

Demir Kyrgyz International Bank

Financial Statements
For the year ended 31 December 2005
and Independent Auditors' Report

DEMIR KYRGYZ INTERNATIONAL BANK

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Closed Joint-Stock Bank Demir Kyrgyz International Bank (hereinafter - the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank at 31 December 2005, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the consolidated financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of the Kyrgyz Republic and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2005 were authorized for issue on 1 February 2006.

On behalf of the Board:

Ahmet Parmaksiz
General Manager

Rysbek Toktogul
Chief Accountant / Financial Controller

Bishkek
Kyrgyz Republic

1 February 2006

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 2005 and the related profit and loss account, statements of cash flows and changes in 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 2005, 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 Dollars amounts provided in the financial statements are for the convenience of the users of the financial statements. The amounts in the accompanying 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.

1 February 2006

DEMIR KYRGYZ INTERNATIONAL BANK

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	Year ended	Year ended	Convenience translation (Note 3)	
		31 December 2005 KGS'000	31 December 2004 KGS'000	Year ended 31 December 2005 USD'000	Year ended 31 December 2004 USD'000
Interest income	5,25	46,489	20,844	1,126	491
Interest expenses	5,25	(1,828)	(1,250)	(40)	(29)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		44,661	19,594	1,086	462
Provision for impairment losses on interest bearing assets	6	(2,964)	(2,159)	(72)	(52)
NET INTEREST INCOME		41,697	17,435	1,014	410
Net gain on foreign exchange operations		20,402	27,825	496	656
Fee and commission income	7	67,382	66,125	1,621	1,552
Fee and commission expense	7	(5,623)	(6,477)	(138)	(153)
Other income	8	12,538	9,218	298	215
NET NON-INTEREST INCOME		94,699	96,691	2,277	2,270
OPERATING INCOME		136,396	114,126	3,291	2,680
OPERATING EXPENSES		(76,703)	(66,541)	(1,813)	(1,568)
OPERATING PROFIT		59,693	47,585	1,478	1,112
Recovery of provision for impairment losses on foreclosed and other assets	6	1,167	1,068	28	18
Provision for impairment losses on off-balance sheet commitments	6	(208)	(340)	(5)	(9)
PROFIT BEFORE INCOME TAX		60,652	48,313	1,501	1,121
Income tax expense	10	(10,812)	(9,965)	(264)	(236)
NET PROFIT		49,840	38,348	1,237	885

On behalf of the Management Board

Ahmet Parmaksiz
General Manager

Rysbek Toktogul
Chief Accountant / Financial Controller

Bishkek
Kyrgyz Republic

1 February 2006

The notes on pages 7 to 36 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

DEMIR KYRGYZ INTERNATIONAL BANK

BALANCE SHEET AS OF 31 DECEMBER 2005

	NOTES	31 December		Convenience translation (Note 3)	
		2005 KGS'000	2004 KGS'000	2005 USD'000	2004 USD'000
ASSETS:					
Cash on hand	11	141,013	117,609	3,414	2,825
Balances with the National Bank of the Kyrgyz Republic	11	255,551	292,061	6,188	7,017
Loans and advances to banks	12,25	421,433	458,045	10,204	11,004
Securities purchased under agreement to resell	13	21,023	7,307	509	176
Loans to customers, less allowance for impairment losses	14	202,170	102,459	4,895	2,462
Securities available-for-sale	15	50,122	45,602	1,214	1,096
Fixed assets, less accumulated depreciation	16	82,179	67,624	1,990	1,625
Intangible assets, less accumulated amortization	17	8,466	4,802	205	115
Foreclosed assets, less allowance for impairment losses	18	-	8,434	-	203
Other assets, less allowance for impairment losses	18	9,474	18,540	229	445
TOTAL ASSETS		1,191,431	1,122,483	28,848	26,968
LIABILITIES AND EQUITY					
LIABILITIES:					
Loans and advances from banks	19	15,815	80	383	2
Customer accounts	20	926,243	919,950	22,427	22,101
Income tax liabilities	10	4,668	4,909	113	119
Other liabilities	21	9,129	11,869	221	286
Total liabilities		955,855	936,808	23,144	22,508
EQUITY:					
Share capital	22	132,540	132,540	3,209	3,184
Reserves		103,036	53,135	2,495	1,276
Total equity		235,576	185,675	5,704	4,460
TOTAL LIABILITIES AND EQUITY		1,191,431	1,122,483	28,848	26,968
FINANCIAL COMMITMENTS AND CONTINGENCIES	23	90,205	58,435	2,184	1,404

On behalf of the Management Board

Ahmet Parmaksiz
General Manager

Rysbek Toktogul
Chief Accountant / Financial Controller

Bishkek
Kyrgyz Republic

1 February 2006

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DEMIR KYRGYZ INTERNATIONAL BANK

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>Share capital</u> KGS'000	<u>Additional paid in capital</u> KGS'000	<u>Revenue reserve</u> KGS'000	<u>Revaluation reserve</u> KGS'000	<u>Total equity</u> KGSs'000
Balance 1 January 2004	100,000	1	50,887	404	151,292
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
Balance 31 December 2004	132,540	1	53,079	55	185,675
Net profit	-	-	49,840	-	49,840
Results on securities available-for-sale	-	-	-	61	61
Balance 31 December 2005	132,540	1	102,919	116	235,576

Convenience translation to US dollars (Note 3):

	<u>Share capital</u> USD'000	<u>Revenue reserve</u> USD'000	<u>Revaluation reserve</u> USD'000	<u>Translation reserve</u> USD'000	<u>Total equity</u> USD'000
Balance 1 January 2004	2,263	1,191	9	(40)	3,423
Net profit	-	885	-	-	885
Results on securities available-for-sale	-	-	(8)	-	(8)
Adjustment in accordance with SIC 30 (see Note 3)	139	32	-	76	247
Dividends declared	-	(869)	-	-	(869)
Reinvestment of dividends	782	-	-	-	782
Balance 31 December 2004	3,184	1,239	1	36	4,460
Net profit	-	1,237	-	-	1,238
Results on securities available-for-sale	-	-	1	-	1
Adjustment in accordance with IAS 21 (see Note 3)	25	47	-	(66)	6
Balance 31 December 2005	3,209	2,523	2	(30)	5,704

On behalf of the Management Board

Ahmet Parmaksiz
General Manager

Rysbek Toktogul
Chief Accountant / Financial Controller

Bishkek
Kyrgyz Republic

1 February 2006

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DEMIR KYRGYZ INTERNATIONAL BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES			Convenience translation (Note 3)	
		Year ended 31 December 2005 KGS'000	Year ended 31 December 2004 KGS'000	Year ended 31 December 2005 USD'000	Year ended 31 December 2004 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES:					
Interest received		43,695	17,862	1,057	424
Interest paid		(1,844)	(1,293)	(40)	(30)
Fees and commissions received		67,382	66,125	1,621	1,552
Fees and commissions paid		(5,623)	(6,477)	(138)	(153)
Foreign exchange gains		20,709	26,370	505	622
Other operating income		11,189	9,969	265	211
Salaries and employment benefits		(35,385)	(30,197)	(857)	(710)
Administrative expenses		(29,218)	(26,334)	(664)	(619)
Cash flows from operating activities before changes in operating assets and liabilities		70,905	56,025	1,749	1,297
Changes in operating assets and liabilities: (Increase)/decrease in operating assets:					
Securities purchased under agreement to resell		(13,719)	42,720	(333)	957
Loans to customers		(97,882)	(94,170)	(2,481)	(2,221)
Other assets		15,163	(787)	363	(27)
Increase/(decrease) in operating liabilities:					
Loans and advances from banks		15,735	(3)	381	-
Customer accounts		3,049	364,825	283	8,573
Other liabilities		(4,100)	4,656	(99)	118
Cash inflow/ (outflow) from operating activities before income taxes		(10,849)	373,266	(137)	8,697
Income taxes paid		(11,053)	(4,176)	(269)	(99)
Net cash inflow/(outflow) from operating activities		(21,902)	369,090	(406)	8,598
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment securities purchased		(163,157)	(159,812)	(3,984)	(4,913)
Investment securities redeemed		160,519	173,009	3,903	5,146
Fixed assets purchased		(19,158)	(11,128)	(446)	(262)
Fixed assets sold		487	2,485	12	57
Intangible assets purchased		(5,643)	(4,600)	(137)	(78)
Net cash outflows from investing activities		(26,952)	(46)	(652)	(50)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Share capital increase		-	32,540	-	782
Dividends paid		-	(36,156)	-	(869)
Net cash outflows/(inflows) from financing activities		-	(3,616)	-	(87)
Effects of exchange rate changes on cash and cash equivalents		(864)	(28,058)	18	384
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(49,718)	337,370	(1,040)	8,845
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	11	867,715	530,345	20,846	12,001
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11	817,997	867,715	19,806	20,846

On behalf of the Management Board

Ahmet Parmaksiz
General Manager

Rysbek Toktogul
Chief Accountant / Financial Controller

Bishkek
Kyrgyz Republic
1 February 2006

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DEMIR KYRGYZ INTERNATIONAL BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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 the Bank has two branches located in the cities of Osh and Bishkek. The number of employees of the Bank at 31 December 2005 and 2004 was 134 and 115, 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 and re-issued on 20 April 2005. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies instruments, originating loans and guarantees.

As of 31 December 2005 and 2004, the Bank's ownership structure was as follows:

<u>Shareholders</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
	%	%
Halit Cingillioglu	70	35
Aydin Dogan	-	35
International Finance Corporation (IFC)	15	15
European Bank for Reconstruction and Development (EBRD)	15	15
	<hr/>	<hr/>
	100	100
	<hr/>	<hr/>

These financial statements were authorized for issue by the Bank's Management Board on 1 February 2006.

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") and 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 accounting records, maintained in accordance with the NBKR requirements and have been adjusted to conform to 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.

Functional currency

The currency used in these financial statements is the Kyrgyz Som (KGS), which is the Bank's functional currency. The functional 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 2005, International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") was applied by the Bank for translation of the Kyrgyz Som financial statements into US Dollars. In accordance with IAS 21, 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 at the dates of the transactions income and expense items were incurred. Exchange differences resulting from such translations were recognized directly in equity. Exchange rates at 31 December 2005 and 2004 were 41.3011 KGS per 1 USD and 41.6246 KGS per 1 USD, respectively. The amounts 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.

For the prior year the Bank applied Interpretation 30 of Standing Interpretation Committee "Reporting Currency – Translation from Measurement Currency to Presentation Currency" ("SIC-30") 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 monthly using average 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.

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 impairment 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 is 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.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards, swaps and foreign currency options.

Derivative financial instruments are initially recorded and subsequently measured at fair value which approximates the fair value of the consideration given. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

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 impairment losses.

Write off of loans

Loans are written off against allowance for impairment 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 impairment losses

The Bank establishes an allowance for impairment 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 impairment 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 impairment 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. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment loan losses is charged to profit and the total of the allowance for impairment loan losses is deducted in arriving at loans and advances to customers and banks. Management's evaluation of the impairment 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 impairment loan losses, it is the judgment of management that the allowance for impairment 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 available 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

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.

Fee and commission income

Fee and commission income includes loan origination fees, loan commitment fees, loan servicing fees and loan syndication fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit and loss when the syndication has been completed. All other commissions are recognized when services are provided.

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 2005</u>	<u>31 December 2004</u>
KGS/1 US Dollar	41.3011	41.6246
KGS/1 Euro	48.9686	56.3930

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>31 December</u> <u>2005</u> KGS'000	<u>Year ended</u> <u>31 December</u> <u>2004</u> KGS'000	<u>Year ended</u> <u>31 December</u> <u>2005</u> USD'000	<u>Year ended</u> <u>31 December</u> <u>2004</u> USD'000
			Convenience translation (Note 3)	
Interest income				
Interest on loans and advances to customers	26,412	10,337	649	244
Interest on loans and advances to banks	17,429	8,359	418	197
Interest on investment securities	1,821	2,148	38	50
Interest on reverse repurchase transactions	827	-	21	-
Total interest income	<u>46,489</u>	<u>20,844</u>	<u>1,126</u>	<u>491</u>
Interest expense				
Interest on customer accounts	<u>1,828</u>	<u>1,250</u>	<u>40</u>	<u>29</u>
Total interest expense	<u>1,828</u>	<u>1,250</u>	<u>40</u>	<u>29</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>44,661</u>	<u>19,594</u>	<u>1,086</u>	<u>462</u>

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Convenience translation (Note 3)			
	2005 KGS'000	2004 KGS'000	2005 USD'000	2004 USD'000
1 January	2,462	303	59	7
Provision	2,964	2,159	72	52
Other corrections	(17)	-	-	-
31 December	<u>5,409</u>	<u>2,462</u>	<u>131</u>	<u>59</u>

The movements in allowances for impairment losses on foreclosed and other assets were as follows:

	Foreclosed assets KGS'000	Other assets KGS'000	Total KGS'000
31 December 2003	2,037	3,503	5,540
Provision/(Recovery)	(870)	(198)	(1,068)
31 December 2004	1,167	3,305	4,472
Recovery of provision	(1,167)	-	(1,167)
Other corrections	-	(25)	(25)
31 December 2005	<u>-</u>	<u>3,280</u>	<u>3,280</u>

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

	Foreclosed assets USD'000	Other assets USD'000	Total USD'000
31 December 2003	46	79	125
Recovery of provision	(18)	-	(18)
31 December 2004	28	79	107
Recovery of provision	(28)	-	(28)
31 December 2005	<u>-</u>	<u>79</u>	<u>79</u>

Allowances for impairment losses on assets are deducted from the related assets.

The movements in allowances for impairment losses on guarantees and other commitments were as follows:

	Convenience translation (Note 3)			
	2005 KGS'000	2004 KGS'000	2005 USD'000	2004 USD'000
1 January	869	529	21	12
Provision	208	340	5	9
Other corrections	(6)	-	-	-
31 December	<u>1,071</u>	<u>869</u>	<u>26</u>	<u>21</u>

Provisions for claims, guarantees and commitments are recorded in liabilities.

7. FEES AND COMMISSIONS INCOME AND EXPENSE

Fees and commissions income and expense comprise:

	Year ended 31 December <u>2005</u> KGS'000	Year ended 31 December <u>2004</u> KGS'000	Convenience translation (Note 3)	
			Year ended 31 December <u>2005</u> USD'000	Year ended 31 December <u>2004</u> USD'000
Fee and commission income:				
Settlements	26,623	27,930	650	656
Cash operations	24,523	26,190	598	615
Account maintenance	2,658	2,415	65	57
Account opening	1,177	1,410	29	33
Other	12,401	8,180	279	191
Total fee and commission income	67,382	66,125	1,621	1,552
Fee and commission expense:				
Correspondent bank services	2,818	3,061	69	72
Cash operations	1,693	1,689	42	40
Customs' charges on cash delivery	20	1,089	-	26
Other	1,092	638	27	15
Total fees and commissions expense	5,623	6,477	138	153

8. OTHER INCOME

	Year ended 31 December <u>2005</u> KGS'000	Year ended 31 December <u>2004</u> KGS'000	Convenience translation (Note 3)	
			Year ended 31 December <u>2005</u> USD'000	Year ended 31 December <u>2004</u> USD'000
Income from sale of foreclosed assets (Note 19)	6,755	4,609	160	107
Gain from rent of Bank's property	3,435	2,695	82	63
Maintenance fee	1,292	-	31	-
Income from sale of fixed assets	-	161	-	4
Other	1,056	1,753	25	41
Total other income	12,538	9,218	298	215

9. OPERATING EXPENSES

	Year ended 31 December 2005 KGS'000	Year ended 31 December 2004 KGS'000	Convenience translation (Note 3)	
			Year ended 31 December 2005 USD'000	Year ended 31 December 2004 USD'000
Salaries and Social Security Costs	35,339	30,197	857	710
Depreciation and amortization	10,948	9,521	264	229
Taxes, other than income tax	4,960	4,447	113	105
Insurance charges	4,077	3,714	93	87
Equipment services	2,741	2,028	62	48
Office security	2,076	1,357	47	32
Communications	1,853	2,585	42	60
Entertainment/business promotions	1,675	2,627	38	61
Office rent	1,647	972	37	23
Professional services fees	1,531	1,570	35	37
Business trip	1,168	1,084	27	25
Marketing expenses	1,043	639	24	15
Training	976	985	22	23
Stationers and supplies	915	1,000	21	23
Fixed assets maintenance (buildings, furniture, etc.)	906	-	21	-
Vehicle maintenance	838	605	19	14
Utilities	784	663	18	16
Other	3,226	2,547	73	60
Total operating expenses	76,703	66,541	1,813	1,568

10. 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 2005 and 2004, the Kyrgyz Republic's tax rate for corporations' profits 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 will be 10%.

	31 December 2005 KGS'000	31 December 2004 KGS'000	Convenience translation (Note 3)	
			31 December 2005 USD'000	31 December 2004 KGS'000
Deferred income tax liabilities	1,943	1,806	47	44
Current income tax liabilities	2,725	3,103	66	75
Income tax liabilities	4,668	4,909	113	119

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 2005 and 2004 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 2005 and 2004 comprise:

	31 December 2005 KGS'000	31 December 2004 KGS'000	Convenience translation (Note 3)	
			31 December 2005 USD'000	31 December 2004 USD'000
Deferred tax assets				
Amortization of intangible assets	318	1,018	8	24
Reserve on foreclosed assets	-	1,524	-	37
Total deferred tax assets	318	2,542	8	61
Deferred tax liabilities:				
Depreciation of fixed assets	2,261	4,323	55	104
Interest accrued	-	25	-	1
Total deferred tax liabilities	2,261	4,348	55	105
Net deferred tax liability	1,943	1,806	47	44

Relationships between tax expenses and accounting profit for the 31 December 2005 and 2004 are explained as follows:

	Year ended 31 December 2005 KGS'000	Year ended 31 December 2004 KGS'000	Convenience translation (Note 3)	
			Year ended 31 December 2005 USD'000	Year ended 31 December 2004 USD'000
Profit before income tax	60,652	48,313	1,502	1,121
Tax at the statutory tax rate (20%)	12,130	9,663	300	224
Tax effect of permanent differences (20%)	624	302	15	7
Effect of change in income tax rates	(1,943)	-	(47)	-
Translation effect	-	-	(4)	5
Income tax expense	10,812	9,965	264	236
Current tax expense	10,675	8,285	262	195
Correction of prior year income tax	-	40	-	1
Deferred tax expense	137	1,640	3	40
Translation effect	-	-	(1)	-
Income tax expense	10,812	9,965	264	236
Deferred income tax liabilities	2005 KGS'000	2004 KGS'000	2005 USD'000	2004 KGS'000
1 January	1,806	166	44	4
Increase in income tax liability for the period	137	1,640	3	40
31 December	1,943	1,806	47	44

11. CASH AND CASH EQUIVALENTS

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

	31 December 2005 KGS'000	31 December 2004 KGS'000	Convenience translation (Note 3)	
			31 December 2005 USD'000	31 December 2004 USD'000
Cash on hand	141,013	117,609	3,414	2,825
Balances with the NBKR	255,551	292,061	6,188	7,017
Loans and advances to banks (Note 12)	421,433	458,045	10,204	11,004
Cash and cash equivalents	817,997	867,715	19,806	20,846

The balances with the NBKR of 255,551 thousand KGS (6,187 thousand USD) and 292,061 thousand KGS (7,017 thousand USD) as of 31 December 2005 and 2004 include 89,135 thousand KGS (2,158 thousand USD) and 94,392 thousand KGS (2,268 thousand USD), respectively, which represent the minimum reserve deposit required by the NBKR. The NBKR requires commercial banks 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.

12. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

	31 December 2005 KGS'000	31 December 2004 KGS'000	Convenience translation (Note 3)	
			31 December 2005 USD'000	31 December 2004 USD'000
Loans to banks	346,542	331,903	8,391	7,974
Advances to banks	74,780	125,992	1,810	3,026
Accrued interest	111	150	3	4
	<u>421,433</u>	<u>458,045</u>	<u>10,204</u>	<u>11,004</u>

As of 31 December 2005, the Bank had a significant exposure to Commerzbank AG (Germany). The total balance with this bank was 288,906 thousand KGS (6,995 thousand USD) as of 31 December 2005. As of 31 December 2004, the Bank had a significant exposure 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 2005 the Bank had loans and advances to banks totaling 288,906 thousand KGS (6,995 thousand USD), which represent significant geographical concentration in the European Union, forming 71% of the loan portfolio. As of 31 December 2004 the Bank had loans and advances to banks totaling 330,667 thousand KGS (7,944 thousand USD), which represent significant geographical concentration in the United States of America, forming 72% of the loan portfolio.

As of 31 December 2005 the Bank had provided interbank loan to Kyrgyz Investment & Credit Bank for 12,300 thousand KGS free of interest that was secured by 12,390 thousand KGS (300 thousand USD) deposit placed by Kyrgyz Investment & Credit Bank in the Bank for the same period and free of interest.

13. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As of 31 December 2005 and 2004 the Bank purchased T-bills from the NBKR and Ineximbank amounting to 21,023 thousand KGS (509 thousand USD) and 7,307 thousand KGS (176 thousand USD) under agreements to resell them within 21 days and two months, respectively. A coupon of 3.6% and 5% of the nominal value is payable on T-bills and is included as of 31 December 2005 and 2004 in amount of 23 thousand KGS and 26 thousand KGS, respectively.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December <u>2005</u> KGS'000	31 December <u>2004</u> KGS'000	Convenience translation (Note 3)	
			31 December <u>2005</u> USD'000	31 December <u>2004</u> USD'000
Originated loans	205,748	104,066	4,981	2,500
Accrued interest	1,831	855	45	21
	<u>207,579</u>	<u>104,921</u>	<u>5,027</u>	<u>2,521</u>
Less allowance for impairment losses	<u>(5,409)</u>	<u>(2,462)</u>	<u>(131)</u>	<u>(59)</u>
	<u><u>202,170</u></u>	<u><u>102,459</u></u>	<u><u>4,896</u></u>	<u><u>2,462</u></u>

	31 December <u>2005</u> KGS'000	31 December <u>2004</u> KGS'000	Convenience translation (Note 3)	
			31 December <u>2005</u> USD'000	31 December <u>2004</u> USD'000
Loans collateralized by real estate	162,673	85,281	3,938	2,048
Loans collateralized by equipment	36,096	7,033	874	169
Loans collateralized by vehicles	3,338	550	81	13
Loans collateralized by others	-	9,222	-	222
Unsecured loans	3,641	1,980	88	48
Accrued interest income	1,831	855	45	21
	<u>207,579</u>	<u>104,921</u>	<u>5,026</u>	<u>2,521</u>
Less allowance for impairment losses	<u>(5,409)</u>	<u>(2,462)</u>	<u>(131)</u>	<u>(59)</u>
Total loans and advances to customers	<u><u>202,170</u></u>	<u><u>102,459</u></u>	<u><u>4,895</u></u>	<u><u>2,462</u></u>

Loans secured by guarantees are considered as unsecured loans.

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 6.

As of 31 December 2005 and 2004 all of the Bank's loans were issued to the residents of the Kyrgyz Republic.

Analysis by sector

	31 December <u>2005</u> KGS'000	31 December <u>2004</u> KGS'000	Convenience translation (Note 3)	
			31 December <u>2005</u> USD'000	31 December <u>2004</u> USD'000
Production	107,541	41,175	2,604	989
Trading	50,942	41,475	1,233	996
Individuals	30,395	13,406	736	322
Services	14,041	5,771	340	139
Staff loans	2,320	2,239	56	54
Other	509	-	12	-
Accrued interest	1,831	855	45	21
	<u>207,579</u>	<u>104,921</u>	<u>5,026</u>	<u>2,521</u>
Less allowance for impairment losses	<u>(5,409)</u>	<u>(2,462)</u>	<u>(131)</u>	<u>(59)</u>
Total loans and advances to customers	<u><u>202,170</u></u>	<u><u>102,459</u></u>	<u><u>4,895</u></u>	<u><u>2,462</u></u>

As of 31 December 2005 the Bank provided loans to two clients totaling 49,054 thousands KGS (1,188 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.

15. SECURITIES AVAILABLE FOR SALE

	Convenience translation (Note 3)			
	31 December 2005 KGS'000	31 December 2004 KGS'000	31 December 2005 USD'000	31 December 2004 USD'000
NBKR notes	44,994	6,657	1,090	160
T-bills	5,128	38,945	124	936
	<u>50,122</u>	<u>45,602</u>	<u>1,214</u>	<u>1,096</u>

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

16. FIXED ASSETS

	<u>Building</u> KGS'000	<u>CIP</u> KGS'000	<u>Computers & Office equipment</u> KGS'000	<u>Motor vehicles</u> KGS'000	<u>Equipment for installation</u> KGS'000	<u>Total</u> KGS'000
At cost						
31 December 2004	51,967	1,972	27,845	4,691	-	86,475
Additions	5,861	544	5,513	1,461	10,765	24,144
Transfers	2,014	(2,516)	5,541	-	(5,039)	-
Disposals	-	-	(4,873)	(331)	-	(5,204)
At 31 December 2005	<u>59,842</u>	<u>-</u>	<u>34,026</u>	<u>5,821</u>	<u>5,726</u>	<u>105,415</u>
Accumulated depreciation						
At 31 December 2004	6,559	-	10,402	1,890	-	18,851
Charge for the period	1,464	-	6,517	989	-	8,970
Disposals	-	-	(4,254)	(331)	-	(4,585)
At 31 December 2005	<u>8,023</u>	<u>-</u>	<u>12,665</u>	<u>2,548</u>	<u>-</u>	<u>23,236</u>
Net book value						
At 31 December 2005	<u>51,819</u>	<u>-</u>	<u>21,361</u>	<u>3,273</u>	<u>5,726</u>	<u>82,179</u>
At 31 December 2004	<u>45,408</u>	<u>1972</u>	<u>17,443</u>	<u>2,801</u>	<u>-</u>	<u>67,624</u>

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

	<u>Building</u> USD'000	<u>CIP</u> USD'000	<u>Computers & Office equipment</u> USD'000	<u>Motor vehicles</u> USD'000	<u>Equipment for installation</u> USD'000	<u>Total</u> USD'000
At cost						
31 December 2004	1,248	47	669	113	-	2,077
Additions	142	14	133	35	261	585
Transfers	49	(61)	134	-	(122)	-
Disposals	-	-	(118)	(8)	-	(126)
Translation effect	10	-	6	1	-	17
At 31 December 2005	<u>1,449</u>	<u>-</u>	<u>824</u>	<u>141</u>	<u>139</u>	<u>2,553</u>
Accumulated depreciation						
At 31 December 2004	157	-	250	45	-	452
Charge for the period	34	-	158	24	-	216
Disposals	-	-	(109)	(8)	-	(117)
Translation effect	3	-	8	1	-	12
At 31 December 2005	<u>194</u>	<u>-</u>	<u>307</u>	<u>62</u>	<u>-</u>	<u>563</u>
Net book value						
At 31 December 2005	<u>1,255</u>	<u>-</u>	<u>517</u>	<u>79</u>	<u>139</u>	<u>1,990</u>
At 31 December 2004	<u>1,091</u>	<u>47</u>	<u>419</u>	<u>68</u>	<u>-</u>	<u>1,625</u>

17. INTANGIBLE ASSETS

			Convenience translation (Note 3)	
	<u>2005</u> KGS'000	<u>2004</u> KGS'000	<u>2005</u> USD'000	<u>2004</u> USD'000
At cost				
At 1 January	7,027	20,100	169	455
Additions	5,643	686	137	16
Disposals	(256)	(13,759)	(6)	(311)
Translation effect				9
At 31 December	<u>12,414</u>	<u>7,027</u>	<u>300</u>	<u>169</u>
Accumulated depreciation				
At 1 January	2,225	13,529	53	306
Charge for the period	1,979	2,455	48	59
Disposals	(256)	(13,759)	(6)	(311)
At 31 December	<u>3,948</u>	<u>2,225</u>	<u>95</u>	<u>54</u>
Net book value				
At 31 December	<u>8,466</u>	<u>4,802</u>	<u>205</u>	<u>115</u>

18. 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 2005 and 2004 were the following:

			Convenience translation (Note 3)	
	<u>2005</u> KGS'000	<u>2004</u> KGS'000	<u>2005</u> USD'000	<u>2004</u> USD'000
1 January (gross amount)	9,601	16,933	231	383
Capitalization of expenses for the foreclosed assets	-	348	-	8
Net income on sale of the foreclosed assets	5,683	4,609	135	107
Net income on transfer of the foreclosed assets	1,072	-	26	-
Translation effect	-	-	-	17
Proceeds from sale of the foreclosed assets	<u>(16,356)</u>	<u>(12,289)</u>	<u>(392)</u>	<u>(284)</u>
31 December (gross amount)	-	9,601	-	231
Less allowance for impairment for the foreclosed assets	<u>-</u>	<u>(1,167)</u>	<u>-</u>	<u>(28)</u>
31 December (net)	<u>-</u>	<u>8,434</u>	<u>-</u>	<u>203</u>

Movements in allowances for impairment losses for the years ended 31 December 2005 are disclosed in Note 6.

Other assets comprise:

			Convenience translation (Note 3)	
	<u>31 December</u> <u>2005</u> KGS'000	<u>31 December</u> <u>2004</u> KGS'000	<u>31 December</u> <u>2005</u> USD'000	<u>31 December</u> <u>2004</u> USD'000
Accounts receivable from insurance company	3,280	3,305	79	79
Prepayments	5,301	11,798	128	283
Inventory	2,063	3,738	50	90
Traveler's cheques for sale	1,402	1,492	34	36
Other	<u>708</u>	<u>1,512</u>	<u>17</u>	<u>36</u>
	12,754	21,845	308	524
Less allowance for impairment losses for others	<u>(3,280)</u>	<u>(3,305)</u>	<u>(79)</u>	<u>(79)</u>

Total other assets	9,474	18,540	229	445
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19. LOANS AND ADVANCES FROM BANKS

As at 31 December 2005 amounts of deposits from banks for 15,815 thousand KGS (383 thousand USD) included deposit from EBRD Bas Project for 3,274 thousand KGS (79 thousand USD) or 67 thousand EUR in original currency.

As of 31 December 2005 the Bank had provided interbank loan to Kyrgyz Investment & Credit Bank for 12,300 thousand KGS free of interest that was secured by 12,390 thousand KGS (300 thousand USD) deposit placed by Kyrgyz Investment & Credit Bank in the Bank for the same period and free of interest.

20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2005	31 December 2004	Convenience translation (Note 3)	
			31 December 2005	31 December 2004
	KGS'000	KGS'000	USD'000	USD'000
Repayable on demand	909,029	896,090	22,011	21,391
Time deposits	9,843	18,961	238	592
Cash collateral	7,320	4,832	177	116
Accrued interest	51	67	1	2
Total customer accounts	926,243	919,950	22,427	22,101

21. OTHER LIABILITIES

	31 December 2005	31 December 2004	Convenience translation (Note 3)	
			31 December 2005	31 December 2004
	KGS'000	KGS'000	USD'000	USD'000
Accrued expenses	5,180	3,397	125	82
Allowance for impairment losses on guarantees	1,071	869	26	21
Cash deposit for share capital foundation	1,000	-	24	-
Collateral for safety boxes	464	372	11	9
Accounts payable	399	992	10	24
Amounts under investigation	334	-	8	-
Deferred income	102	812	2	20
Cash collateral from banks	-	4,580	-	110
IMT one time payment	-	61	-	1
Payables for operations with cheques	-	39	-	1
Other	579	747	15	18
Total other liabilities	9,129	11,869	221	286

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 6.

22. EQUITY

At 31 December 2005 and 2004 share capital authorised, issued and fully paid was comprised of 132,540 ordinary shares, with par value of 1,000 KGS. In addition the Bank's share capital includes 1 thousand KGS of additional paid in capital at 31 December 2005 and 2004. All ordinary shares are ranked equally and carry one vote. During the year ended 31 December 2004 the Bank issued 32,540 ordinary shares.

As of 31 December 2004 the paid-in-capital of the Bank was increased up to 100 million KGS. The capital increase was made by reinvesting dividends paid in 2004 of 13,459 thousand KGS and an additional contribution of 32,489 thousand KGS.

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 2005 and 2004, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	<u>Year ended</u> <u>31 December 2005</u>		<u>Year ended</u> <u>31 December 2004</u>	
	<u>Nominal</u> <u>Amount</u> KGS'000	<u>Risk</u> <u>Weighted</u> <u>Amount</u> KGS'000	<u>Nominal</u> <u>Amount</u> KGS'000	<u>Risk</u> <u>Weighted</u> <u>Amount</u> KGS'000
Guarantees issued and similar commitments	41,077	34,280	27,049	24,721
Commitments on credits and unused credit lines	25,109	16,755	10,171	5,086
Letters of credit and other transaction related contingent obligations	24,019	5,874	21,215	4,243
Total contingent liabilities and credit commitments	90,205	56,909	58,435	34,050

Convenience translation to US dollars (Note 3):

	<u>Year ended</u> <u>31 December 2005</u>		<u>Year ended</u> <u>31 December 2004</u>	
	<u>Nominal</u> <u>Amount</u> USD'000	<u>Risk</u> <u>Weighted</u> <u>Amount</u> USD'000	<u>Nominal</u> <u>Amount</u> USD'000	<u>Risk</u> <u>Weighted</u> <u>Amount</u> USD'000
Guarantees issued and similar commitments	995	830	650	594
Commitments on credits and unused credit lines	608	406	244	122
Letters of credit and other transaction related contingent obligations	581	141	510	96
Total contingent liabilities and credit commitments	2,184	1,377	1,404	812

As of 31 December 2004, guarantees of 6,797 thousand KGS (165 thousand USD) and 4,832 thousand KGS (116 thousand USD) were secured by cash deposited on customer accounts.

The Bank has made a provision of 1,071 thousand KGS (26 thousand USD) and 869 thousand KGS (21 thousand USD) against commitments under guarantees issued as of 31 December 2005 and 2004, respectively.

Capital commitments - The Bank had no material commitments for capital expenditures outstanding as of 31 December 2005 and 2004.

Fiduciary activities - The Bank provides depositary services to its customers. As of 31 December 2005 and 2004 the Bank held 129,095 and 126,543 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 2005 and 2004, 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 Bank 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>31 December 2005</u>		<u>31 December 2004</u>	
	<u>Related party transactions</u> KGS'000	<u>Total category as per financial statements caption</u> KGS'000	<u>Related party transactions</u> KGS'000	<u>Total category as per financial statements caption</u> KGS'000
Loans and advances to banks	5,299	421,322	20,612	457,895
Accrued interest income on loans and advances to banks	-	111	29	150
Loans to customers	611	205,748	198	104,066
Accrued interest income on loans to customers	-	1,831	-	855
Allowance for impairment losses	(12)	(5,409)	(4)	(2,462)
Deposits from banks	3,349	15,815	-	80

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

	<u>31 December 2005</u>		<u>31 December 2004</u>	
	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>
	USD'000	USD'000	USD'000	USD'000
Loans and advances to banks	128	10,201	495	11,000
Accrued interest income on loans and advances to banks	-	3	1	4
Loans to customers	15	4,981	5	2,500
Accrued interest income on loans to customers	-	45	-	21
Allowance for impairment losses	-	(130)	-	(59)
Deposits from banks	81	383	-	2

During the years ended 31 December 2005 and 2004 the Bank originated loans and advances to banks and customers - related parties amounting to 297,271 thousand KGS (7,250 thousand USD) and 244,574 thousand KGS (5,876 thousand USD), respectively and received loans and advances repaid of 297,557 thousand KGS (7,258 thousand USD) and 238,186 thousand KGS (5,722 thousand USD), respectively.

Included in the profit and loss account for the years ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	<u>Year ended 31 December 2005</u>		<u>Year ended 31 December 2004</u>	
	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>
	KGS'000	KGS'000	KGS'000	KGS'000
Interest income	286	46,489	172	20,844
Interest expense	-	1,828	-	1,250

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

	<u>Year ended 31 December 2005</u>		<u>Year ended 31 December 2004</u>	
	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>
	USD'000	USD'000	USD'000	USD'000
Interest income	8	1,126	4	491
Interest expense	-	40	-	29

All transactions with related parties entered by the Bank during the years ended 31 December 2005 and 2004 and outstanding as of 31 December 2005 and 2004 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 2005 and 2004 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 2005 and 2004, 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 2005 and 2004, the fair value of securities purchased under agreements to resell amounting to 21,000 thousand KGS (508 thousand USD) and 7,281 thousand KGS (175 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 impairment 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 impairment 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 2005 and 2004 securities available-for-sale are stated at fair value amounting to 50,122 thousand KGS (1,214 thousand USD) and 45,602 thousand KGS (1,096 thousand USD), respectively. 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 2005 and 2004 the carrying amount of short-term deposits and deposits repayable on demand of 3,425 thousand KGS (83 thousand USD) and 80 thousand KGS (2 thousand USD), respectively, is a reasonable estimate of their fair value.

Customer accounts - As of 31 December 2005 and 2004 the carrying amount of short-term deposits and current accounts of the Bank's customers of 926,243 thousand KGS (22,427 thousand USD) and 919,950 thousand KGS (22,101 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 impairment 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
50%	and commitments on unused loans with the initial maturity of over 1 year
100%	Guarantees issued and similar commitments

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

<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> %
As of 31 December 2005				
Total capital	235,576	235,576	52	8
Tier 1 capital	235,460	235,460	52	4
As of 31 December 2004				
Total capital	185,675	185,675	49	8
Tier 1 capital	185,620	185,620	49	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> %
As of 31 December 2005				
Total capital	5,704	5,704	52	8
Tier 1 capital	5,701	5,701	52	4
As of 31 December 2004				
Total capital	4,460	4,461	49	8
Tier 1 capital	4,459	4,459	49	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>31 December 2005 Total</u> KGS'000
ASSETS								
Loans and advances to banks	421,322	-	-	-	-	-	-	421,322
Securities purchased under agreement to resell	21,023	-	-	-	-	-	-	21,023
Loans to customers, net	530	8,510	73,202	120,808	-	2,698	(5,326)	200,422
Securities available-for-sale	14,922	15,250	19,950	-	-	-	-	50,122
Total interest bearing assets	457,797	23,760	93,152	120,808	0	2,698	(5,326)	692,889
Cash on hand	141,013	-	-	-	-	-	-	141,013
Balances with the NBKR	255,551	-	-	-	-	-	-	255,551
Interest accrued on interest bearing assets	1,825	-	-	-	-	117	(83)	1,859
Fixed assets, net	-	-	44	26,279	50,130	-	5,726	82,179
Intangible assets, net	-	5	27	8,434	-	-	-	8,466
Other assets, net	83	108	2,312	691	-	6,280	-	9,474
TOTAL ASSETS	856,269	23,873	95,535	156,212	50,130	9,095	317	1,191,431
LIABILITIES								
Loans and advances from banks	15,815	-	-	-	-	-	-	15,815
Customer accounts	13,565	3,395	4,305	3,098	-	-	-	24,363
Total interest bearing liabilities	29,380	3,395	4,305	3,098	-	-	-	40,178
Customer accounts	901,829	-	-	-	-	-	-	901,829
Interest accrued on interest bearing liabilities	51	-	-	-	-	-	-	51
Income tax liability	2,725	-	-	1,943	-	-	-	4,668
Other liabilities	3,122	880	220	1,418	1,835	1,654	-	9,129
TOTAL LIABILITIES	937,107	4,275	4,525	6,459	1,835	1,654	-	955,855
Liquidity gap	(80,838)	19,598	91,010	149,753	48,295	-	-	-
Interest sensitivity gap	428,417	20,365	88,847	117,710	-	-	-	-
Cumulative interest sensitivity gap	428,417	448,782	537,629	655,339	655,339	-	-	-
Cumulative interest sensitivity gap as a percentage of total assets	36%	38%	45%	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>31 December 2005 Total</u> USD'000
ASSETS								
Loans and advances to banks	10,201	-	-	-	-	-	-	10,201
Securities purchased under agreement to resell	509	-	-	-	-	-	-	509
Loans to customers, net	13	206	1,772	2,925	-	65	(128)	4,853
Securities available-for-sale	361	370	483	-	-	-	-	1,214
Total interest bearing assets	<u>11,084</u>	<u>576</u>	<u>2,255</u>	<u>2,925</u>	<u>-</u>	<u>65</u>	<u>(128)</u>	<u>16,777</u>
Cash on hand	3,414	-	-	-	-	-	-	3,414
Balances with the NBKR	6,188	-	-	-	-	-	-	6,188
Interest accrued on interest bearing assets	44	-	-	-	-	3	(2)	45
Fixed assets, net	-	-	1	636	1,214	-	139	1,990
Intangible assets, net	-	-	1	204	-	-	-	205
Other assets, net	2	3	55	17	-	152	-	229
TOTAL ASSETS	<u>20,732</u>	<u>579</u>	<u>2,312</u>	<u>3,782</u>	<u>1,214</u>	<u>220</u>	<u>9</u>	<u>28,848</u>
LIABILITIES								
Loans and advances from banks	383	-	-	-	-	-	-	383
Customer accounts	328	83	105	75	-	-	-	591
Total interest bearing liabilities	<u>711</u>	<u>83</u>	<u>105</u>	<u>75</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>974</u>
Customer accounts	21,835	-	-	-	-	-	-	21,835
Interest accrued on interest bearing liabilities	1	-	-	-	-	-	-	1
Income tax liability	66	-	-	47	-	-	-	113
Other liabilities	77	21	5	34	44	40	-	221
TOTAL LIABILITIES	<u>22,690</u>	<u>104</u>	<u>110</u>	<u>156</u>	<u>44</u>	<u>40</u>	<u>-</u>	<u>23,144</u>
Liquidity gap	<u>(1,958)</u>	<u>475</u>	<u>2,202</u>	<u>3,626</u>	<u>1,170</u>			
Interest sensitivity gap	<u>10,373</u>	<u>493</u>	<u>2,150</u>	<u>2,850</u>	<u>-</u>			
Cumulative interest sensitivity gap	<u>10,373</u>	<u>10,866</u>	<u>13,016</u>	<u>15,866</u>	<u>15,866</u>			
Cumulative interest sensitivity gap as a percentage of total assets	<u>36%</u>	<u>38%</u>	<u>45%</u>	<u>55%</u>	<u>55%</u>			

	<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>31 December 2004 Total</u> KGS'000
ASSETS								
Loans and advances to banks	457,895	-	-	-	-	-	-	457,895
Securities purchased under agreement to resell	-	7,307	-	-	-	-	-	7,307
Loans 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
Total interest bearing assets	468,301	26,023	62,535	57,054	-	957	(2,449)	612,421
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
Income tax assets	9,601	-	-	-	-	-	(1,167)	8,434
Foreclosed assets, net	21,845	-	-	-	-	-	(3,305)	18,540
Other assets, net	-	-	-	-	-	-	-	-
TOTAL ASSETS	910,402	26,023	62,535	82,100	47,380	977	(6,934)	1,122,483
LIABILITIES								
	80	-	-	-	-	-	-	80
Loans and advances from banks	13,710	3,624	13,204	-	-	-	-	30,538
Customer accounts	13,790	3,624	13,204	-	-	-	-	30,618
Total interest bearing liabilities								
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
TOTAL LIABILITIES	906,933	5,248	17,030	6,728	-	-	869	936,808
Liquidity gap	3,469	20,775	45,505	75,372	47,380	-	-	-
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>31 December 2004 Total</u> USD'000
ASSETS								
Loans and advances to banks	11,000	-	-	-	-	-	-	11,000
Securities purchased under agreement to resell	-	176	-	-	-	-	-	176
Loans to customers, net	66	130	910	1,371	-	23	(59)	2,441
Securities available-for-sale	184	319	593	-	-	-	-	1,096
Total interest bearing assets	11,250	625	1,503	1,371	-	23	(59)	14,713
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
Income tax assets	231	-	-	-	-	-	(28)	203
Foreclosed assets, net	524	-	-	-	-	-	(79)	445
Other assets, net	-	-	-	-	-	-	-	-
TOTAL ASSETS	21,872	625	1,503	1,973	1,138	23	(166)	26,968
LIABILITIES								
Loans and advances from banks	2	-	-	-	-	-	-	2
Customer accounts	329	87	317	-	-	-	-	733
Total interest bearing liabilities	331	87	317	-	-	-	-	735
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
TOTAL LIABILITIES	21,790	126	409	162	-	-	21	22,508
Liquidity gap	82	499	1,094	1,811	1,138	-	-	-
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%	-	-	-

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>31 December 2005</u>		<u>31 December 2004</u>	
	%		%	
	<u>KGS</u>	<u>USD</u>	<u>KGS</u>	<u>USD</u>
ASSETS				
Loans and advances to banks	-	4	-	1
Securities purchased under agreement to resell	4	-	6	-
Loans to customers, net	27	17	33	20
Securities available-for-sale	5	-	5	10
LIABILITIES				
Loans and advances from banks	-	-	-	-
Customer accounts	6	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 41.3011	<u>Other currency</u>	<u>Currency undefined (incl. allowance for losses and impairment)</u>	<u>31 December 2005 Total</u> KGS'000
ASSETS					
Cash on hand	23,686	108,872	8,455	-	141,013
Balances with the NBKR	255,551	-	-	-	255,551
Loans and advances to banks	12,300	360,900	48,233	-	421,433
Securities purchased under agreement to resell	21,023	-	-	-	21,023
Loans to customers, net	10,258	197,321	-	(5,409)	202,170
Securities available-for-sale	50,122	-	-	-	50,122
Fixed assets, net	82,179	-	-	-	82,179
Intangible assets, net	8,466	-	-	-	8,466
Other assets, net	7,497	4,890	367	(3,280)	9,474
TOTAL ASSETS	471,082	671,983	57,055	(8,689)	1,191,431
LIABILITIES					
Loans and advances from banks	75	76	15,664	-	15,815
Customer accounts	230,066	645,184	50,993	-	926,243
Deferred income tax liabilities	4,668	-	-	-	4,668
Other liabilities	6,337	1,604	117	1,071	9,129
TOTAL LIABILITIES	241,146	646,864	66,774	1,071	955,855
OPEN BALANCE SHEET POSITION	229,936	25,119	(9,719)		

Convenience translation to US dollars (Note 3):

	<u>KGS</u> 1USD= KGS 41.3011	<u>USD</u>	<u>Other currency</u>	<u>Currency undefined (incl. allowance for losses and impairment)</u>	<u>31 December 2005 Total</u> USD'000
ASSETS					
Cash on hand	573	2,636	205	-	3,414
Balances with the NBKR	6,188	-	-	-	6,188
Loans and advances to banks	298	8,738	1,168	-	10,204
Securities purchased under agreement to resell	509	-	-	-	509
Loans to customers, net	248	4,778	-	(131)	4,895
Securities available-for-sale	1,214	-	-	-	1,214
Fixed assets, net	1,990	-	-	-	1,990
Intangible assets, net	205	-	-	-	205
Other assets, net	182	117	9	(79)	229
TOTAL ASSETS	11,407	16,269	1,382	(210)	28,848
LIABILITIES					
Loans and advances from banks	2	2	379	-	383
Customer accounts	5,570	15,622	1,235	-	22,427
Income tax liabilities	113	-	-	-	113
Other liabilities	153	39	3	26	221
TOTAL LIABILITIES	5,838	15,663	1,617	26	23,144
OPEN BALANCE SHEET POSITION	5,569	606	(235)		

	<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>31 December 2004 Total</u> KGS'000
ASSETS					
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 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
TOTAL ASSETS	481,690	577,429	70,298	(6,934)	1,122,483
LIABILITIES					
Loans and advances from banks	-	80	-	-	80
Customer accounts	291,347	521,291	107,312	-	919,950
Income tax liabilities	4,909	-	-	-	4,909
Other liabilities	1,065	9,840	95	869	11,869
TOTAL LIABILITIES	297,321	531,211	107,407	869	936,808
OPEN BALANCE SHEET POSITION	184,369	46,218	(37,109)		

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>31 December 2004 Total</u> USD'000
ASSETS					
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 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
TOTAL ASSETS	11,573	13,871	1,690	(166)	26,968
LIABILITIES					
Loans and advances 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
TOTAL LIABILITIES	7,144	12,763	2,580	21	22,508
OPEN BALANCE SHEET POSITION	4,429	1,108	(890)		

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 Banks 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:

	<u>Kyrgyz Republic</u> KGS'000	<u>Other non-OECD countries</u> KGS'000	<u>OECD countries</u> KGS'000	<u>Undefined (incl. allowance for losses and impairment)</u> KGS'000	<u>31 December 2005</u> <u>Total</u> KGS'000
ASSETS					
Cash on hand	141,013	-	-	-	141,013
Balances with the NBKR	255,551	-	-	-	255,551
Loans and advances to banks	12,300	74,613	334,520	-	421,433
Securities purchased under agreement to resell	21,023	-	-	-	21,023
Loans to customers, net	207,579	-	-	(5,409)	202,170
Securities available-for-sale	50,122	-	-	-	50,122
Fixed assets, net	82,179	-	-	-	82,179
Intangible assets, net	8,466	-	-	-	8,466
Other assets, net	7,054	-	5,700	(3,280)	9,474
TOTAL ASSETS	785,287	74,613	340,220	(8,689)	1,191,431
LIABILITIES					
Loans and advances from banks	12,443	98	3,274	-	15,815
Customer accounts	926,243	-	-	-	926,243
Income tax liabilities	4,668	-	-	-	4,668
Other liabilities	8,872	-	257	-	9,129
TOTAL LIABILITIES	952,226	98	3,531	-	955,855
NET BALANCE SHEET POSITION	(166,939)	74,515	336,689		

Convenience translation to US dollars (Note 3):

	<u>Kyrgyz Republic</u> USD'000	<u>Other non-OECD countries</u> USD'000	<u>OECD countries</u> USD'000	<u>Undefined (incl. allowance for losses and impairment)</u> USD'000	<u>31 December 2005</u> <u>Total</u> USD'000
ASSETS					
Cash on hand	3,414	-	-	-	3,414
Balances with the NBKR	6,188	-	-	-	6,188
Loans and advances to banks	298	1,806	8,100	-	10,204
Securities purchased under agreement to resell	509	-	-	-	509
Loans to customers, net	5,026	-	-	(131)	4,895
Securities available-for-sale	1,214	-	-	-	1,214
Fixed assets, net	1,990	-	-	-	1,990
Intangible assets, net	205	-	-	-	205
Other assets, net	170	-	138	(79)	229
TOTAL ASSETS	19,014	1,806	8,238	(210)	28,848
LIABILITIES					
Loans and advances from banks	301	2	80	-	383
Customer accounts	22,427	-	-	-	22,427
Income tax liabilities	113	-	-	-	113
Other liabilities	215	-	6	-	221
TOTAL LIABILITIES	23,056	2	86	-	23,144
NET BALANCE SHEET POSITION	(4,042)	1,804	8,152		

	Kyrgyz Republic KGS'000	Other non-OECD countries KGS'000	OECD countries KGS'000	Undefined (incl. allowance for losses and impairment) KGS'000	31 December 2004 Total KGS'000
ASSETS					
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 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)	20,080
TOTAL ASSETS	680,252	106,817	343,888	(6,934)	1,122,483
LIABILITIES					
Loans and advances 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
TOTAL LIABILITIES	935,916	23	-	869	936,808
NET BALANCE SHEET POSITION	(257,204)	106,794	343,888		

Convenience translation to US dollars (Note 3):

	Kyrgyz Republic USD'000	Other non-OECD countries USD'000	OECD countries USD'000	Undefined (incl. allowance for losses and impairment) USD'000	31 December 2004 Total USD'000
ASSETS					
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 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
TOTAL ASSETS	16,306	2,567	8,261	(166)	26,968
LIABILITIES					
Loans and advances from banks	1	1	-	-	2
Customer accounts	22,101	-	-	-	22,101
Income tax liabilities	119	-	-	-	119
Other liabilities	265	-	-	21	286
TOTAL LIABILITIES	22,486	1	-	21	22,508
NET BALANCE SHEET POSITION	(6,180)	2,566	8,261		