Grant Thornton

Financial Statements and Independent Auditor's Report

Special Fund for Banks Refinancing Limited Liability Company

December 31, 2010

Contents

Grant Thornton

Independent auditor's report

¶ñ³ÝÃ ÂáñÝÃáÝ ö´À
ÐÐ, ù. ºñ»õ³Ý 0012
ì³Õ³ñßÛ³Ý 8/1

Ð. +374 10 260 964
ü.+374 10 260 961

Grant Thornton CJSC
8/1 Vagharshyan Str.
0012 Yerevan, Armenia

T +374 10 260 964
F +374 10 260 961
www.gta.am

To the Board of the National Bank and Supervisory Board of the Special Fund for Banks Refinancing Limited Liability Company

We have audited the accompanying financial statements of the Special Fund for Banks Refinancing Limited Liability Company (the "Company"), which comprise the statement of financial position as of December 31, 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton CJSC

March 11, 2011

Statement of financial position

In thousand Kyrgyz soms	Note	As of December 31, 2010	As of December 31, 2009
Assets			
Cash and bank balances	4	518,255	1,435,145
Bank deposits		-	4,018
Securities reverse repurchase agreements	5	200,193	-
Held-to-maturity investments – government securities	6	500,046	497,813
Loans to commercial banks	7	823,963	66,832
Property and equipment		745	778
Intangible assets		249	303
Other assets		161	78
Total assets		2,043,612	2,004,967
Liabilities			
Current income tax liabilities		1,365	408
Deferred income tax liabilities	8	9	5
Other		2,171	747
Total liabilities		3,545	1,160
Equity			
Charter capital	9	2,000,000	2,000,000
Accumulated profit		40,067	3,807
Total equity		2,040,067	2,003,807
Total liabilities and equity		2,043,612	2,004,967

The financial statements were approved on March 11, 2011 by:

Shamshibek Moldokanov
Chief Executive Officer

Kylych Tashtanaliev
Chief Financial Officer

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.

Statement of comprehensive income

In thousand Kyrgyz soms	Note	Year ended December 31, 2010	Year ended December 31, 2009.
Interest income	10	66,535	12,533
Net interest income		66,535	12,533
Allowance for impairment of loans	7	(6,915)	(453)
Loss from exchange rate difference		(13)	(3)
Income from operations		59,607	12,077
Employee benefit expenses	11	(12,059)	(5,418)
Depreciation and amortization expenses		(386)	(462)
Administrative expenses	12	(2,637)	(1,961)
Profit before income tax		44,525	4,236
Income tax expense	8	(4,458)	(429)
Profit for the year		40,067	3,807
Other comprehensive income		-	-
Total comprehensive income for the year		40,067	3,807

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.

Statement of changes in equity

In thousand Kyrgyz soms	Charter capital	Accumulated profit	Total
As of January 1, 2009	-	-	-
Issue of charter capital	2,000,000	-	2,000,000
Total	2,000,000	-	2,000,000
Profit for the year	-	3,807	3,807
Total comprehensive income for the year	-	3,807	3,807
As of December 31, 2009	2,000,000	3,807	2,003,807
Dividends to shareholders	-	(3,807)	(3,807)
Total	-	(3,807)	(3,807)
Profit for the year	-	40,067	40,067
Total comprehensive income for the year	-	40,067	40,067
As of December 31, 2010	2,000,000	40,067	2,040,067

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.

Statement of cash flows

In thousand Kyrgyz soms	Year ended December 31, 2010	Year ended December 31, 2009
Cash flows from operating activities		
Profit for the year	40,067	3,807
Adjustments for:		
Depreciation and amortization	386	462
Interest income	(5,031)	(1,785)
Income tax expense	4,458	429
Movement of allowance for loans	6,915	453
Foreign exchange loss	13	3
Operating profit before working capital changes	46,808	3,369
Issued loans, net	(761,423)	(66,643)
Securities reverse repurchase agreements	(200,000)	-
Change in other assets	(83)	(77)
Change in other liabilities	1,411	743
New cash used in operating activities before taxation	(913,287)	(62,608)
Income tax paid	(3,497)	(16)
Net cash used in operating activities	(916,784)	(62,624)
Cash flows from investing activities		
Acquisition of government securities	-	(496,688)
Acquisition of property, equipment and intangible assets	(299)	(1,543)
Net cash used in investing activities	(299)	(498,231)
Cash flows from financing activities		
Paid dividends	(3,807)	
Issue of charter capital		2,000,000
Net cash from/(used in) financing activities	(3.807)	2,000,000
Net increase/(decrease) in cash and bank balances	(920,890)	1,439,145
Cash and cash equivalents at the beginning of the year	1,439,145	-
Cash and cash equivalents at the end of the year (note 4)	518,255	1,439,145

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.

Notes to the financial statements

1 Nature of operations and general information

The Special Fund for Banks Refinancing Limited Liability Company (the "Company") is established by the Decree No 5 of the President of the Kyrgyz Republic dated January 8, 2009.

The Company's sole founder is the National Bank of Kyrgyz Republic. The Company undertakes its activity as a specialised financial-credit institution based on the licence No 3 issued by the National Bank of Kyrgyz Republic on May 6, 2009. The main goal of the Company is to provide financing to the commercial banks and micro-financing organizations in assisting their liquidity and crediting the national economy.

In 2010 the average number of the Company employees was 15 (2009: 13).

The legal address of the Company is 7 Umetaliev Street, Bishkek, Kyrgyz Republic.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared based on the accounting records maintained under the requirements of the legislation of the Kyrgyz Republic and presented in accordance with International Financial Reporting Standards ("IFRS").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of financial instruments stated at amortized cost.

2.3 Functional and presentation currency

The financial statements are measured in a currency, which best reflects the economic substance of the underlying events and transactions of the Company. The functional currency of the Company is the Kyrgyz som ("som"), which is the national currency of the Kyrgyz Republic.

All financial information presented in Kyrgyz soms has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates and the original estimates and assumptions will be modified as appropriate in the year in which circumstances change.

2.5 Adoption of new and revised standards

At the date of authorization of these financial statements, certain new Standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effect date of the pronouncement. At the moment in management's estimation possible effect of most of the amendments on the Company's financial statements cannot be material.

Standards and Interpretations in issue but not yet adopted

IAS 32 (Amendment) *Financial instruments: Presentation-Classification of Right Issues*

The Amendment alters IAS 32 Financial Instruments: Presentation so that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Prior to the Amendment, rights issues denominated in a foreign currency 'failed' equity classification and were required to be accounted for as derivative liabilities. IAS 32 (Amendment) is applied retrospectively for annual periods beginning on or after 1 February 2010.

IFRIC 19 *Extinguishing financial liabilities with equity instruments*

The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the group or the parent entity's financial statements.

IFRS 1 (Amendment) *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The amendment to IFRS 1 enables first-time adopters to benefit from the same relief from comparatives available to those already using IFRSs when applying Improving Disclosures about Financial Instruments (Amendments to IFRS 7) for the first time. Effective for annual periods beginning on or after 1 July 2010.

IFRS 7 (Amendment) *Transfer of Financial Assets*

The amendment aims to help users of financial statements evaluate the risk exposure relating to more complex transfers of financial assets and the effect of thoise risks on an entity's financial position. The additional disclosures required are designed to provide information that enables users:

- To understand the relationship between transferred financial asset that are not derecognized in their entirely and the associated liabilities

- To evaluate the nature of and risks associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirely.

This amendment is effective for annual periods beginning on or after July 1, 2010.

IAS 24 (revised), *'Related party disclosures'*

It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. IAS 24 (revised) is effective for annual periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

IFRS 1 (Amendment) *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The IASB has published two limited amendments to IFRS 1 First-time adoption of International Financial Reporting Standards. The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate some transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should present financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Effective for annual periods beginning on or after 1 July 2011.

IAS 12 (Amendment) *Recovery of underlying assets*

The IASB has published some limited scope amendments to IAS 12 Income Taxes, which are relevant only when an entity elects to use the fair value model for measurement in IAS 40 Investment Property. The amendments introduce a rebuttable presumption that in such circumstances, an investment property is recovered entirely through sale. Effective for annual periods beginning on or after 1 January 2012.

IFRIC 14 (Amendment) *'Prepayments of a minimum funding requirement')* issued in November 2009.

The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

Annual Improvements 2010 (effective from 1 July 2010 and later)

The IASB has issued *Improvements to IFRS 2010* (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 1, IFRS 3R, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. The Company's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Company's financial statements, except for disclosure requirements for financial instruments, which eliminated the requirements to disclose:

- the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated,
- maximum exposure to credit risk for financial instruments whose carrying amount best represents the maximum exposure to credit risk,
- description and estimate of fair value of collateral held for past due or impaired financial assets.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management has yet to assess the full impact that this amendment is likely to have on the financial statements of the Company. However, initial indications are that it may affect the Company's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the National Bank of Kyrgyz Republic prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the National Bank of Kyrgyz Republic prevailing on the reporting date, which is 44.0992 Kyrgyz soms for 1 US dollar as of December 31, 2010 (2009: 44.0917 Kyrgyz soms for 1 US dollar).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes purchase price including import duties and non-refundable purchase taxes and directly attributable costs. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the statement of comprehensive income as incurred.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Computers and accessories	5 years
Furniture and other equipment	5 years.

3.3 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 5 years for computer software.

3.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.5 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

Financial assets other than hedging instruments are divided into the following categories:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognized in profit or loss or directly in equity. See note 13.2 for a summary of Company's financial assets by category.

Generally, the Company recognizes all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognized in the statement of comprehensive income line item "finance costs" or "finance income", respectively, except those financial assets which have arisen in a result of main activity and have been recognized as revenue.

i Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity. These include the treasury bonds and short-term deposits. Investments are classified as Held-to-maturity if it is the intention of the Company's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

ii Loans and accounts receivable

Loans and accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to the statement of comprehensive income of the reporting period. All accounts receivable for which collection is not considered probable are written-off.

iii Cash and bank balances

The Company’s cash and bank balances comprise cash in hand and bank accounts, which fall into “loans and receivables” category of financial instruments.

Financial liabilities

The Company's financial liabilities include accounts payable, which are measured at amortized cost using the effective interest rate method. A summary of Company's financial liabilities by category is given in note 13.2

i Accounts payable

Accounts payable are stated at fair value and subsequently stated at amortized cost.

3.6 Impairment

Impairment of property and equipment, intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3.7 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos")/reverse repurchase agreements are treated as secured financing transactions. Securities purchased under agreements to resell are recorded in the statement of financial position as amounts under the securities reverse repurchase agreements by the purchase price.

The difference between purchase price and sale price is treated as interest income and accrued over the life of repo agreements using the effective yield method.

3.8 Income tax

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3.9 Income

The Company’s income is generated from its finance activities and includes:

- interest from repo operations,
- interest from loans,
- interest on short-term bank deposits,
- interest on held-to-maturity financial assets.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

4 Cash and bank balances

In thousand soms	As of December 31, 2010	As of December 31, 2009
Cash and bank balances in commercial banks	2,587	4,152
Bank balance in the National Bank of the Kyrgyz Republic	515,668	1,430,993
	518,255	1,435,145

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and short-term investments with a maturity period of less than 3 months, net of outstanding bank overdrafts. For the purpose of the statement of cash flows, short-term investments are presented net of accrued interest. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position, as follows:

In thousand soms	As of December 31, 2010	As of December 31, 2009
Cash and bank balances in commercial banks	2,587	4,152
Bank balance in the National Bank of the Kyrgyz Republic	515,668	1,430,993
Deposits	-	4,000
	518,255	1,439,145

5 Securities reverse repurchase agreements

In December 2010 the company signed the contract of reverse repurchase agreement of government securities with a commercial bank

Fair value of securities pledged and carrying value of assets under reverse repurchase agreements as of 31 December are presented as follows:

In thousand soms	2010		2009	
	Fair value of securities	Carrying value of asset	Fair value of securities	Carrying value of asset
State obligations of the RA Ministry of Finance (Treasury bills)	236,906	200,193	-	-
Total assets pledged and loans under reverse repurchase agreements	236,906	200,193	-	-

6 Held-to-maturity debt instruments – government securities

Held-to- maturity investments comprise the Kyrgyz Republic treasury bonds (TB), which in December 2009 the Company has purchased from commercial banks on a secondary market to diversify the allocation of its resources. The Company has acquired 5,009,407 treasury bonds at Kyrgyz soms 99.14

per bond. The treasury bonds have a maturity period until December 2011. The treasury bonds are denominated in Kyrgyz soms and carry a fixed interest rate of 8%, and have a nominal value of Kyrgyz soms 100. These treasury bonds are stated at amortized cost at an average effective rate of 8.66%. The following table presents nominal value, accrued interest and unamortized part of discount for those securities as of 31 December 2010 and 2009.

In thousand soms	As of December 31, 2010	As of December 31, 2009
Nominal value of government securities	500,941	500,941
Discount	(2,175)	(4,253)
Accrued interests	1,280	1,125
	500,046	497,813

Fair value information

Management believes that as of December 31, 2010 and 2009, the carrying amount of government securities represents a reasonable estimate of their fair value.

These government securities are subject to credit risk. Information on the Company's credit risk is described in the note 15.1.

7 Loans to commercial banks

In thousand Kyrgyz soms	As of December 31, 2010	As of December 31, 2009
Loans provided to commercial banks	831,331	67,285
Less: allowance for impairment of loans	(7,368)	(453)
	823,963	66,832

As of December 31, 2010 accrued interest included in loans amount to Kyrgyz soms 3,265 thousand(2009: Kyrgyz soms 642 thousand).

Movement of the allowance for loan impairment is presented below:

In thousand Kyrgyz soms	2010	2009
Balance at beginning of year	453	-
Increase in allowance during the year	6,915	453
Balance at end of year	7,368	453

As of December 31, 2010, the Company had a concentration of loans represented by Kyrgyz soms 631,731 thousand due from the 2 largest borrowers (76% of gross loan portfolio) (2009: Kyrgyz soms 67,285 thousand or 100 %). An allowance of Kyrgyz soms 4,767 thousand (2009: Kyrgyz soms 453 thousand) was made against these loans.

The fair values of loans equal their carrying amounts, as the impact of discounting is not significant. As of December 31, 2010 the weighted average effective interest rate of the loans is 7.4% (2009: 11.4%).

Maturity analyses of loans are disclosed in Note 14. Credit, currency and interest rate risk analyses of loans are disclosed in Note 15.

8 Income tax expense

In thousand Kyrgyz soms	Year ended December 31, 2010	Year ended December 31, 2009
Current tax	4,454	424
Deferred tax	4	5
	4,458	429

Reconciliation of effective tax rate is as follows:

In thousand Kyrgyz soms	Year ended December 31, 2010	Effective tax rate (%)
Profit before taxation (under IFRS)	44,525	
Tax calculated at tax rate of 10%	4,453	10.00
Effect of expenses that are not deductible	5	0.01
Income tax expense	4,458	10.01

In thousand Kyrgyz soms	Year ended December 31, 2009	Effective tax rate (%)
Profit before taxation (under IFRS)	4,236	
Tax calculated at tax rate of 10%	424	10.00
Effect of expenses that are not deductible	5	0.11
Income tax expense	429	10.11

The movement of deferred income taxes is disclosed below:

In thousand Kyrgyz soms	2010	2009
Balance at beginning of year	(5)	-
Charged to statement of comprehensive income	(4)	(5)
Balance at end of year	(9)	(5)

9 Equity

9.1 Charter capital

As of December 31, 2010 and 2009 the charter capital of the Company amounted to Kyrgyz soms 2,000,000 thousand. The sole founder of the Company is the National Bank of Kyrgyz Republic.

According to the decree of Management Board of the National Bank of Kyrgyz Republic dated 31 March 2010, it was decided to distribute the profit of the Company for the year 2009 amounting to Kyrgyz soms 3,807 thousand as payment of dividends.

10 Interest income

In thousand Kyrgyz soms	Year ended December 31, 2010	Year ended December 31, 2009
Interest income on loans and receivables:		
- repo operations	6,358	9,838
- loans to commercial banks	18,697	1,272
Interest income on held-to-maturity investments:		
- short-term bank deposits	1	243
- Held-to-maturity investments – government securities	41,479	1,180
	66,535	12,533

11 Employee benefit expenses

In thousand Kyrgyz soms	Year ended December 31, 2010	Year ended December 31, 2009
Salary	10,317	4,556
Social security contributions	1,742	862
	12,059	5,418

12 Administrative expenses

In thousand Kyrgyz soms	Year ended December 31, 2010	Year ended December 31, 2009
Office rent	1,299	887
Tax other than income tax	38	324
Audit and consulting	349	219
Car maintenance and fuel	394	161
Utilities and communication expenses	227	125
Other	330	245
	2,637	1,961

13 Financial instruments

13.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in the note 3.5.

13.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand Kyrgyz soms	As of December 31, 2010	As of December 31, 2009
Held-to-maturity investments:		
Short-term bank deposits	-	4,018
Held-to-maturity investments – government securities	500,046	497,813
Loans and receivables:		
Loans to commercial banks	823,963	66,832
Securities reverse repurchase agreements	200,193	-
Cash and bank balances	518,255	1,435,145
	2,042,457	2,003,808

Financial liabilities

In thousand Kyrgyz soms	As of December 31, 2010	As of December 31, 2009
Financial liabilities measured at amortized cost:		
Accounts payable	361	162
	361	162

14 Maturity analysis of assets and liabilities

In thousand Kyrgyz soms — As of December 31, 2010

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and bank balances	518,255	-	-	**518,255**	-	-	-	**518,255**
Securities reverse repurchase agreements	-	200,193	-	**200,193**	-	-	-	**200,193**
Held-to-maturity investments – government securities	-	-	500,046	**500,046**	-	-	-	**500,046**
Loans to commercial banks	3,331	25,110	232,227	**260,668**	559,642	3,653	**563,295**	**823,963**
	521,586	225,303	732,273	**1,479,162**	559,642	3,653	**563,295**	**2,042,457**
LIABILITIES								
Accounts payable	-	361	-	**361**	**-**	**-**	**-**	**361**
	-	361	-	**361**	**-**	**-**	**-**	**361**
Net position	521,586	224,942	732,273	**1,478,801**	559,642	3,653	**563,295**	**2,042,096**
Accumulated gap	521,586	746,528	1,478,801		2,038,443	2,042,096		

In thousand Kyrgyz soms — As of December 31, 2009

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and bank balances	1,435,145	-	-	**1,435,145**	-	-	**-**	**1,435,145**
Bank deposits	4,018	-	-	**4,018**	-	-	**-**	**4,018**
Held-to-maturity investments – government securities	-	-	1,125	**1,125**	496,688	-	**496,688**	**497,813**
Loans to commercial banks	1,128	972	26,373	**28,473**	38,359	-	**38,359**	**66,832**
	1,440,291	972	27,498	**1,468,761**	535,047	-	**535,047**	**2,003,808**
LIABILITIES								
Accounts payable	-	162	-	**162**	-	-	**-**	**162**
	-	162	-	**162**	-	-	**-**	**162**
Net position	1,440,291	810	27,498	**1,468,599**	535,047	-	**535,047**	**2,003,646**
Accumulated gap	1,440,291	1,441,101	1,468,599		2,003,646	2,003,646		

15 Financial risk management

The Company's activities expose it to a variety of financial risks. The Company carries out variety of main measures and principles aimed at risk management or combination of risks, in order to minimize the probability of events, leading to financial or other losses for the Company. Those activities involve the analysis, evaluation, acceptance and management of potential risks in the Company. Taking risk is core to the financial business, and the operational risks are an inevitable consequence. The Company's aim is therefore to minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits, and to monitor the risks and adherence to limits. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is based on the system of distribution of level of authority, responsibility and subordination and includes activities of supervisory and management bodies as well as the Risk Manager of the Company. Risk management is carried out by a Risk Manager under policies approved by the Supervisory Board. The Risk Manager identifies, evaluates and provides practical recommendations on financial risk management in close co-operation with the Company's operating units. The Supervisory Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk for the Company are credit risk, market risk and operational risk. Market risk includes interest rate and other price risk.

15.1 Financial risk factors

a) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below).

a. Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The exposure of the Company's financial assets and financial liabilities to the foreign currency risk is as follows:

Item		
As of December 31, 2010	In thousand Kyrgyz soms	Freely convertible currencies
Financial assets		
Held-to-maturity investments – government securities	500,046	-
Loans to commercial banks	823,963	-
Securities reverse repurchase agreements	200,193	
Cash and bank balances	518,255	-
	2,042,457	-
Financial liabilities		
Accounts payable	8	353
	8	353
Net position	2,042,449	(353)

Item		
As of December 31, 2009	In thousand Kyrgyz soms	Freely convertible currencies
Financial assets		
Short-term bank deposits	4,018	
Held-to-maturity investments – government securities	497,813	-
Loans to commercial banks	66,832	-
Cash and bank balances	1,435,145	-
	2,003,808	-
Financial liabilities		
Accounts payable	8	154
	8	154
Net position	2,003,800	(154)

b. Interest rate risk

The Company is exposed to interest rate risk as it provides funds at both fixed and floating rates. This risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings. The following table reconciles the average contract and effective interest rates:

2010

	Average interest rate	
	Contract	Effective
Assets		
Loans to commercial banks		
Som	7.1%	7.4%
Held-to-maturity investments – government securities		
Som	8.0%	8.7%
Securities reverse repurchase agreements		
Som	-	5.2%

2009

	Average interest rate	
	Contract	Effective
Assets		
Loans to commercial banks		
Som	9.6%	9.8%
Som	12.0%	12.2%
Short-term deposits		
Som	6%	5.5%
Held-to-maturity investments – government securities		
Som	8%	8.7%

The sensitivity analysis below has been performed for a 3% change in interest rates. 3% represents management's assessment of the possible change in interest rates.

If interest rates had been 3% higher/lower and all other variables were held constant, the Company's:

- profit for the year ended December 31, 2010 would decrease /increase by Kyrgyz soms 2,338 thousand (2009: decrease /increase by Kyrgyz soms 346 thousand).

b) Credit risk

- The Company takes on exposure to credit risk, which is the risk that a counterparty will fail to discharge an obligation in due course. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and investment activities that bring debt securities into the Company's asset portfolio. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating risk of financial loss from default.
- The credit risk management and control is conducted by the Risk Manager and risk management report to the Supervisory Board and to the Management of the Company is provided regularly.

All financial assets of the Company are located in the territory of Kyrgyz Republic and except for the Government securities are concentrated in the financial sector of Kyrgyz Republic. The Company has made provisions of soms 7,368 thousand as of December 31, 2010 for loans classified as satisfactory

(2009: soms 453 thousand). Besides the risk on loans, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Management considers that as of December 31, 2010 and 2009 its financial assets that are not impaired or past due are of good credit quality. As of December 31, 2010 and 2009 the Company does not have past due, individually impaired and renegotiated loans. The credit risk on cash and cash equivalents (comprising the cash on hand, bank balances and short-term deposits), government treasury bonds and loans to commercial banks is considered negligible, since the counterparties are reputable banks and the Government of Kyrgyzstan.

Risk limit control and mitigation policies

The Company manages, limits and controls concentrations of credit risk – in particular, to individual counterparties, to industries and collateral

Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk are approved quarterly by the Supervisory Board (Management). Divergences from the limits are analyzed on a monthly basis and for each normative and loan.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by constant monitoring of loans extended and their collaterals.

Some other specific control and mitigation measures are outlined below.

Collateral
The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Assets such as cash, gold and precious metals, rights of demand over loan portfolio of banks;
- Financial instruments such as debt securities and equities
- Guarantees of the Government of Kyrgyz Republic.

All loans are secured. In addition, in order to minimise the credit loss the Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant loans.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Kyrgyz soms	As of December 31, 2010	As of December 31, 2009
Loans collateralized by real estate	21,226	22,830
Loans collateralized by debt securities of the Government	482,402	44,455

In thousand Kyrgyz soms	As of December 31, 2010	As of December 31, 2009
Loans collateralized by real estate of Kyrgyz Republic	21,226	22,830
Loans collateralized by rights of demand over loan portfolio of banks	327,703	-
Total loans and advances to customers (before deduction of allowance for impairment of loans)	831,331	67,285

Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, types of collateral, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

c) *Liquidity risk*

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management carries out careful liquidity management policy through maintaining adequate balances on bank accounts as well as highly liquid assets, taking into consideration liquidity risk, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities as of 31 December 2010 and 2009 with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

2010	Non-interest bearing	Total
Weighted average effective interest rate (%)	-	-
1-3 months	361	361

2009	Non-interest bearing	Total
Weighted average effective interest rate (%)	-	-
1-3 months	162	162

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and receivables. The Company cash resources and receivables significantly exceed the current cash outflow requirements.

15.2 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern. The capital structure of the Company consists of equity comprising issued capital and accumulated profits.

The Company management reviews the capital structure on a regular basis to maintain the most optimal debt to equity balance.

15.3 Fair values

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 "*Financial Instruments: Disclosure*" 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 some of the Company's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The management of the Company estimates that the carrying value of all assets and liabilities approximates their fair value.

16 Commitments

16.1 Operating lease commitments

The Company as lessee

Operating lease relates to rent of area with lease term of a year with an option to extend. The Company does not have an option to purchase the leased asset at the expiry of the lease.

Non-cancelable operating lease commitments are disclosed below:

In thousand Kyrgyz soms	As of December 31, 2010	As of December 31, 2009
Not later than 1 year	1,331	27
Later than 1 year and no later than 5 years	-	-
Later than 5 years	-	-
	1,331	27

17 Contingencies

17.1 Business environment

As a result of frequent changes in the legislation and regulations affecting the economic situation in the Kyrgyz Republic the assets and operations of the Company may be exposed to the risk of worsened political and economic situation.

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in the Kyrgyz Republic, notwithstanding any potential economic stabilization measures that may be put into place by the Government of the Kyrgyz Republic, there exists economic uncertainties surrounding the continual availability, and cost, of credit both for the Company and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may not be recovered at their carrying amount in the regular course of business, and a corresponding impact on the Company’s profitability.

17.2 Insurance

The insurance industry in the Kyrgyz Republic is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Company has no coverage for its premises and equipment, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company’s operations. Until the Company obtains full insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position

17.3 Tax contingencies

The taxation system in Kyrgyz Republic is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Kyrgyz Republic substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

18 Related party transactions

The Company's related parties include its parent and key management.

18.1 Control relationships

The Company ultimate parent is the National Bank of Kyrgyz Republic, which is 100% shareholder of the Company.

18.2 Transactions with management

Key management received the following remuneration during the year, which is included in employee benefit expenses.

In thousand Kyrgyz soms	Year ended December 31, 2010	Year ended December 31, 2009
Salaries and bonuses	3,327	1,871
Social security contributions	559	323

Grant Thornton

www.gta.am