

# **Demir Kyrgyz International Bank**

**IFRS Financial Statements**  
For the year ended 31 December 2004  
**and Independent Auditors' Report**

**DEMIR KYRGYZ INTERNATIONAL BANK**

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheet of Closed Joint-Stock Bank Demir Kyrgyz International Bank (hereinafter - the "Bank") as of 31 December 2004 and the related profit and loss account, statements of cash flows and changes in shareholders' equity for the year then ended prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 2004, and the results of its operations and its cash flows for the year then ended, in accordance with IFRS.

Without qualifying our opinion, we draw attention to the following matters.

As described in Note 2 to the accompanying financial statements, in recent years, the Kyrgyz Republic has experienced significant financial and economic difficulties. It is not possible to determine the future effect that these difficulties 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.

US Dollar amounts are provided in these financial statements for the convenience of the users of the financial statements. The amounts in these financial statements translated into US Dollars have been computed on the basis set forth in Note 3 to the accompanying financial statements and do not necessarily represent the US dollar amounts that would be ultimately received or paid on settlement of the Bank's assets and liabilities.

20 January 2005

# DEMIR KYRGYZ INTERNATIONAL BANK

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTES	Convenience translation (Note 3)			
		Year ended 2004 KGS'000	Year ended 2003 KGS'000	Year ended 2004 USD'000	Year ended 2003 USD'000
Interest income	5,24	20,844	10,331	491	236
Interest expenses	5,24	(1,250)	(821)	(29)	(18)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		19,594	9,510	462	218
Provision for loan losses	6	(2,159)	(220)	(52)	(5)
NET INTEREST INCOME		17,435	9,290	410	213
Net gain on foreign exchange operations		27,825	26,392	656	593
Fee and commission income	7	66,125	53,768	1,552	1,214
Fee and commission expense	7	(6,477)	(7,000)	(153)	(160)
Net gain on held-to-maturity securities	8	-	2,644	-	60
Other income	9	9,218	6,051	215	138
NET NON-INTEREST INCOME		96,691	81,855	2,270	1,845
OPERATING INCOME		114,126	91,145	2,680	2,058
OPERATING EXPENSES	10	(66,541)	(59,624)	(1,568)	(1,369)
PROFIT BEFORE OTHER PROVISIONS AND LOSSES, AND INCOME TAX		47,585	31,521	1,112	689
Recovery of provision/(provision) for losses on other transactions	6	728	(2,301)	9	(54)
PROFIT BEFORE INCOME TAX		48,313	29,220	1,121	635
Income tax expense	11	(9,965)	(4,257)	(236)	(99)
NET PROFIT		38,348	24,963	885	536

On behalf of the Management Board

\_\_\_\_\_  
Ahmet Parmaksiz  
General Manager

Bishkek  
Kyrgyz Republic

20 January 2005

\_\_\_\_\_  
Aigul Kodjomuratova  
Chief Accountant / Financial Controller

The notes on pages 6 to 34 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 2004

	NOTES	Convenience translation (Note 3)			
		2004 KGS'000	2003 KGS'000	2004 USD'000	2003 USD'000
<b>ASSETS:</b>					
Cash on hand	12	117,609	113,673	2,825	2,572
Balances with the National Bank of the Kyrgyz Republic	12	292,061	103,362	7,017	2,339
Loans and advances to banks	13,24	458,045	313,310	11,004	7,090
Securities purchased under agreement to resell	14	7,307	50,056	176	1,133
Loans to customers, less allowance for loan losses	15	102,459	11,893	2,462	269
Securities available-for-sale	16	45,602	56,836	1,096	1,286
Fixed assets, less accumulated depreciation	17	67,624	68,135	1,625	1,542
Intangible assets, less accumulated amortization	18	4,802	6,571	115	149
Income tax assets	11	-	1,165	-	26
Foreclosed assets, less allowance for losses	19	8,434	14,896	203	337
Other assets, less allowance for losses	19	18,540	5,017	445	114
<b>TOTAL ASSETS</b>		<u>1,122,483</u>	<u>744,914</u>	<u>26,968</u>	<u>16,857</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES:</b>					
Deposits from banks		80	83	2	2
Customer accounts	20	919,950	586,825	22,101	13,280
Income tax liabilities	11	4,909	166	119	4
Other liabilities	21	11,869	6,548	286	148
<b>Total liabilities</b>		<u>936,808</u>	<u>593,622</u>	<u>22,508</u>	<u>13,434</u>
<b>SHAREHOLDERS' EQUITY:</b>					
Share capital	22	132,540	100,000	3,184	2,263
Reserves		<u>53,135</u>	<u>51,292</u>	<u>1,276</u>	<u>1,160</u>
<b>Total shareholders' equity</b>		<u>185,675</u>	<u>151,292</u>	<u>4,460</u>	<u>3,423</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>1,122,483</u>	<u>744,914</u>	<u>26,968</u>	<u>16,857</u>
<b>FINANCIAL COMMITMENTS AND CONTINGENCIES</b>	23	58,435	48,051	1,404	1,087

On behalf of the Management Board

\_\_\_\_\_  
**Ahmet Parmaksiz**  
General Manager

\_\_\_\_\_  
**Aigul Kodjomuratova**  
Chief Accountant / Financial Controller

Bishkek  
Kyrgyz Republic  
20 January 2005

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# DEMIR KYRGYZ INTERNATIONAL BANK

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital KGS'000	Additional paid in capital KGS'000	Revenue reserve KGS'000	Revaluation reserve KGS'000	Total shareholders' equity KGS'000
<b>Balance 1 January 2003</b>	54,052	1	40,879	-	94,932
Share issue	32,489	-	-	-	32,489
Net profit	-	-	24,963	-	24,963
Results on securities available-for-sale	-	-	-	404	404
Dividends declared	-	-	(14,955)	-	(14,955)
Reinvestment of dividends	13,459	-	-	-	13,459
<b>Balance 31 December 2003</b>	100,000	1	50,887	404	151,292
Share issue	-	-	-	-	-
Net profit	-	-	38,348	-	38,348
Results on securities available-for-sale	-	-	-	(349)	(349)
Dividends declared	-	-	(36,156)	-	(36,156)
Reinvestment of dividends	32,540	-	-	-	32,540
<b>Balance 31 December 2004</b>	132,540	1	53,079	55	185,675

### Convenience translation to US dollars (Note 3):

	Share capital USD'000	Revenue reserve USD'000	Revaluation reserve USD'000	Translation reserve USD'000	Total shareholders' equity USD'000
<b>Balance 1 January 2003</b>	1,173	935	-	(48)	2,060
Share issue	735	-	-	-	735
Net profit	-	536	-	-	536
Results on securities available-for-sale	-	-	9	-	9
Adjustment in accordance with SIC-30 (Note 3)	63	45	-	8	116
Dividends declared	-	(325)	-	-	(325)
Reinvestment of dividends	292	-	-	-	292
<b>Balance 31 December 2003</b>	2,263	1,191	9	(40)	3,423
Share issue	-	-	-	-	-
Net profit	-	885	-	-	885
Results on securities available-for-sale	-	-	(8)	-	(8)
Adjustment in accordance with SIC-30 (Note 3)	139	32	-	76	247
Dividends declared	-	(869)	-	-	(869)
Reinvestment of dividends	782	-	-	-	782
<b>Balance 31 December 2004</b>	3,184	1,239	1	36	4,460

On behalf of the Management Board

\_\_\_\_\_  
Ahmet Parmaksiz  
General Manager

\_\_\_\_\_  
Aigul Kodjomuratova  
Chief Accountant / Financial Controller

Bishkek  
Kyrgyz Republic

20 January 2005

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# DEMIR KYRGYZ INTERNATIONAL BANK

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTES	Year ended		Convenience translation (Note 3)	
		2004 KGS'000	2003 KGS'000	2004 USD'000	2003 USD'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Interest received		17,862	7,159	424	165
Interest paid		(1,293)	(836)	(30)	(18)
Fees and commissions received		66,125	53,768	1,552	1,214
Fees and commissions paid		(6,477)	(7,000)	(153)	(160)
Foreign exchange gains		26,370	26,456	622	616
Other operating income		9,969	5,057	211	85
Salaries and employment benefits		(30,197)	(24,881)	(710)	(571)
Administrative expenses		(26,334)	(20,879)	(619)	(458)
Cash flows from operating activities before changes in operating assets and liabilities		56,025	38,844	1,297	873
Changes in operating assets and liabilities: (Increase)/decrease in operating assets:					
Securities purchased under agreement to resell		42,720	(50,001)	957	(1,132)
Loans to customers		(94,170)	(7,982)	(2,221)	(184)
Other assets		(787)	(6,373)	(27)	(160)
Increase/(decrease) in operating liabilities:					
Deposits from banks		(3)	(293)	-	(6)
Customer accounts		364,825	6,195	8,573	428
Other liabilities		4,656	350	118	11
Cash inflow/ (outflow) from operating activities before income taxes		373,266	(19,260)	8,698	(170)
Income taxes paid		(4,176)	(1,676)	(99)	(44)
Net cash inflow/(outflow) from operating activities		369,090	(20,936)	8,599	(214)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Investment securities purchased		(159,812)	(162,796)	(4,913)	(2,531)
Investment securities redeemed		173,009	143,451	5,146	2,078
Tangible fixed assets purchased		(11,128)	(21,634)	(262)	(496)
Tangible fixed assets sold		2,485	1,033	57	27
Intangible assets purchased		(4,600)	(4,929)	(78)	(112)
Net cash outflows from investing activities		(46)	(44,875)	(50)	(1,034)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Share capital increase	22	32,540	34,516	782	842
Dividends paid		(36,156)	(14,955)	(869)	(325)
Net cash outflows/(inflows) from financing activities		(3,616)	19,561	(87)	517
Effects of exchange rate changes on cash and cash equivalents		(28,058)	(11,292)	384	(22)
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		337,370	(57,542)	8,845	(753)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	12	530,345	587,887	12,001	12,754
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	12	867,715	530,345	20,846	12,001

On behalf of the Management Board

\_\_\_\_\_  
Ahmet Parmaksiz  
General Manager  
Bishkek  
Kyrgyz Republic

\_\_\_\_\_  
Aigul Kodjomuratova  
Chief Accountant / Financial Controller

20 January 2005

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# DEMIR KYRGYZ INTERNATIONAL BANK

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 1. ORGANIZATION

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 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 2004 and 2003 was 115 and 97, respectively.

The Bank is regulated by the National Bank of the Kyrgyz Republic ("NBKR") and conducts its business under license number 35 issued on 11 March 1999. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies instruments, originating loans and guarantees.

As of 31 December 2004 and 2003, the Bank's ownership structure was as follows.

<u>Shareholders</u>	<u>2004</u> %	<u>2003</u> %
Halit Cingillioglu	35	35
Aydin Dogan	35	35
International Finance Corporation (IFC)	15	15
European Bank for Reconstruction and Development (EBRD)	15	15
	<hr/>	<hr/>
	100	100
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### 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** - These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 Bank maintains its accounting records in accordance with Kyrgyz law. These financial statements have been prepared from the Kyrgyz statutory accounting records and have been adjusted to conform with IFRS.

The preparation of financial statements in conformity with IFRS 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.

**Reporting currency** - The currency used in these financial statements is the Kyrgyz Som (KGS), which is the Bank's measurement currency. The measurement currency reflects the economic substance of the underlying events and circumstances of the Bank. For convenience, the accompanying financial statements and notes to them expressed in Kyrgyz Som have also been translated to US dollars (see "Convenience translation" below).

**Convenience translation** - Effective 1 January 2002, Interpretation 30 of Standing Interpretation Committee “Reporting Currency – Translation from Measurement Currency to Presentation Currency” (“SIC-30”) was applied by the Bank for translation of the Kyrgyz Som financial statements into US Dollars. In accordance with SIC-30, assets, liabilities and equity items have been translated at the closing rates existing at dates of presentation; income and expense items have been translated using exchange rates prevailing at the end of the week in which the income and expense items were incurred. Exchange differences resulting from such translations were recognized directly in equity. Exchange rates at 31 December 2004 and 2003 were 41.6246 KGS per 1 USD and 44.1902 KGS per 1 USD, respectively. The amount presented as convenience translation do not necessarily represent the US dollar amount that would ultimately be received or paid on settlement of the Bank’s assets and liabilities.

#### 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 trade 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, balances on correspondent accounts with the NBKR, and loans and advances to banks, which may be converted to cash within a short period of time, that is usually within 3 months.

**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 recorded 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/(losses) 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.

**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 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 plus accrued coupon income. The revaluation result is reflected in the relevant reserve (a component of shareholder's equity).

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 & office equipment	20 %
Motor vehicles	20 %
Intangible assets	20 %

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 realized 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 additional paid in capital** - 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 than 90 days. Interest income also includes 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:

	<u>31 December 2004</u>	<u>31 December 2003</u>
KGS/USD	41.6246	44.1902
KGS/EUR	56.3930	55.0323

**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 trustee services to its customers. Also the Bank provides depository services to its customers, that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the trustee 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:

	<u>Year ended</u> <u>2004</u> KGS'000	<u>Year ended</u> <u>2003</u> KGS'000	<u>Convenience translation</u> <u>(Note 3)</u>	
			<u>Year ended</u> <u>2004</u> USD'000	<u>Year ended</u> <u>2003</u> USD'000
<b>Interest income</b>				
Interest on loans and advances to banks	8,359	5,758	197	132
Interest on debt securities	2,148	3,016	50	69
Interest on loans and advances to customers	10,337	1,557	244	35
<b>Total interest income</b>	<u>20,844</u>	<u>10,331</u>	<u>491</u>	<u>236</u>
<b>Interest expense</b>				
Interest on customer accounts	1,250	789	29	17
Interest on deposits from banks	-	32	-	1
<b>Total interest expense</b>	<u>1,250</u>	<u>821</u>	<u>29</u>	<u>18</u>
<b>Net interest income before provision for loan losses</b>	<u>19,594</u>	<u>9,510</u>	<u>462</u>	<u>218</u>

## 6. ALLOWANCE FOR LOSSES AND PROVISIONS

The movements in allowance for losses on loans and advances to customers were as follows:

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	<u>Convenience translation</u> <u>(Note 3)</u>	
			<u>2004</u> USD'000	<u>2003</u> USD'000
1 January	303	83	7	2
Provision	2,159	220	52	5
31 December	<u>2,462</u>	<u>303</u>	<u>59</u>	<u>7</u>

The movements in allowances for losses on other transactions were as follows:

	<b>Foreclosed assets</b> KGS'000	<b>Other assets</b> KGS'000	<b>Guarantees and other commitments</b> KGS'000	<b>Total</b> KGS'000
31 December 2002	1,682	-	67	1,749
Provision/(Recovery)	(1,664)	3,503	462	2,301
Recoveries	2,019	-	-	2,019
31 December 2003	2,037	3,503	529	6,069
Provision/(Recovery)	(870)	(198)	340	(728)
31 December 2004	1,167	3,305	869	5,341

**Convenience translation in thousands of US dollars (Note 3):**

	<b>Foreclosed assets</b> USD'000	<b>Other assets</b> USD'000	<b>Guarantees and other commitments</b> USD'000	<b>Total</b> USD'000
31 December 2002	36	-	1	37
Provision/(Recovery)	(36)	79	11	54
Recoveries	46	-	-	46
31 December 2003	46	79	12	137
Provision/(Recovery)	(18)	-	9	(9)
31 December 2004	28	79	21	128

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:

<b>Fees and commissions income:</b>	<b>Year ended 2004</b>	<b>Year ended 2003</b>	<b>Convenience translation (Note 3)</b>	
	KGS'000	KGS'000	Year ended 2004 USD'000	Year ended 2003 USD'000
Cash withdrawal	27,930	25,602	656	578
Transfer and SWIFT	26,190	18,745	615	423
Account maintenance	2,415	2,805	57	63
Account opening	1,410	1,588	33	36
Other	8,180	5,028	191	114
Total fees and commissions income	<u>66,125</u>	<u>53,768</u>	<u>1,552</u>	<u>1,214</u>
<b>Fees and commissions expense:</b>				
Cash operations	1,689	3,130	40	71
Settlement operations with other banks	3,061	2,500	72	57
Customs' charges on cash delivery	1,089	907	26	21
Other	638	463	15	11
Total fees and commissions expense	<u>6,477</u>	<u>7,000</u>	<u>153</u>	<u>160</u>

**8. NET GAIN ON HELD-TO-MATURITY SECURITIES**

Net gain on held-to-maturity securities for the year ended 31 December 2003 amounting to 2,644 thousand KGS (60 thousand USD) 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 the 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.

## 9. OTHER INCOME

	Year ended <u>2004</u> KGS'000	Year ended <u>2003</u> KGS'000	Convenience translation (Note 3)	
			Year ended <u>2004</u> USD'000	Year ended <u>2003</u> USD'000
Income from sale of foreclosed assets (Note 19)	4,609	2,635	107	60
Gain from rent of Bank's property	2,695	1,428	63	33
Income from sale of fixed assets	161	995	4	23
Other	1,753	993	41	22
<b>Total other income</b>	<b>9,218</b>	<b>6,051</b>	<b>215</b>	<b>138</b>

## 10. OPERATING EXPENSES

	Year ended <u>2004</u> KGS'000	Year ended <u>2003</u> KGS'000	Convenience translation (Note 3)	
			Year ended <u>2004</u> USD'000	Year ended <u>2003</u> USD'000
Salaries and Social Security Costs	30,197	24,881	710	572
Depreciation and amortization	9,521	11,648	229	267
Taxes, other than income tax	4,447	4,155	105	95
Insurance charges	3,714	2,880	87	66
Entertainment/business promotions	2,627	1,955	61	45
Communications	2,585	1,956	60	45
Equipment services	2,028	1,113	48	26
Professional services fees	1,570	1,284	37	29
Office security	1,357	1,152	32	26
Business trip	1,084	1,071	25	25
Stationers and supplies	1,000	1,005	23	23
Training	985	724	23	17
Office rent	972	1,230	23	28
Utilities	663	604	16	14
Marketing expenses	639	1,050	15	24
Vehicle maintenance	605	533	14	12
Other	2,547	2,383	60	55
<b>Total operating expenses</b>	<b>66,541</b>	<b>59,624</b>	<b>1,568</b>	<b>1,369</b>

## 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 IFRS. During the years ended 31 December 2004 and 2003, the Kyrgyz Republic's tax rate for corporations' profits was 20%.

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> KGS'000
Current income tax assets	-	1,165	-	26
<b>Income tax assets</b>	<b>-</b>	<b>1,165</b>	<b>-</b>	<b>26</b>
Deferred income tax liabilities	1,806	166	44	4
Current income tax liabilities	3,103	-	75	-
<b>Income tax liabilities</b>	<b>4,909</b>	<b>166</b>	<b>119</b>	<b>4</b>

The Bank is subject to certain permanent tax differences due to non-tax deductibility of exchange losses and other expenses and tax-free regime under local tax regulations. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2004 and 2003 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 2004 and 2003 comprise:

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
<b>Deferred tax assets</b>				
Reserve on foreclosed assets	1,524	1,825	37	41
Amortization of intangible assets	1,018	1,186	24	27
<b>Total deferred tax assets</b>	<u>2,542</u>	<u>3,011</u>	<u>61</u>	<u>68</u>
<b>Deferred tax liabilities:</b>				
Depreciation of fixed assets	4,323	3,177	104	72
Interest accrued	25	-	1	-
<b>Total deferred tax liabilities</b>	<u>4,348</u>	<u>3,177</u>	<u>105</u>	<u>72</u>
<b>Net deferred tax liability</b>	<u>(1,806)</u>	<u>(166)</u>	<u>(44)</u>	<u>(4)</u>

Relationships between tax expenses and accounting profit for the 31 December 2004 and 2003 are explained as follows:

	<u>Year ended</u> <u>2004</u> KGS'000	<u>Year ended</u> <u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>Year ended</u> <u>2004</u> USD'000	<u>Year ended</u> <u>2003</u> USD'000
Profit before income taxes	<u>48,315</u>	<u>29,220</u>	<u>1,121</u>	<u>635</u>
Tax at the statutory tax rate (20%)	9,665	5,844	224	127
Tax effect of permanent differences (20%)	302	455	7	10
Change in valuation allowance	-	(2,042)	-	(44)
Translation effect	-	-	5	6
Income tax expense	<u>9,967</u>	<u>4,257</u>	<u>236</u>	<u>99</u>
Current tax expense	8,285	3,947	195	92
Correction of prior year income tax	40	144	1	3
Deferred tax expense	1,642	166	40	4
Income tax expense	<u>9,967</u>	<u>4,257</u>	<u>236</u>	<u>99</u>

## 12. CASH AND CASH EQUIVALENTS

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

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
Cash on hand	117,609	113,673	2,825	2,572
Balances with the NBKR	292,061	103,362	7,017	2,339
Loans and advances to banks (Note 13)	<u>458,045</u>	<u>313,310</u>	<u>11,004</u>	<u>7,090</u>
<b>Cash and cash equivalents</b>	<u>867,715</u>	<u>530,345</u>	<u>20,846</u>	<u>12,001</u>

The balances with the NBKR of 292,061 thousand KGS (7,017 thousand USD) and 103,362 thousand KGS (2,339 thousand USD) as of 31 December 2004 and 2003 include 94,392 thousand KGS (2,268 thousand USD) and 54,138 thousand KGS (1,225 thousand USD), respectively, which represent the minimum reserve deposit required by the 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 statutory legislation.

## 13. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
Loans to banks	331,903	249,808	7,974	5,653
Advances to banks	125,992	63,496	3,026	1,437
Accrued interest	<u>150</u>	<u>6</u>	<u>4</u>	<u>-</u>
	<u>458,045</u>	<u>313,310</u>	<u>11,004</u>	<u>7,090</u>

As of 31 December 2004, the Bank had a significant exposure to the Union Bank of California, USA. The total balance with this bank was 245,266 thousand KGS (5,892 thousand USD) as of 31 December 2004.

As of 31 December 2004 and 2003 the Bank had loans and advances to banks totaling 330,667 thousand KGS (7,944 thousand USD) and 244,798 thousand KGS (5,540 thousand USD), respectively, which represent significant geographical concentration in the United States of America, forming 72% and 78% of the loan portfolio, respectively.

## 14. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As of 31 December 2004 and 2003 the Bank purchased T-bills from Ineximbank and the NBKR amounting to 7,307 thousand KGS (176 thousand USD) and 50,056 thousand KGS (1,133 thousand USD) under agreements to resell them within two and seven months, respectively. A coupon of 5% and from 5.55% to 7.05% of the nominal value is payable on T-bills as of 31 December 2004 and 2003, respectively.

## 15. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
Originated loans	104,066	12,038	2,500	272
Accrued interest	855	158	21	4
	<u>104,921</u>	<u>12,196</u>	<u>2,521</u>	<u>276</u>
Less allowance for loan losses	<u>(2,462)</u>	<u>(303)</u>	<u>(59)</u>	<u>(7)</u>
	<u>102,459</u>	<u>11,893</u>	<u>2,462</u>	<u>269</u>

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
Loans collateralized by real estate	85,281	7,620	2,048	173
Loans collateralized by equipment	7,033	1,114	169	25
Loans collateralized by vehicles	550	1,336	13	30
Loans collateralized by others	9,222	1,420	222	32
Unsecured loans	1,980	548	48	12
Accrued interest income	855	158	21	4
	<u>104,921</u>	<u>12,196</u>	<u>2,521</u>	<u>276</u>
Less allowance for loan losses	<u>(2,462)</u>	<u>(303)</u>	<u>(59)</u>	<u>(7)</u>
<b>Total loans and advances to customers</b>	<u>102,459</u>	<u>11,893</u>	<u>2,462</u>	<u>269</u>

Movements in allowances for loan losses for the years ended 31 December 2004 and 2003 are disclosed in Note 6.

As of 31 December 2004 and 2003 all of the Bank's loans were issued to the residents of the Kyrgyz Republic.

### Analysis by sector

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
Production	41,175	1,105	989	25
Trading	41,475	1,015	996	23
Individuals	13,406	9,388	322	212
Services	5,771	-	139	-
Staff loans	2,239	530	54	12
Accrued interest	855	158	21	4
	<u>104,921</u>	<u>12,196</u>	<u>2,521</u>	<u>276</u>
Less allowance for loan losses	<u>(2,462)</u>	<u>(303)</u>	<u>(59)</u>	<u>(7)</u>
<b>Total loans and advances to customers</b>	<u>102,459</u>	<u>11,893</u>	<u>2,462</u>	<u>269</u>

As of 31 December 2004 the Bank provided loans to two clients totaling 36,238 thousands KGS (871 thousand USD), which individually exceeded 10% of the Bank's equity.

All loans are granted to customers operating in the Kyrgyz Republic, which represents significant geographical concentration in one region.

## 16. SECURITIES AVAILABLE FOR SALE

	<b>2004</b> KGS'000	<b>2003</b> KGS'000	<b>Convenience translation (Note 3)</b>	
			<b>2004</b> USD'000	<b>2003</b> USD'000
NBKR notes	6,657	29,954	160	678
T-bills	38,945	20,212	936	457
Eurobonds, Turkey	-	6,610	-	150
Accrued interest income on securities available for sale	-	60	-	1
	<u>45,602</u>	<u>56,836</u>	<u>1,096</u>	<u>1,286</u>

T-bills are KGS denominated government securities issued at discount to face value.

## 17. FIXED ASSETS

	<b>Building</b> KGS'000	<b>CIP</b> KGS'000	<b>Computers &amp; Office equipment</b> KGS'000	<b>Motor vehicles</b> KGS'000	<b>Total</b> KGS'000
<b>At cost</b>					
31 December 2003	53,690	-	24,562	4,695	82,947
Additions	137	2,544	6,196	6	8,883
Transfers	472	(572)	110	(10)	-
Disposals	(2,332)	-	(3,023)	-	(5,355)
At 31 December 2004	<u>51,967</u>	<u>1,972</u>	<u>27,845</u>	<u>4,691</u>	<u>86,475</u>
<b>Accumulated depreciation</b>					
At 31 December 2003	5,527	-	8,333	952	14,812
Charge for the period	1,051	-	5,077	938	7,066
Disposals	(19)	-	(3,008)	-	(3,027)
At 31 December 2004	<u>6,559</u>	<u>-</u>	<u>10,402</u>	<u>1,890</u>	<u>18,851</u>
<b>Net book value</b>					
At 31 December 2004	<u>45,408</u>	<u>1,972</u>	<u>17,443</u>	<u>2,801</u>	<u>67,624</u>
At 31 December 2003	<u>48,163</u>	<u>-</u>	<u>16,229</u>	<u>3,743</u>	<u>68,135</u>

**Convenience translation in thousands of US dollars (Note 3):**

	<u>Building</u> USD'000	<u>CIP</u> USD'000	<u>Computers &amp; Office equipment</u> USD'000	<u>Motor vehicles</u> USD'000	<u>Total</u> USD'000
<b>At cost</b>					
31 December 2003	1,215	-	556	106	1,877
Additions	3	60	145	-	208
Transfers	11	(13)	2	-	-
Disposals	(53)	-	(68)	-	(121)
Translation effect	72	-	34	7	113
At 31 December 2004	<u>1,248</u>	<u>47</u>	<u>669</u>	<u>113</u>	<u>2,077</u>
<b>Accumulated depreciation</b>					
At 31 December 2003	125	-	188	22	335
Charge for the period	25	-	123	22	170
Disposals	-	-	(68)	-	(68)
Translation effect	7	-	7	1	15
At 31 December 2004	<u>157</u>	<u>-</u>	<u>250</u>	<u>45</u>	<u>452</u>
<b>Net book value</b>					
At 31 December 2004	<u>1,091</u>	<u>47</u>	<u>419</u>	<u>68</u>	<u>1,625</u>
At 31 December 2003	<u>1,090</u>	<u>-</u>	<u>368</u>	<u>84</u>	<u>1,542</u>

**18. INTANGIBLE ASSETS**

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	<u>Convenience translation (Note 3)</u>	
			<u>2004</u> USD'000	<u>2003</u> USD'000
<b>At cost</b>				
At 1 January	20,100	27,202	455	590
Additions	686	4,929	16	112
Disposals	(13,759)	(12,031)	(311)	(261)
Translation effect	-	-	9	14
At 31 December	<u>7,027</u>	<u>20,100</u>	<u>169</u>	<u>455</u>
<b>Accumulated depreciation</b>				
At 1 January	13,529	20,363	306	442
Charge for the period	2,455	5,197	59	119
Disposals	(13,759)	(12,031)	(311)	(275)
Translation effect	-	-	-	20
At 31 December	<u>2,225</u>	<u>13,529</u>	<u>54</u>	<u>306</u>
<b>Net book value</b>				
At 31 December	<u>4,802</u>	<u>6,571</u>	<u>115</u>	<u>149</u>

## 19. FORECLOSED AND OTHER ASSETS

Foreclosed assets present property and assets pledged as collateral and came into possession to the Bank by enforcing unpaid loans.

Movements in foreclosed assets for the years ended 31 December 2004 and 2003 were the following:

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
<b>1 January (gross amount)</b>	16,933	16,134	383	350
Capitalization of expenses for the foreclosed assets	348	5,192	8	117
Net income on disposal of the foreclosed assets (Note 9)	4,609	2,635	107	60
Translation effect	-	-	17	15
Proceeds from sale of the foreclosed assets	<u>(12,289)</u>	<u>(7,028)</u>	<u>(284)</u>	<u>(159)</u>
<b>31 December (gross amount)</b>	9,601	16,933	231	383
Less allowance for the foreclosed assets	<u>(1,167)</u>	<u>(2,037)</u>	<u>(28)</u>	<u>(46)</u>
<b>31 December (net)</b>	<u>8,434</u>	<u>14,896</u>	<u>203</u>	<u>337</u>

Movements in allowances for losses for the years ended 31 December 2004 are disclosed in Note 6.

Other assets comprise:

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
Accounts receivable from insurance company	3,305	3,503	79	79
Prepayments	11,798	2,283	283	52
Inventory	3,738	669	90	15
Traveler's cheques for sale	1,492	550	36	13
Other	<u>1,512</u>	<u>1,515</u>	<u>36</u>	<u>34</u>
	21,845	8,520	524	193
Less allowance for losses for others	<u>(3,305)</u>	<u>(3,503)</u>	<u>(79)</u>	<u>(79)</u>
<b>Total other assets</b>	<u>18,540</u>	<u>5,017</u>	<u>445</u>	<u>114</u>

## 20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
Repayable on demand	896,090	564,556	21,528	12,776
Time deposits	18,961	18,917	455	428
Cash collateral	4,832	3,242	116	73
Accrued interest	<u>67</u>	<u>110</u>	<u>2</u>	<u>3</u>
<b>Total customer accounts</b>	<u>919,950</u>	<u>586,825</u>	<u>22,101</u>	<u>13,280</u>

## 21. OTHER LIABILITIES

	<u>2004</u> KGS'000	<u>2003</u> KGS'000	Convenience translation (Note 3)	
			<u>2004</u> USD'000	<u>2003</u> USD'000
Cash collateral from banks	4,580	-	110	-
Accrued expenses	3,397	1,423	82	32
Accounts payable	992	-	24	-
Allowance for losses on guarantees	869	529	21	12
Deferred income	812	-	20	-
Collateral for safety boxes	372	409	9	9
IMT one time payment	61	329	1	8
Payables for operations with cheques	39	40	1	1
Other	747	3,818	18	86
<b>Total other liabilities</b>	<u>11,869</u>	<u>6,548</u>	<u>286</u>	<u>148</u>

Movements in allowances for losses for the years ended 31 December 2004 and 2003 are disclosed in Note 6.

## 22. SHAREHOLDERS' EQUITY

At 31 December 2004 and 2003 share capital authorised, issued and fully paid was comprised of 132,540 and 100,000 ordinary shares, respectively, with par value of 1,000 KGS. In addition the Bank's reserves include 1 thousand KGS of additional paid in capital at 31 December 2004 and 2003. All ordinary shares are ranked equally and carry one vote. During the year ended 31 December 2004 and 2003 the Bank issued 32,540 and 45,948 ordinary shares, respectively.

On 25 November 2002 the shareholders of the Bank decided to increase the paid-in-capital of the Bank to 100 million KGS. The capital increase was made by reinvesting dividends paid in 2003 of 13,459 thousand KGS and an additional contribution of 32,489 thousand KGS. As of 31 December 2002 one of the shareholders – Mr. Halit Cingillioglu had paid his portion of 11,432 thousand KGS. During the year ended 31 December 2003 the new share issue was finalized with the receipt of contributions from other shareholders. The amount of 11,432 thousand KGS was transferred from other liabilities to shareholders' equity.

In 2003 the Meeting of shareholders of the Bank declared dividends for 2002 of 13,459 thousand KGS after applicable withholding tax of 1,496 thousand KGS. The dividends were paid during 2003 through reinvestment in the Bank as an increase to the share capital.

In 2004 the Meeting of shareholders of the Bank declared dividends for 2003 of 32,540 thousand KGS after applicable withholding tax of 3,616 thousand KGS. The dividends were paid during 2004 through reinvestment in 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 2004 and 2003, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	<u>2004</u>		<u>2003</u>	
	<u>Nominal Amount</u> KGS'000	<u>Risk Weighted Amount</u> KGS'000	<u>Nominal Amount</u> KGS'000	<u>Risk Weighted Amount</u> KGS'000
Guarantees issued and similar commitments	27,049	24,721	23,552	20,310
Commitments on credits and unused credit lines	10,171	5,086	18,467	9,233
Letters of credit and other transaction related contingent obligations	<u>21,215</u>	<u>4,243</u>	<u>6,032</u>	<u>1,207</u>
<b>Total contingent liabilities and credit commitments</b>	<u>58,435</u>	<u>34,050</u>	<u>48,051</u>	<u>30,750</u>

**Convenience translation to US dollars (Note 3):**

	<u>2004</u>		<u>2003</u>	
	<u>Nominal Amount</u> USD'000	<u>Risk Weighted Amount</u> USD'000	<u>Nominal Amount</u> USD'000	<u>Risk Weighted Amount</u> USD'000
Guarantees issued and similar commitments	650	594	533	460
Commitments on credits and unused credit lines	244	122	418	209
Letters of credit and other transaction related contingent obligations	<u>510</u>	<u>96</u>	<u>136</u>	<u>27</u>
<b>Total contingent liabilities and credit commitments</b>	<u>1,404</u>	<u>812</u>	<u>1,087</u>	<u>696</u>

As of 31 December 2004, guarantees of 4,832 thousand KGS (116 thousand USD) were secured by cash deposited on customer accounts.

The Bank has made a provision of 869 thousand KGS (21 thousand USD) and 529 thousand KGS (12 thousand USD) against commitments under guarantees issued as of 31 December 2004 and 2003 (see Note 21).

**Capital commitments** - The Bank had no material commitments for capital expenditures outstanding as of 31 December 2004 and 2003.

**Fiduciary activities** - The Bank provides depository services to its customers. As of 31 December 2004 and 2003 the Bank held 126,543 and 342,376 of clients' securities, respectively on its accounts.

**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 addition, 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 2004 and 2003, 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:

	<u>Related party transactions</u> KGS'000	<u>2004</u> Total category as per financial statements caption KGS'000	<u>Related party transactions</u> KGS'000	<u>2003</u> Total category as per financial statements caption KGS'000
Loans and advances to banks	20,612	457,895	14,224	313,304
Accrued interest income on loans and advances to banks	29	150	-	6
Loans to customers	198	104,066	59	12,038
Accrued interest income on loans to customers	-	855	-	158
Allowance for loan losses	(4)	(2,462)	(1)	(303)
Deposits from banks	-	80	1	83

### Convenience translation in thousands of US dollars (Note 3):

	<u>Related party transactions</u> USD'000	<u>2004</u> Total category as per financial statements caption USD'000	<u>Related party transactions</u> USD'000	<u>2003</u> Total category as per financial statements caption USD'000
Loans and advances to banks	495	11,000	322	7,090
Accrued interest income on loans and advances to banks	1	4	-	-
Loans to customers	5	2,500	1	272
Accrued interest income on loans to customers	-	21	-	4
Allowance for loan losses	-	(59)	-	(7)
Deposits from banks	-	2	-	2

During the years ended 31 December 2004 and 2003 the Bank originated loans and advances to banks and customers - related parties amounting to 244,574 thousand KGS (5,876 thousand USD) and 535,919 thousand KGS (12,267 thousand USD), respectively and received loans and advances repaid of 238,186 thousand KGS (5,722 thousand USD) and 532,999 thousand KGS (12,190 thousand USD), respectively.

Included in the profit and loss account for the years ended 31 December 2004 and 2003 are the following amounts which arose due to transactions with related parties:

	<u>Year ended</u> <u>2004</u>		<u>Year ended</u> <u>2003</u>	
	<u>Related party</u> <u>transactions</u> KGS'000	<u>Total category as</u> <u>per financial</u> <u>statements caption</u> KGS'000	<u>Related party</u> <u>transactions</u> KGS'000	<u>Total category as</u> <u>per financial</u> <u>statements caption</u> KGS'000
Interest income	172	20,844	194	10,331
Interest expense	-	1,250	19	821

**Convenience translation in thousands of US dollars (Note 3):**

	<u>Year ended</u> <u>2004</u>		<u>Year ended</u> <u>2003</u>	
	<u>Related party</u> <u>transactions</u> USD'000	<u>Total category as</u> <u>per financial</u> <u>statements caption</u> USD'000	<u>Related party</u> <u>transactions</u> USD'000	<u>Total category as</u> <u>per financial</u> <u>statements caption</u> USD'000
Interest income	4	491	4	236
Interest expense	-	(29)	-	(18)

All transactions with related parties entered by the Bank during the years ended 31 December 2004 and 2003 and outstanding as of 31 December 2004 and 2003 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 are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which 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 2004 and 2003 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 2004 and 2003, 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 2004 and 2003, the fair value of securities purchased under agreements to resell amounting to 7,281 thousand KGS (175 thousand USD) and 49,365 thousand KGS (1,117 thousand USD) 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 2004 and 2003 securities available-for-sale are stated at fair value amounting to 45,602 thousand KGS (1,096 thousand USD) and 56,776 thousand KGS (1,286 thousand USD), respectively, plus accrued coupon income totaling 60 thousand KGS (1 thousand USD) as of 31 December 2003. 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.

**Deposits from banks** - As of 31 December 2004 and 2003 the carrying amount of short-term deposits and deposits repayable on demand of 80 thousand KGS (2 thousand USD) and 83 thousand KGS (2 thousand USD), respectively, is a reasonable estimate of their fair value.

**Customer accounts** - As of 31 December 2004 and 2003 the carrying amount of short-term deposits and current accounts of the Bank's customers of 919,950 thousand KGS (22,101 thousand USD) and 586,825 thousand KGS (13,280 thousand USD), 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:

<u>Estimate</u>	<u>Description of position</u>
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
	Other standby letters of credit and other transaction related contingent obligations and commitments on unused loans with the initial maturity of over
50%	1 year
100%	Guarantees issued and similar commitments

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

<u>Capital amounts and ratios</u>	<u>Actual Amount</u> KGS'000	<u>For Capital Adequacy purposes</u> KGS'000	<u>Ratio For Capital Adequacy purposes</u> %	<u>Minimum Required Ratio</u> %
<b>As of 31 December 2004</b>				
Total capital	185,675	182,968	48	8
Tier 1 capital	180,818	180,818	48	4
<b>As of 31 December 2003</b>				
Total capital	151,292	144,980	55	8
Tier 1 capital	144,317	144,317	55	4

**Convenience translation in thousands of US dollars (Note 3):**

<u>Capital amounts and ratios</u>	<u>Actual Amount</u> USD'000	<u>For Capital Adequacy purposes</u> USD'000	<u>Ratio For Capital Adequacy purposes</u> %	<u>Minimum Required Ratio</u> %
<b>As of 31 December 2004</b>				
Total capital	4,460	4,396	48	8
Tier 1 capital	4,344	4,344	48	4
<b>As of 31 December 2003</b>				
Total capital	3,423	3,281	55	8
Tier 1 capital	3,266	3,266	55	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 honor 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.

	<u>Up to 1 month</u> KGS'000	<u>1 month to 3 months</u> KGS'000	<u>3 month to 1 year</u> KGS'000	<u>1 year to 5 years</u> KGS'000	<u>Over 5 years</u> KGS'000	<u>Overdue</u> KGS'000	<u>Maturity undefined, including allowance for losses</u> KGS'000	<u>2004 Total</u> KGS'000
<b>ASSETS</b>								
Loans and advances to banks	457,895	-	-	-	-	-	-	457,895
Securities purchased under agreement to resell	-	7,307	-	-	-	-	-	7,307
Loans and advances to customers, net	2,749	5,442	37,864	57,054	-	957	(2,449)	101,617
Securities available for sale	7,657	13,274	24,671	-	-	-	-	45,602
<b>Total interest bearing assets</b>	<b>468,301</b>	<b>26,023</b>	<b>62,535</b>	<b>57,054</b>	<b>-</b>	<b>957</b>	<b>(2,449)</b>	<b>612,421</b>
Cash on hand	117,609	-	-	-	-	-	-	117,609
Balances with the NBKR	292,061	-	-	-	-	-	-	292,061
Interest accrued on interest bearing assets	-	985	-	-	-	20	(13)	992
Fixed assets, net	-	-	-	20,244	47,380	-	-	67,624
Intangible assets, net	-	-	-	4,802	-	-	-	4,802
Foreclosed assets, net	9,601	-	-	-	-	-	(1,167)	8,434
Other assets, net	21,845	-	-	-	-	-	(3,305)	18,540
<b>TOTAL ASSETS</b>	<b>909,417</b>	<b>27,008</b>	<b>62,535</b>	<b>82,100</b>	<b>47,380</b>	<b>977</b>	<b>(6,934)</b>	<b>1,122,483</b>
<b>LIABILITIES</b>								
Deposits from banks	80	-	-	-	-	-	-	80
Customer accounts	13,710	3,624	13,204	-	-	-	-	30,538
<b>Total interest bearing liabilities</b>	<b>13,790</b>	<b>3,624</b>	<b>13,204</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,618</b>
Customer accounts	885,370	880	3,095	-	-	-	-	889,345
Interest accrued on interest bearing liabilities	67	-	-	-	-	-	-	67
Income tax liability	3,103	-	-	1,806	-	-	-	4,909
Other liabilities	4,603	744	731	4,922	-	-	869	11,869
<b>TOTAL LIABILITIES</b>	<b>906,933</b>	<b>5,248</b>	<b>17,030</b>	<b>6,728</b>	<b>-</b>	<b>-</b>	<b>869</b>	<b>936,808</b>
Liquidity gap	2,484	21,760	45,505	75,372	47,380	977		
Interest sensitivity gap	454,511	22,399	49,331	57,054	-			
Cumulative interest sensitivity gap	454,511	476,910	526,241	583,295	583,295			
Cumulative interest sensitivity gap as a percentage of total assets	40%	42%	47%	52%	52%			

**Convenience translation to US dollars (Note 3):**

	<u>Up to 1 month</u> USD'000	<u>1 month to 3 months</u> USD'000	<u>3 month to 1 year</u> USD'000	<u>1 year to 5 years</u> USD'000	<u>Over 5 years</u> USD'000	<u>Overdue</u> USD'000	<u>Maturity undefined, including allowance for losses</u> USD'000	<u>2004 Total</u> USD'000
<b>ASSETS</b>								
Loans and advances to banks	11,000	-	-	-	-	-	-	11,000
Securities purchased under agreement to resell	-	176	-	-	-	-	-	176
Loans and advances to customers, net	66	130	910	1,371	-	23	(59)	2,441
Securities available for sale	184	319	593	-	-	-	-	1,096
<b>Total interest bearing assets</b>	<b>11,250</b>	<b>625</b>	<b>1,503</b>	<b>1,371</b>	<b>-</b>	<b>23</b>	<b>(59)</b>	<b>14,713</b>
Cash on hand	2,825	-	-	-	-	-	-	2,825
Balances with the NBKR	7,017	-	-	-	-	-	-	7,017
Interest accrued on interest bearing assets	-	25	-	-	-	-	-	25
Fixed assets, net	-	-	-	487	1,138	-	-	1,625
Intangible assets, net	-	-	-	115	-	-	-	115
Foreclosed assets, net	231	-	-	-	-	-	(28)	203
Other assets, net	524	-	-	-	-	-	(79)	445
<b>TOTAL ASSETS</b>	<b>21,847</b>	<b>650</b>	<b>1,503</b>	<b>1,973</b>	<b>1,138</b>	<b>23</b>	<b>(166)</b>	<b>26,968</b>
<b>LIABILITIES</b>								
Deposits from banks	2	-	-	-	-	-	-	2
Customer accounts	329	87	317	-	-	-	-	733
<b>Total interest bearing liabilities</b>	<b>331</b>	<b>87</b>	<b>317</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>735</b>
Customer accounts	21,271	21	74	-	-	-	-	21,366
Interest accrued on interest bearing liabilities	2	-	-	-	-	-	-	2
Income tax liability	75	-	-	44	-	-	-	119
Other liabilities	111	18	18	118	-	-	21	286
<b>TOTAL LIABILITIES</b>	<b>21,790</b>	<b>126</b>	<b>409</b>	<b>162</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>22,508</b>
Liquidity gap	57	524	1,094	1,811	1,138	23		
Interest sensitivity gap	10,919	538	1,186	1,371	-			
Cumulative interest sensitivity gap	10,919	11,457	12,643	14,014	14,014			
Cumulative interest sensitivity gap as a percentage of total assets	40%	42%	47%	52%	52%			

	<u>Up to 1 month</u> KGS'000	<u>1 month to 3 months</u> KGS'000	<u>3 month to 1 year</u> KGS'000	<u>1 year to 5 years</u> KGS'000	<u>Over 5 years</u> KGS'000	<u>Overdue</u> KGS'000	<u>Maturity undefined, including allowance for losses</u> KGS'000	<u>2003 Total</u> KGS'000
<b>ASSETS</b>								
Loans and advances to banks	313,304	-	-	-	-	-	-	313,304
Securities purchased under agreement to resell	-	-	50,056	-	-	-	-	50,056
Loans and advances to customers, net	1,280	65	8,706	1,244	-	743	(303)	11,735
Securities available for sale	33,686	12,889	10,261	-	-	-	-	56,836
<b>Total interest bearing assets</b>	<b>348,270</b>	<b>12,954</b>	<b>69,023</b>	<b>1,244</b>	<b>-</b>	<b>743</b>	<b>(303)</b>	<b>431,931</b>
Cash on hand	113,673	-	-	-	-	-	-	113,673
Balances with the NBKR	103,362	-	-	-	-	-	-	103,362
Interest accrued on interest bearing assets	164	-	-	-	-	-	-	164
Fixed assets, net	-	-	-	19,972	48,163	-	-	68,135
Intangible assets, net	-	-	-	6,571	-	-	-	6,571
Income tax assets	1,165	-	-	-	-	-	-	1,165
Foreclosed assets, net	16,933	-	-	-	-	-	(2,037)	14,896
Other assets, net	8,520	-	-	-	-	-	(3,503)	5,017
<b>TOTAL ASSETS</b>	<b>592,087</b>	<b>12,954</b>	<b>69,023</b>	<b>27,787</b>	<b>48,163</b>	<b>743</b>	<b>(5,843)</b>	<b>744,914</b>
<b>LIABILITIES</b>								
Deposits from banks	83	-	-	-	-	-	-	83
Customer accounts	2,854	-	16,063	-	-	-	-	18,917
<b>Total interest bearing liabilities</b>	<b>2,937</b>	<b>-</b>	<b>16,063</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,000</b>
Customer accounts	566,914	884	-	-	-	-	-	567,798
Interest accrued on interest bearing liabilities	110	-	-	-	-	-	-	110
Income tax liability	166	-	-	-	-	-	-	166
Other liabilities	6,019	-	-	-	-	-	529	6,548
<b>TOTAL LIABILITIES</b>	<b>576,146</b>	<b>884</b>	<b>16,063</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>529</b>	<b>593,622</b>
Liquidity gap	15,941	12,070	52,960	27,787	48,163	743		
Interest sensitivity gap	345,333	12,954	52,960	1,244	-			
Cumulative interest sensitivity gap	345,333	358,287	411,247	412,491	412,491			
Cumulative interest sensitivity gap as a percentage of total assets	46%	48%	55%	55%	55%			

**Convenience translation to US dollars (Note 3):**

	<u>Up to 1 month</u> USD'000	<u>1 month to 3 months</u> USD'000	<u>3 month to 1 year</u> USD'000	<u>1 year to 5 years</u> USD'000	<u>Over 5 years</u> USD'000	<u>Overdue</u> USD'000	<u>Maturity undefined, including allowance for losses</u> USD'000	<u>2003 Total</u> USD'000
<b>ASSETS</b>								
Loans and advances to banks	7,090	-	-	-	-	-	-	7,090
Securities purchased under agreement to resell	-	-	1,133	-	-	-	-	1,133
Loans and advances to customers, net	29	1	197	28	-	17	(7)	265
Securities available for sale	762	292	232	-	-	-	-	1,286
<b>Total interest bearing assets</b>	<b>7,881</b>	<b>293</b>	<b>1,562</b>	<b>28</b>	<b>0</b>	<b>17</b>	<b>(7)</b>	<b>9,774</b>
Cash on hand	2,572	-	-	-	-	-	-	2,572
Balances with the NBKR	2,339	-	-	-	-	-	-	2,339
Interest accrued on interest bearing assets	4	-	-	-	-	-	-	4
Fixed assets, net	-	-	-	452	1,090	-	-	1,542
Intangible assets, net	-	-	-	149	-	-	-	149
Income tax assets	26	-	-	-	-	-	-	26
Foreclosed assets, net	382	-	-	-	-	-	(45)	337
Other assets, net	194	-	-	-	-	-	(80)	114
<b>TOTAL ASSETS</b>	<b>13,398</b>	<b>293</b>	<b>1,562</b>	<b>629</b>	<b>1,090</b>	<b>17</b>	<b>(132)</b>	<b>16,857</b>
<b>LIABILITIES</b>								
Deposits from banks	2	-	-	-	-	-	-	2
Customer accounts	65	-	363	-	-	-	-	428
<b>Total interest bearing liabilities</b>	<b>67</b>	<b>-</b>	<b>363</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>430</b>
Customer accounts	12,829	20	-	-	-	-	-	12,849
Interest accrued on interest bearing liabilities	3	-	-	-	-	-	-	3
Income tax liability	4	-	-	-	-	-	-	4
Other liabilities	136	-	-	-	-	-	12	148
<b>TOTAL LIABILITIES</b>	<b>13,039</b>	<b>20</b>	<b>363</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>13,434</b>
Liquidity gap	359	273	1,199	629	1,090	17	-	-
Interest sensitivity gap	7,814	293	1,199	28	-	-	-	-
Cumulative interest sensitivity gap	7,814	8,107	9,306	9,334	9,334	-	-	-
Cumulative interest sensitivity gap as a percentage of total assets	46%	48%	55%	55%	55%	-	-	-

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.

	<u>2004</u>		<u>2003</u>	
	%		%	
	<u>KGS</u>	<u>USD</u>	<u>KGS</u>	<u>USD</u>
<b>ASSETS</b>				
Loans and advances to banks	-	1	-	1
Securities purchased under agreement to resell	6	-	6	-
Loans and advances to customers	33	20	33	23
Securities available for sale	5	10	4	10
<b>LIABILITIES</b>				
Deposits from banks	-	-	-	-
Customer accounts	4	1	4	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:

	<u>KGS</u>	<u>USD</u> 1USD= KGS 41.6246	<u>Other currency</u>	<u>Currency undefined (incl. allowance for losses and impairment)</u>	<u>2004 Total KGS'000</u>
<b>ASSETS</b>					
Cash on hand	21,218	83,422	12,969	-	117,609
Balances with the NBKR	292,061	-	-	-	292,061
Loans and advances to banks	7,340	393,909	56,796	-	458,045
Securities purchased under agreement to resell	7,307	-	-	-	7,307
Loans and advances to customers, net	10,492	94,429	-	(2,462)	102,459
Securities available for sale	45,602	-	-	-	45,602
Fixed assets, net	67,624	-	-	-	67,624
Intangible assets, net	4,802	-	-	-	4,802
Foreclosed assets, net	9,601	-	-	(1,167)	8,434
Other assets, net	15,643	5,669	533	(3,305)	18,540
<b>TOTAL ASSETS</b>	<b>481,690</b>	<b>577,429</b>	<b>70,298</b>	<b>(6,934)</b>	<b>1,122,483</b>
<b>LIABILITIES</b>					
Deposits from banks	-	80	-	-	80
Customer accounts	291,347	521,291	107,312	-	919,950
Deferred income tax liabilities	4,909	-	-	-	4,909
Other liabilities	1,065	9,840	95	869	11,869
<b>TOTAL LIABILITIES</b>	<b>297,321</b>	<b>531,211</b>	<b>107,407</b>	<b>869</b>	<b>936,808</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>184,369</b>	<b>46,218</b>	<b>(37,109)</b>		

### Convenience translation to US dollars (Note 3):

	<u>KGS</u> 1USD= KGS 41.6246	<u>USD</u>	<u>Other currency</u>	<u>Currency undefined (incl. allowance for losses and impairment)</u>	<u>2004 Total USD'000</u>
<b>ASSETS</b>					
Cash on hand	510	2,003	312	-	2,825
Balances with the NBKR	7,017	-	-	-	7,017
Loans and advances to banks	176	9,463	1,365	-	11,004
Securities purchased under agreement to resell	176	-	-	-	176
Loans and advances to customers, net	252	2,269	-	(59)	2,462
Securities available for sale	1,096	-	-	-	1,096
Fixed assets, net	1,625	-	-	-	1,625
Intangible assets, net	115	-	-	-	115
Foreclosed assets, net	231	-	-	(28)	203
Other assets, net	375	136	13	(79)	445
<b>TOTAL ASSETS</b>	<b>11,573</b>	<b>13,871</b>	<b>1,690</b>	<b>(166)</b>	<b>26,968</b>
<b>LIABILITIES</b>					
Deposits from banks	-	2	-	-	2
Customer accounts	6,999	12,524	2,578	-	22,101
Income tax liabilities	119	-	-	-	119
Other liabilities	26	237	2	21	286
<b>TOTAL LIABILITIES</b>	<b>7,144</b>	<b>12,763</b>	<b>2,580</b>	<b>21</b>	<b>22,508</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>4,429</b>	<b>1,108</b>	<b>(890)</b>		

	<b>KGS</b>	<b>USD</b> 1USD= KGS 44.1902	<b>Other currency</b>	<b>Currency undefined (incl. allowance for losses and impairment)</b>	<b>2003 Total KGS'000</b>
<b>ASSETS</b>					
Cash on hand	17,252	94,413	2,008	-	113,673
Balances with the NBKR	103,362	-	-	-	103,362
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, net	1,205	10,991	-	(303)	11,893
Securities available for sale	50,166	6,670	-	-	56,836
Fixed assets, net	68,135	-	-	-	68,135
Intangible assets, net	6,571	-	-	-	6,571
Income tax assets	1,165	-	-	-	1,165
Foreclosed assets, net	16,933	-	-	(2,037)	14,896
Other assets, net	3,059	5,068	393	(3,503)	5,017
<b>TOTAL ASSETS</b>	<b>317,904</b>	<b>398,737</b>	<b>34,116</b>	<b>(5,843)</b>	<b>744,914</b>
<b>LIABILITIES</b>					
Deposits from banks	1	82	-	-	83
Customer accounts	164,228	389,900	32,697	-	586,825
Income tax liabilities	166	-	-	-	166
Other liabilities	899	5,032	88	529	6,548
<b>TOTAL LIABILITIES</b>	<b>165,294</b>	<b>395,014</b>	<b>32,785</b>	<b>529</b>	<b>593,622</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>152,610</b>	<b>3,723</b>	<b>1,331</b>		

**Convenience translation to US dollars (Note 3):**

	<b>KGS</b> 1USD= KGS 44.1902	<b>USD</b>	<b>Other currency</b>	<b>Currency undefined (incl. allowance for losses and impairment)</b>	<b>2003 Total USD'000</b>
<b>ASSETS</b>					
Cash on hand	390	2,137	45	-	2,572
Balances with the NBKR	2,339	-	-	-	2,339
Loans and advances to banks	-	6,372	718	-	7,090
Securities purchased under agreement to resell	1,133	-	-	-	1,133
Loans and advances to customers, net	27	249	-	(7)	269
Securities available for sale	1,135	151	-	-	1,286
Fixed assets, net	1,542	-	-	-	1,542
Intangible assets, net	149	-	-	-	149
Income tax assets	26	-	-	-	26
Foreclosed assets, net	382	-	-	(45)	337
Other assets, net	70	115	9	(80)	114
<b>TOTAL ASSETS</b>	<b>7,193</b>	<b>9,024</b>	<b>772</b>	<b>(132)</b>	<b>16,857</b>
<b>LIABILITIES</b>					
Deposits from banks	-	2	-	-	2
Customer accounts	3,716	8,824	740	-	13,280
Income tax liabilities	4	-	-	-	4
Other liabilities	20	114	2	12	148
<b>TOTAL LIABILITIES</b>	<b>3,740</b>	<b>8,940</b>	<b>742</b>	<b>12</b>	<b>13,434</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>3,453</b>	<b>84</b>	<b>30</b>		

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.

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

### **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:

	<b>Kyrgyz Republic</b> KGS'000	<b>Other non-OECD countries</b> KGS'000	<b>OECD countries</b> KGS'000	<b>Undefined (incl. allowance for losses and impairment)</b> KGS'000	<b>2004 Total</b> KGS'000
<b>ASSETS</b>					
Cash on hand	117,609	-	-	-	117,609
Balances with the NBKR	292,061	-	-	-	292,061
Loans and advances to banks	7,340	106,817	343,888	-	458,045
Securities purchased under agreement to resell	7,307	-	-	-	7,307
Loans and advances to customers, net	104,921	-	-	(2,462)	102,459
Securities available for sale	45,602	-	-	-	45,602
Fixed assets, net	67,624	-	-	-	67,624
Intangible assets, net	4,802	-	-	-	4,802
Foreclosed assets, net	9,601	-	-	(1,167)	8,434
Other assets, net	23,385	-	-	(3,305)	18,540
<b>TOTAL ASSETS</b>	<b>678,712</b>	<b>106,817</b>	<b>343,888</b>	<b>(6,934)</b>	<b>1,122,483</b>
<b>LIABILITIES</b>					
Deposits from banks	57	23	-	-	80
Customer accounts	919,950	-	-	-	919,950
Income tax liabilities	4,909	-	-	-	4,909
Other liabilities	11,000	-	-	869	11,869
<b>TOTAL LIABILITIES</b>	<b>935,916</b>	<b>23</b>	<b>-</b>	<b>869</b>	<b>936,808</b>
<b>NET BALANCE SHEET POSITION</b>	<b>(257,204)</b>	<b>106,794</b>	<b>343,888</b>		

### Convenience translation to US dollars (Note 3):

	<b>Kyrgyz Republic</b> USD'000	<b>Other non-OECD countries</b> USD'000	<b>OECD countries</b> USD'000	<b>Undefined (incl. allowance for losses and impairment)</b> USD'000	<b>2004 Total</b> USD'000
<b>ASSETS</b>					
Cash on hand	2,825	-	-	-	2,825
Balances with the NBKR	7,017	-	-	-	7,017
Loans and advances to banks	176	2,567	8,261	-	11,004
Securities purchased under agreement to resell	176	-	-	-	176
Loans and advances to customers, net	2,521	-	-	(59)	2,462
Securities available for sale	1,096	-	-	-	1,096
Fixed assets, net	1,625	-	-	-	1,625
Intangible assets, net	115	-	-	-	115
Foreclosed assets, net	231	-	-	(28)	203
Other assets, net	524	-	-	(79)	445
<b>TOTAL ASSETS</b>	<b>16,306</b>	<b>2,567</b>	<b>8,261</b>	<b>(166)</b>	<b>26,968</b>
<b>LIABILITIES</b>					
Deposits from banks	1	1	-	-	2
Customer accounts	22,101	-	-	-	22,101
Income tax liabilities	119	-	-	-	119
Other liabilities	265	-	-	21	286
<b>TOTAL LIABILITIES</b>	<b>22,486</b>	<b>1</b>	<b>-</b>	<b>21</b>	<b>22,508</b>
<b>NET BALANCE SHEET POSITION</b>	<b>(6,180)</b>	<b>2,566</b>	<b>8,261</b>		

	<b>Kyrgyz Republic</b> KGS'000	<b>Other non-OECD countries</b> KGS'000	<b>OECD countries</b> KGS'000	<b>Undefined (incl. allowance for losses and impairment)</b> KGS'000	<b>2003 Total</b> KGS'000
<b>ASSETS</b>					
Cash on hand	113,673	-	-	-	113,673
Balances with the NBKR	103,362	-	-	-	103,362
Loans and advances to banks	-	43,714	269,596	-	313,310
Securities purchased under agreement to resell	12,196	-	-	(303)	11,893
Loans and advances to customers, net	50,056	-	-	-	50,056
Securities available for sale	50,166	-	6,670	-	56,836
Fixed assets, net	68,135	-	-	-	68,135
Intangible assets, net	6,571	-	-	-	6,571
Income tax assets	1,165	-	-	-	1,165
Foreclosed assets, net	16,933	-	-	(2,037)	14,896
Other assets, net	4,467	-	4,053	(3,503)	5,017
<b>TOTAL ASSETS</b>	<b>426,724</b>	<b>43,714</b>	<b>280,319</b>	<b>(5,843)</b>	<b>744,914</b>
<b>LIABILITIES</b>					
Deposits from banks	81	2	-	-	83
Customer accounts	586,825	-	-	-	586,825
Income tax liabilities	166	-	-	-	166
Other liabilities	6,019	-	-	529	6,548
<b>TOTAL LIABILITIES</b>	<b>593,091</b>	<b>2</b>	<b>-</b>	<b>529</b>	<b>593,622</b>
<b>NET BALANCE SHEET POSITION</b>	<b>(166,367)</b>	<b>43,712</b>	<b>280,319</b>		

**Convenience translation to US dollars (Note 3):**

	<b>Kyrgyz Republic</b> USD'000	<b>Other non-OECD countries</b> USD'000	<b>OECD countries</b> USD'000	<b>Undefined (incl. allowance for losses and impairment)</b> USD'000	<b>2003 Total</b> USD'000
<b>ASSETS</b>					
Cash on hand	2,572	-	-	-	2,572
Balances with the NBKR	2,339	-	-	-	2,339
Loans and advances to banks	-	989	6,101	-	7,090
Securities purchased under agreement to resell	276	-	-	(7)	269
Loans and advances to customers, net	1,133	-	-	-	1,133
Securities available for sale	1,135	-	151	-	1,286
Fixed assets, net	1,542	-	-	-	1,542
Intangible assets, net	149	-	-	-	149
Income tax assets	26	-	-	-	26
Foreclosed assets, net	382	-	-	(45)	337
Other assets, net	102	-	92	(80)	114
<b>TOTAL ASSETS</b>	<b>9,656</b>	<b>989</b>	<b>6,344</b>	<b>(132)</b>	<b>16,857</b>
<b>LIABILITIES</b>					
Deposits from banks	2	-	-	-	2
Customer accounts	13,280	-	-	-	13,280
Income tax liabilities	4	-	-	-	4
Other liabilities	136	-	-	12	148
<b>TOTAL LIABILITIES</b>	<b>13,422</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>13,434</b>
<b>NET BALANCE SHEET POSITION</b>	<b>(3,766)</b>	<b>989</b>	<b>6,344</b>		