,236
Depreciation charge	1,580	7,779	1,166	-	-	10,525
Disposals	-	(428)	-	-	-	(428)
At 31 December 2006	9,603	20,016	3,714	-	-	33,333
Carrying value						
At 31 December 2006	**50,567**	**23,545**	**2,115**	**2,306**	**-**	**78,533**
At 31 December 2005	51,819	21,361	3,273	5,726	-	82,179

18 Intangible assets

	KGS '000
Cost	
At 1 January 2005	7,027
Additions	5,643
Disposals	(256)
At 31 December 2005	12,414
Additions	4,364
Disposals	(363)
At 31 December 2006	16,415
Depreciation	
At 1 January 2005	2,225
Depreciation charge	1,979
Disposals	(256)
At 31 December 2005	3,948
Depreciation charge	2,578
Disposals	(329)
At 31 December 2006	6,197
Carrying value	
At 31 December 2006	**10,218**
At 31 December 2005	8,466

19 Other assets

	2006 KGS '000	2005 KGS '000
Prepayments	3,723	5,301
Materials and supplies	3,084	2,063
Other	2,133	2,110
	8,940	**9,474**

20 Current accounts and deposits from customers

	2006 KGS '000	2005 KGS '000
Current accounts and demand deposits		
- Retail	248,755	201,035
- Corporate	967,693	709,550
Term deposits		
- Corporate	3,684	3,178
- Retail	11,981	6,666
Cash collateral	11,094	7,320
Accrued interest	140	50
	1,243,347	**927,799**

Blocked accounts

As of 31 December 2006, the Bank maintained customer deposit balances of KGS 53,356 thousand (2005: KGS 7,320 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

Concentrations of current accounts and customer deposits

As of 31 December 2006 and 2005, the Bank had 2 and 3 customers, respectively, whose balances exceeded 10% of total customer accounts. These balances as of 31 December 2006 and 2005 were KGS 128,457 thousand and KGS 93,019 thousand, respectively.

21 Income tax liabilities

	2006 KGS '000	2005 KGS '000
Deferred income tax liabilities	2,204	1,943
Current income tax liabilities	3,576	2,725
Income tax liabilities	**5,780**	**4,668**

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2006 and 2005.

Movement in temporary differences during the year

KGS'000	Balance 1 January 2006	Recognised in income	Balance 31 December 2006
Intangible assets	318	(141)	177
Property and equipment	(2,261)	(120)	(2,381)
	(1,943)	**(261)**	**(2,204)**

22 Other liabilities

	2006 KGS '000	2005 KGS '000
Accrued expenses	5,641	5,180
Bonus payable to employees	1,359	-
Accounts payable	1,163	399
Collateral for safety deposit boxes	444	464
Provision for guarantees and letters of credit issued	107	1,071
Other	295	459
	9,009	**7,573**

Analysis of movements in the provision for guarantees and letters of credit issued

	2006 KGS '000	2005 KGS '000
Balance at the beginning of the year	1,071	869
Net (recovery)/charge for the year	(964)	202
Balance at the end of the year	**107**	**1,071**

23 Share capital

Issued capital and share premium

The authorised, issued and outstanding share capital comprises 132,540 ordinary shares (2005: 132,540). All shares have a par value of KGS 1,000. In addition the Bank's share capital includes 1 thousand KGS of share premium at 31 December 2006 and 2005.

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.

24 Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit lines.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years.

24 Commitments, continued

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2006	**2005**
	KGS '000	**KGS '000**
Contracted amount		
Loan and credit line commitments	36,493	25,109
Guarantees and letters of credit	18,777	65,096
Future date payments	29,749	27,666
	85,019	**117,871**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

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 Bank property or relating to the Bank's 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 the Bank's operations and financial position.

(b) Litigation

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

25 Contingencies, continued

(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 longer. Recent events within the Kyrgyz Republic suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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 Republic tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these IFRS financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26 Cash and cash equivalents

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

	2006	**2005**
	KGS ’000	**KGS ’000**
Cash	268,309	141,013
Balances with the NBKR	290,515	255,551
Placements with banks with an original maturity of up to 3 months (Note 12)	430,965	421,433
	989,789	**817,997**

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 funds from such accounts is not restricted by legislation. As of 31 December 2006, the Bank was in compliance with the reserve requirements.

27 Related party transactions

(a) Control relationships

The party with ultimate control over the Bank is Dr. Halit Cingillioglu.

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

Total Management Board members' remuneration included in employee compensation (refer Note 10) was KGS 11,267 thousand (2005: KGS 10,452 thousand). Staff loans (Note 14) include KGS 745 thousand (2005: KGS 611 thousand) due from the members of the Management Board.

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2006 and 31 December 2005 and related income statement amounts of transactions for the years then ended with other related parties are as follows. Other related parties are represented by Demir Kazakhstan Bank JSC (Kazakhstan) and Demir-Halk Bank (Netherlands) being under common control with the Bank.

	2006 Total KGS'000	2006 Average Interest Rate	2005 Total KGS'000	2005 Average Interest Rate
Balance Sheet				
Assets				
Placements with banks	38,166	6,8%	5,299	-
Loans to customers				
-Outstanding balances	745	15%	611	15%
-Provision for impairment	(15)	-	(12)	-
Liabilities				
Deposits and balances from banks	1,233	-	3,349	-
Income statement				
Interest income	201	-	286	-

28 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, which includes price, fair value interest rate and currency risks, credit risk and liquidity risk. These risks are managed in the following manner:

(a) Market risk

(i) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

(ii) Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Bank's exposure to fair value interest rate risk at year end refer to Note 29.

(iii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 32.

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

(b) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank.

The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Board of Directors. For further information on the Bank's exposure to liquidity risk at year end refer to Note 31.

29 Fair value of financial instruments

The estimated fair value of the Bank's financial assets and liabilities, as required to be disclosed by IAS 32 "Financial Instruments: Disclosure and Presentation", are as follows:

	2006 Fair Value KGS'000	2006 Carrying Value KGS'000	2005 Fair Value KGS'000	2005 Carrying Value KGS'000
ASSETS				
Cash	268,309	268,309	141,013	141,013
Balances with the NBKR	290,515	290,515	255,551	255,551
Placements with banks	430,965	430,965	421,433	421,433
Amounts receivable from banks under reverse repurchase agreements	85,932	85,932	21,023	21,023
Loans to customers	376,129	378,539	201,033	202,170
Available-for-sale assets	-	-	50,122	50,122
Held to maturity investments	11,296	11,296	-	-
Other assets	8,940	8,940	9,474	9,474
LIABILITIES				
Deposits and balances from banks	1,280	1,280	15,815	15,815
Current accounts and deposits from customers	1,243,347	1,243,347	927,799	927,799
Income tax liabilities	5,780	5,780	4,668	4,668
Other liabilities	9,009	9,009	7,573	7,573

The estimated fair values of quoted available-for-sale assets and held to maturity investments are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could 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.

30 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2006 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value KGS '000	2006 Average effective interest rate	Value KGS '000	2005 Average effective interest rate
Interest Bearing Assets				
Placements with banks				
Nostro accounts				
- USD	26,763	4,07%	38,906	3,20%
Loans and deposits				
- KGS	133,168	6,06%	12,300	0,00%
- USD	156,651	5,95%	309,758	4,22%
- other currencies	57,708	3,55%	24,484	2,79%
Amount receivable from banks under reverse repurchase agreements				
- KGS	85,832	8,48%	21,000	3,71%
Loans to customers				
- KGS	18,119	24,27%	10,138	27,62%
- USD	365,515	16,14%	195,609	17,21%
Available-for-sale assets				
- KGS	-	-	50,122	5,24%
Interest Bearing Liabilities				
Current accounts and deposits from customers				
Current accounts and demand deposits				
- KGS	23,240	2,65%	36,442	1,31%
- USD	148,699	1,06%	136,061	1,06%
Term deposits				
- KGS	9,386	5,43%	3,773	5,70%
- USD	5,168	1,00%	5,805	1,00%
- other currencies	1,111	1,00%	264	1,00%

31 Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2006. Due to the fact that substantially all the financial instruments of by the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

Assets	Overdue KGS '000	Less than 1 month KGS '000	1 to 3 months KGS '000	3 months to 1 year KGS '000	1 year to 5 years KGS '000			
Cash	-	268,309	-	-	-			
Due from the NBKR	-	290,515	-	-	-			
Placements with banks	-	290,611	81,292	59,062	-			
Amounts receivable from banks under reverse repurchase agreements	-	30,108	55,824	-	-			
Loans to customers	-	5,596	48,281	83,210	241,452			
Held to maturity investments	-	8,995	2,301	-	-			
Other assets	-	8,940	-	-	-			
Property and equipment	-	-	-	-	-			
Intangible assets	-	-	-	-	-			
Total assets	**-**	**903,074**	**187,698**	**142,272**	**241,452**			
Liabilities								
Deposits and balances from banks	-	1,280	-	-	-			
Current accounts and deposits from customers	-	1,174,326	59,726	6,302	2,993			
Other liabilities	-	9,009	-	-	-			
Income tax liabilities	-	3,576	-	-	-			
Total liabilities	**-**	**1,188,191**	**59,726**	**6,302**	**2,993**			
Net position as at 31 December 2006	**-**	**(285,117)**	**127,972**	**135,970**	**238,459**			
Net position as at 31 December 2005	**4,394**	**(80,838)**	**19,593**	**90,939**	**115,040**			

32 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2006:

	KGS	USD	EUR	Other currencies	Total
	KGS '000	**KGS '000**	**KGS '000**	**KGS '000**	**KGS '000**
Assets					
Cash	47,976	209,587	7,898	2,848	268,309
Due from the NBKR	290,515	-	-	-	290,515
Placements with banks	133,242	197,265	83,842	16,616	430,965
Amounts receivable from banks under reverse repurchase agreements	85,932	-	-	-	85,932
Loans to customers	17,913	360,626	-	-	378,539
Available-for-sale assets	-	-	-	-	-
Held to maturity investments	11,296	-	-	-	11,296
Other assets	4,499	4,153	288	-	8,940
Property and equipment	78,533	-	-	-	78,533
Intangible assets	10,218	-	-	-	10,218
Total assets	**680,124**	**771,631**	**92,028**	**19,464**	**1,563,247**
Liabilities					
Deposits and balances from banks	26	1,254	-	-	1,280
Current accounts and deposits from customers	371,759	758,988	93,811	18,789	1,243,347
Other liabilities	2,891	6,007	71	40	9,009
Income tax liabilities	5,780	-	-	-	5,780
Total liabilities	**380,456**	**766,249**	**93,882**	**18,829**	**1,259,416**
Net balance sheet position as of 31 December 2006	**299,668**	**5,382**	**(1,854)**	**635**	**303,831**
Net balance sheet positions as of 31 December 2005	229,936	25,119	252	(19,731)	235,576