

**KOMPANION FINANCIAL
GROUP MICRO CREDIT
LIMITED LIABILITY COMPANY**

Financial Statements

For the year ended 31 December 2008

KOMPANION FINANCIAL GROUP MICRO CREDIT LIMITED LIABILITY COMPANY

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KOMPANION FINANCIAL GROUP MICRO CREDIT LIMITED LIABILITY COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's report, 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 Kompanion Financial Group Micro Credit Limited Liability Company (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2008, 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 judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company 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 Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Kyrgyz Republic;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended 31 December 2008 were authorized for issue on 27 March 2009 by the Management of the Company.

On behalf of the Management:



Kubanych Abdraimov
Chief Executive Officer

27 March 2009

Bishkek,
Kyrgyz Republic



Ulanbek Akimkanov
Chief Accountant

27 March 2009

Bishkek,
Kyrgyz Republic

INDEPENDENT AUDITORS' REPORT

To the Founder and Board of Directors of Kompanion Financial Group Micro Credit Limited Liability Company.

Report on the financial statements

We have audited the accompanying financial statements of Kompanion Financial Group Micro credit Limited Liability Company (hereinafter – “Company”), which comprise the balance sheet as at 31 December 2008, and the related income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes to these financial statements.

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.

Auditors' responsibility

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

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

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

Auditors' opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

27 March 2009
Bishkek
Kyrgyz Republic

KOMPANION FINANCIAL GROUP MICRO CREDIT LIMITED LIABILITY COMPANY

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousand Kyrgyz Som)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	6	564,834	253,253
Interest expense	6,26	<u>(137,092)</u>	<u>(44,411)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		427,742	208,842
Provision for impairment losses on interest bearing assets	7	<u>(20,077)</u>	<u>(21,442)</u>
NET INTEREST INCOME		<u>407,665</u>	<u>187,400</u>
Net gain on operations with financial assets at fair value through profit and loss		88,344	2,883
Net (loss)/gain on foreign exchange operations	8	(103,021)	10,130
Fee and commission expense	9	(3,933)	(2,657)
Provision for impairment losses on other assets	7	(16)	(142)
Other income	10, 26	<u>374</u>	<u>264</u>
NET NON-INTEREST INCOME		<u>(18,252)</u>	<u>10,478</u>
OPERATING INCOME		389,413	197,878
OPERATING EXPENSES	11,26	<u>(278,919)</u>	<u>(128,932)</u>
PROFIT BEFORE INCOME TAX		110,494	68,946
Income tax expense	12	<u>(12,287)</u>	<u>(10,393)</u>
NET PROFIT		<u>98,207</u>	<u>58,553</u>

On behalf of the Management:



Kubanych Abdramimov
Chief Executive Officer

27 March 2009

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

27 March 2009

Bishkek,
Kyrgyz Republic

The notes on pages 9-39 form an integral part of these financial statements.

KOMPANION FINANCIAL GROUP MICRO CREDIT LIMITED LIABILITY COMPANY

BALANCE SHEET AS AT 31 DECEMBER 2008 (in thousand Kyrgyz Som)

	Notes	31 December 2008	31 December 2007
ASSETS:			
Cash	13	2,891	4,026
Due from banks	14	193,759	68,920
Investments held to maturity	15	205,401	-
Loans to customers	16	1,068,955	736,552
Property, equipment and intangible assets	17	92,268	47,761
Financial assets at fair value through profit and loss	18	83,311	18,721
Prepayment for income tax	12	3,366	-
Other assets	19	17,284	9,055
TOTAL ASSETS		1,667,235	885,035
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and financial institutions	20	1,019,116	372,809
Income tax liabilities	12	94	2,507
Other liabilities	21, 26	39,641	11,747
Subordinated debt	22	239,474	215,419
Total liabilities		1,298,325	602,482
EQUITY:			
Share capital	23	265,000	224,000
Retained earnings		103,910	58,553
Total equity		368,910	282,553
TOTAL LIABILITIES AND EQUITY		1,667,235	885,035

On behalf of the Management:



Kubanych Abdraimov
Chief Executive Officer

27 March 2009

Bishkek,
Kyrgyz Republic





Ulanbek Akimkanov
Chief Accountant

27 March 2009

Bishkek,
Kyrgyz Republic

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KOMPANION FINANCIAL GROUP MICRO CREDIT LIMITED LIABILITY COMPANY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousand Kyrgyz Som)

	Notes	Share capital	Retained Earnings	Total equity
As at 31 December 2006		10,000	19,297	29,297
Issue of ordinary share capital		196,843	-	196,843
Reinvestments of retained earnings		17,157	(17,157)	-
Dividends paid		-	(2,140)	(2,140)
Net profit		-	58,553	58,553
As at 31 December 2007		224,000	58,553	282,553
Reinvestments of retained earnings		41,000	(41,000)	-
Dividends paid		-	(11,850)	(11,850)
Net profit		-	98,207	98,207
As at 31 December 2008	23	265,000	103,910	368,910

Reinvestment of retained earnings constitutes the conversion of retained earnings into additionally issued ordinary share capital.

On behalf of the Management:


Kubanych Abdraimov
Chief Executive Officer

27 March 2009

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

27 March 2009

Bishkek,
Kyrgyz Republic

The notes on pages 9-39 form an integral part of these financial statements.

KOMPANION FINANCIAL GROUP MICRO CREDIT LIMITED LIABILITY COMPANY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousand Kyrgyz Som)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		110,494	68,946
Adjustments for:			
Provision for impairment losses on interest bearing assets	7	20,077	21,442
Provision for impairment losses on other assets	7	16	142
Provision for vacations and bonuses		7,853	3,446
Unrealized loss/(gain) on foreign exchange operations	8	95,876	(12,960)
Net (gain)/loss of financial assets at fair value through profit and loss		(78,636)	349
Depreciation of property, equipment and intangible assets	11	9,484	3,976
Loss on disposal of property, equipment and intangible assets	10	52	271
Net change in accrued interest income and expense		(3,963)	(925)
Cash flows from operating activities before changes in operating assets and liabilities		<u>161,253</u>	<u>84,687</u>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Due from banks		(18,938)	(62,311)
Loans to customers		(345,913)	(470,676)
Financial assets at fair value through profit or loss		14,046	(18,516)
Other assets		(8,160)	(7,058)
Increase in operating liabilities			
Due to banks and financial institutions		518,017	156,385
Subordinated debts		23,910	215,419
Other liabilities		20,040	673
Cash inflow/(outflow) from operating activities before taxation		<u>364,255</u>	<u>(101,397)</u>
Income tax paid		<u>(18,066)</u>	<u>(8,843)</u>
Net cash inflow/(outflow) from operating activities		<u>346,189</u>	<u>(110,240)</u>

KOMPANION FINANCIAL GROUP MICRO CREDIT LIMITED LIABILITY COMPANY

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousand Kyrgyz Som)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchase of property, equipment and intangible assets	17	(54,324)	(37,166)
Proceeds on sale of property, plant and equipment		281	385
Purchase of investments held to maturity		(196,064)	-
Net cash outflow from investment activities		(250,107)	(36,781)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		-	196,843
Dividends paid		(11,850)	(2,140)
Net cash (outflow)/ inflow from financing activities		(11,850)	194,703
Effect of changes in foreign exchange rate on cash and cash equivalents		19,732	(16,716)
NET INCREASE IN CASH AND CASH EQUIVALENTS		103,964	30,966
CASH AND CASH EQUIVALENTS, at the beginning of the year	13	72,946	41,980
CASH AND CASH EQUIVALENTS, at the end of the year	13	176,910	72,946

Interest paid and received by the Company during the year ended 31 December 2008 amounted to 127,922 thousand KGS and 570,724 thousand KGS, respectively.

Interest paid and received by the Company during the year ended 31 December 2007 amounted to 38,343 thousand KGS and 248,432 thousand KGS, respectively.


On behalf of the Management:


Kubanyeh Abdrazimov
Chief Executive Officer

27 March 2009

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

27 March 2009

Bishkek,
Kyrgyz Republic

The notes on pages 9-39 form an integral part of these financial statements.

KOMPANION FINANCIAL GROUP MICRO CREDIT LIMITED LIABILITY COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousand Kyrgyz Som, unless otherwise stated)

1. ORGANISATION

Kompanion Financial Group Micro Credit Limited Liability Company (the “Company”) has been carrying out its activities in Kyrgyz Republic since 2004. The activities of the Company are regulated by the National Bank of Kyrgyz Republic (“NBKR”). The Company was registered by the Ministry of Justice of the Kyrgyz Republic on 12 October 2004 under the certificate #21732-3300-000, and re-registered on 15 May 2008. The main activity of the Company is granting micro-credits to individuals and legal entities.

The Company is registered and located at Togolok Moldo 10, Bishkek, the Kyrgyz Republic.

The Company’s operations are administered in the Head Office, which is located in Bishkek. As at 31 December 2008 and 2007, the Company had 10 branches in the Kyrgyz Republic.

As at 31 December 2008 and 2007, the Company had 801 and 503 employees, respectively.

The sole owner of the Company is an international non-governmental organization Mercy Corps (“Founder”) with headquarters in Portland, Oregon, USA and Edinburgh, Scotland.

These financial statements were approved by the Executive Management of the Company on 27 March 2009.

2. ECONOMIC 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 higher than 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 Company’s financial statements in the period when and/or if they become known and estimable.

3. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee.

These financial statements are presented in thousands of Kyrgyz Soms (“KGS”), unless otherwise indicated. The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

Functional currency

Items included in the financial statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company (the “functional currency”). The functional currency of the financial statements is the Kyrgyz som.

4. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Company recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

For the purposes of determining cash flows, cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 90 days.

Due from banks

In the normal course of business, the Company maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method, and are carried net of any allowance for impairment losses.

Financial assets at fair value through profit and loss

In the normal course of business, the Company enters into back-to-back loans and deposits which in substance are derivative financial instruments under IAS 39. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the balance sheet. Gains and losses resulting from these instruments are included in Net gain/loss from financial assets and liabilities at fair value through profit or loss in the income statement.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Company uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the income statement for the period.

Derivative financial instruments are used by the Company for trading purposes and to provide economic hedges against exposures to fluctuations in foreign currency exchange rates and interest rates. Although the above-mentioned hedges may be effective from an economic standpoint, they do not receive hedge accounting treatment and as such, changes in the market value of these instruments are recorded in the income statement.

Derivative financial instruments

In the normal course of business, the Company enters into various derivative financial instruments including swaps and back-to-back loans. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the balance sheet. Gains and losses resulting from these instruments are included in net (loss)/ gain from financial assets and liabilities at fair value through profit or loss in the income statement.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Company are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Company and after the Company has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the income statement in the period of recovery.

Allowance for impairment losses

The Company accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured 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 financial asset's original effective interest rate.

Such impairment losses are not reversed, unless 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, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

For financial assets carried at cost, impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included in the income statement using the provision account (financial assets recorded at amortized value) or by a direct write-off (financial assets recorded at cost). The assets recorded in the balance sheet are reduced by the amount of the impairment. The factors the Company evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Company believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Company can incur losses greater compared to recorded impairment.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Company either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Company reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Company assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Company has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Investments held-to-maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Company has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Property, equipment and intangible assets

Depreciation and amortization is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation and amortization is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2%
Vehicles	10%
Furniture and office equipment	20%
Computer equipment	20%
Intangible assets	20%

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

The carrying amounts of property, equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such 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 tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

- The Company has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

In the Kyrgyz Republic where the Company operates also have various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the income statement.

Due to banks and subordinated debt

Due to banks and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Contingencies

Contingent liabilities are not recognized in the balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the balance sheet but disclosed when an inflow of economic benefits is probable.

Share capital

Share capital is recognized at historical cost.

Dividends on ordinary shares are recognized in 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 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Retirement obligations

In accordance with the requirements of the Kyrgyz legislation certain percentages of pension payments are withheld from total disbursements to staff to be transferred to state pension fund, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the state pension fund. The Company does not have any pension arrangements separate from the state pension system of the Kyrgyz Republic. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a Company of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income and expense

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 the income statement 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 the income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into KGS at the appropriate spot rates of exchange prevailing at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain or loss on foreign exchange operations.

Exchange rates

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

	31 December 2008	31 December 2007
KGS/USD	39.4181	35.4988
KGS/EUR	55.4790	52.0111

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Company has a legally enforceable right to set off the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Company does not offset the transferred asset and the associated liability.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Company's financial condition.

Allowance for impairment of loans and accounts receivable

The Company regularly reviews its loans to assess for impairment. The Company's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Company considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods.

The Company uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Company estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a Company, and national or local economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the bank of loans. The Company uses management's judgment to adjust observable data for a bank of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Company is not in a position to predict what changes in economic and political conditions will take place in country and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment of loans and receivables is KGS 50,343 thousand and KGS 31,003 thousand as at 31 December 2008 and 2007, respectively.

Adoption of new and revised standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2008. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Company's accounting policies that have affected the amounts reported for the current or prior years.

Amendments to IAS 1 "Capital Disclosures" ("IAS 1") – On 18 August 2005, the IASB issued an amendments to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. Additional information was disclosed in the financial statements for the current and comparative reporting periods as required by amended IAS 1.

Amendments to IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008, IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as at 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008. The Company has elected not to apply the amendments to IAS 39 and IFRS 7 retrospectively.

Standards and interpretations issued and not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Company in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IAS 1 – on 6 September 2006, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented to in IFRS but does not require that these be renamed in an entity’s financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

IAS 23 – On March 2007, the IASB issued a revised IAS 23 “Borrowing Costs”. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such asset. The Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IAS 27 - In 2008, the Standard was amended as part of the second phase of the business combinations project. That phase of the project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The boards concluded the second phase of the project by the IASB issuing the amended IAS 27 and the FASB issuing FASB Statement No. 160 Noncontrolling Interests in Financial Statements, along with, respectively, a revised IFRS 3 Business Combinations and FASB Statement No. 141 (revised 2007) Business Combinations. The amended Standard must be applied for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, an entity must not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 (as revised in 2008).

The management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the Company’s financial statements.

5. RECLASSIFICATIONS

Reclassifications

Certain reclassifications have been made to the financial statements as at 31 December 2007 and for the year then ended to conform to the presentation as at 31 December 2008 and for the year then ended as current year presentation provides better view of the financial position of the Company.

The following reclassifications are related to due from banks, financial assets at fair value through profit and loss, offset of current income tax prepayment with current income tax liabilities, other assets and subordinated debt.

Financial statements item	Balance sheet line as per current report	Balance sheet line as per previous report	Difference
Due from banks	68,920	131,231	(62,311)
Financial assets at fair value through profit and loss	18,721	-	18,721
Other assets	9,055	9,555	(500)
Due to banks and financial institutions	372,809	631,818	(259,009)
Income tax liabilities	2,507	3,007	(500)
Subordinated debt	215,419	-	215,419
			<u>-</u>

The following reclassifications are related to interest income, penalties on loans to customers, financial assets at fair value through profit and loss and other income.

Financial statements item	Income statement line as per current report	Income statement line as per previous report	Difference
Interest income	253,253	256,225	(2,972)
Other income	264	524	(260)
Net gain on translation differences	10,130	9,781	349
Net gain on operations with financial assets at fair value through profit and loss	2,883	-	2,883
			<u>-</u>

6. NET INTEREST INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
- interest income on impaired assets	554,950	253,047
- interest income on unimpaired assets	9,884	206
	<u>564,834</u>	<u>253,253</u>
Total interest income	<u>564,834</u>	<u>253,253</u>
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers, including:		
Group	513,701	220,649
Individual	41,249	32,398
Interest on due from banks	547	206
Interest on investments held to maturity	9,337	-
	<u>564,834</u>	<u>253,253</u>
Total interest income on financial assets recorded at amortized cost	<u>564,834</u>	<u>253,253</u>
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost comprise:		
Interest expenses on due to financial institutions	106,813	31,334
Interest on due to banks	30,279	13,077
	<u>137,092</u>	<u>44,411</u>
Total interest expense on financial assets recorded at amortized cost	<u>137,092</u>	<u>44,411</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>427,742</u>	<u>208,842</u>

7. ALLOWANCE FOR IMPAIRMENT LOSSES

	Other assets	Other reserves	Loans to customers
31 December 2006	170	-	10,882
Provision	142	-	21,442
Write-off of assets	(170)	-	(1,333)
Recovery of assets previously written-off	-	-	12
	<u>142</u>	<u>-</u>	<u>31,003</u>
31 December 2007	142	-	31,003
Provision	11	5	20,077
Write-off of assets	-	-	(753)
Recovery of assets previously written-off	-	-	16
	<u>153</u>	<u>5</u>	<u>50,343</u>
31 December 2008	153	5	50,343

8. NET (LOSS)/GAIN IN FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2008	Year ended 31 December 2007
Dealing, net	(7,145)	(2,830)
Translation differences, net	<u>(95,876)</u>	<u>12,960</u>
Total net (loss)/gain in foreign exchange operations	<u>(103,021)</u>	<u>10,130</u>

Derivative financial instruments are used by the Company for trading purposes and to provide economic hedges against exposures to fluctuations in foreign currency exchange rates (Note 29).

9. FEE AND COMMISSION EXPENSE

Fee and commission expense represents commissions charged by banks for servicing accounts and making cash transfers. In 2008 and 2007 such commissions amounted to KGS 3,933 thousand and KGS 2,657 thousand, respectively.

10. OTHER INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
Compensation for training for farmers	50	485
Loss from disposal of property, equipment and intangible assets	(52)	(271)
Other	<u>376</u>	<u>50</u>
Total other income	<u>374</u>	<u>264</u>

11. OPERATING EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Salary and bonuses	147,154	64,742
Contributions to Social Fund of Kyrgyz Republic	26,412	12,869
Transportation costs	19,224	8,452
Rent of premises	15,085	9,061
Taxes, other than income tax	10,751	5,347
Depreciation of property, equipment and amortization of intangible assets	9,484	3,976
Communications, mail and courier expenses	7,520	3,095
Business trips and representative expenses	7,488	4,036
Security	4,147	1,430
Stationery	3,857	1,730
Professional services	3,835	3,164
Staff training	3,431	1,924
Advertising and subscription costs	2,170	1,335
Charities and sponsorship	2,054	651
Utilities	1,635	606
Property and equipment maintenance	853	530
Other expenses	<u>13,819</u>	<u>5,984</u>
Total operating expenses	<u>278,919</u>	<u>128,932</u>

12. INCOME TAXES

The Company provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations in the Kyrgyz Republic, which may differ from International Financial Reporting Standards. For the years ended 31 December 2008 and 2007 the income tax rate was 10%.

The Company is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

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 at 31 December 2008 and 2007 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2008 and 2007 comprise:

	31 December 2008	31 December 2007
Deferred income tax assets:		
Commission income	13,886	-
Accrued audit expenses	-	1,960
Bonuses provision	2,830	2,067
Vacation provision	9,398	2,308
Other provision	158	142
	<u>26,272</u>	<u>6,477</u>
Deferred income tax liabilities:		
Property, equipment and intangible assets	<u>27,215</u>	<u>13,236</u>
	<u>27,215</u>	<u>13,236</u>
Net deferred income tax liabilities at the statutory rate (10%)	<u>943</u>	<u>6,759</u>
Net deferred income tax liabilities	<u>94</u>	<u>676</u>

The ratio between tax expenses and accounting profit for the years ended 31 December 2008 and 2007 are disclosed as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income tax	<u>110,494</u>	<u>68,946</u>
Tax at the statutory tax rate	11,049	6,895
Tax effect of permanent differences	<u>1,238</u>	<u>3,498</u>
Income tax expense	<u>12,287</u>	<u>10,393</u>
Current income tax expense	12,869	9,921
(Recovery)/provision for deferred income tax	<u>(582)</u>	<u>472</u>
Income tax expense	<u>12,287</u>	<u>10,393</u>
	2008	2007
Deferred income tax liabilities		
Beginning of the year	676	204
(Decrease)/increase of deferred tax on income for the year	<u>(582)</u>	<u>472</u>
End of the year	<u>94</u>	<u>676</u>

Income tax prepayments and liabilities comprise:

	31 December 2008	31 December 2007
Current income tax prepayments	3,366	-
Current income tax prepayments	<u>3,366</u>	<u>-</u>
Current income tax liabilities	-	1,831
Deferred income tax liabilities	94	676
Income tax liabilities	<u>94</u>	<u>2,507</u>

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the Cash Flow Statement are as follows:

	31 December 2008	31 December 2007
Cash on hand	2,891	4,026
Due from banks (with a maturity of less than 3 months)	174,019	68,920
Total cash and cash equivalents	<u>176,910</u>	<u>72,946</u>

14. DUE FROM BANKS

	31 December 2008	31 December 2007
CJSC Demir Kyrgyz International Bank	103,817	37,151
OJSC Asia Universal Bank	37,964	-
OJSC Settlement and Savings Company	19,964	7,838
CJSC Kyrgyz Investment Credit Bank	19,868	22,309
CJSC BTA Bank	7,589	-
OJSC Commercial Bank Kyrgyzstan	2,912	-
OJSC Bank of Asia	1,335	-
OJSC Kyrgyzpromstroibank	240	1,550
OJSC Kazkommertsbank Kyrgyzstan	68	72
OJSC Manas Bank	2	-
Total due from banks	<u>193,759</u>	<u>68,920</u>

As at 31 December 2008 and 2007, due from banks includes accrued interest of KGS 31 thousand and KGS 411 thousand, respectively.

As at 31 December 2008 and 2007, the Company had amount due from one bank, which individually exceeded 10% of the Company's equity, the maximum credit risk exposure on this bank amounted to KGS 103,817 thousand and KGS 37,151 thousand, respectively, which represents significant concentration.

15. INVESTMENTS HELD TO MATURITY

	Interest to nominal	31 December 2008	Interest to nominal	31 December 2007
Notes issued by NBKR				
28-day notes	15.53%	100,723		-
91-day notes	15.13%	54,112		-
14-day notes	13.86%	50,566		-
		<u>205,401</u>		<u>-</u>
Total investments held to maturity		<u>205,401</u>		<u>-</u>

16. LOANS TO CUSTOMERS

	31 December 2008	31 December 2007
Originated loans	1,119,298	767,555
Less allowance for impairment losses	<u>(50,343)</u>	<u>(31,003)</u>
Total loans to customers	<u>1,068,955</u>	<u>736,552</u>

As at 31 December 2008 and 2007, accrued interest income included in loans to customers amounted to KGS 19,643 thousand and 13,076 thousand respectively.

Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 7.

As at 31 December 2008 and 2007, loans to customers comprised of the following products:

	31 December 2008	31 December 2007
Group loans	1,016,890	619,927
Individual loans	<u>102,408</u>	<u>147,628</u>
	1,119,298	767,555
Less allowance for impairment losses	<u>(50,343)</u>	<u>(31,003)</u>
Loans to customers	<u>1,068,955</u>	<u>736,552</u>

The peculiarity of group lending is disbursement of unsecured loans to groups of borrowers who sign loan agreements with joint responsibility.

The Company provides loans to customers for development of small businesses.

	31 December 2008	31 December 2007
Unsecured loans – group loans	1,016,890	619,927
Loans secured by various collateral – individual loans	94,103	139,121
Unsecured loans – individual loans	<u>8,305</u>	<u>8,507</u>
	1,119,298	767,555
Less allowance for impairment losses	<u>(50,343)</u>	<u>(31,003)</u>
Loans to customers	<u>1,068,955</u>	<u>736,552</u>

	31 December 2008	31 December 2007
Analysis by sector:		
Trade	494,788	432,602
Agriculture	514,523	249,034
Industry	45,734	44,862
Services	57,238	41,057
Others	7,015	
	<u>1,119,298</u>	<u>767,555</u>
Less allowance for impairment losses	<u>(50,343)</u>	<u>(31,003)</u>
Loans to customers	<u><u>1,068,955</u></u>	<u><u>736,552</u></u>

As at 31 December 2008 and 2007, the entire loan portfolio in amount of KGS 1,119,298 thousand and KGS 767,555 thousand was disbursed to customers operating in the Kyrgyz Republic, which represents a significant geographical concentration and maximum credit risk exposure.

As at 31 December 2008 and 2007, loans to customers included loans in the amount of KGS 451 thousand and KGS 1,183 thousand, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2008 and 2007, loans to customers included loans in the amount of KGS 1,068,955 thousand and KGS 736,552 thousand, respectively, that were individually and on portfolio basis determined to be impaired. As at 31 December 2008 and 2007 such loans were collateralized by various collateral in amount of KGS 95,638 thousand and KGS 139,121 thousand, respectively.

During the years ended 31 December 2008 and 2007, the Company has not taken possession of any collateral it held as a security.

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Leasehold improve- ments	Furniture and office equipment	Computer equipment	Vehicles	Intangible assets	Construc- tion in progress	Total
At cost								
31 December 2006	1,129	-	4,786	7,860	5,316	47	-	19,138
Additions	22,532	48	1,820	1,918	6,646	1,486	2,716	37,166
Transfers	-	-	(38)	38	-	-	-	-
Disposals	-	(14)	(41)	(471)	(433)	-	-	(959)
31 December 2007	23,661	34	6,527	9,345	11,529	1,533	2,716	55,345
Additions	533	326	9,019	11,053	7,400	16,796	9,197	54,324
Transfers	8,721	-	(124)	104	20	-	(8,721)	-
Disposals	-	(4)	(12)	(27)	(426)	-	-	(469)
31 December 2008	32,915	356	15,410	20,475	18,523	18,329	3,192	109,200
Accumulated depreciation and amortization								
31 December 2006	17	-	1,091	2,067	722	14	-	3,911
Charge for the year	208	21	1,134	1,711	699	203	-	3,976
Eliminated at disposals	-	(14)	(18)	(184)	(87)	-	-	(303)
31 December 2007	225	7	2,207	3,594	1,334	217	-	7,584
Charge for the year	566	110	1,804	2,986	1,599	2,419	-	9,484
Transfers	-	-	(3)	3	-	-	-	-
Eliminated at disposals	-	(4)	(8)	(15)	(109)	-	-	(136)
31 December 2008	791	113	4,000	6,568	2,824	2,636	-	16,932
Net book value								
31 December 2007	23,436	27	4,320	5,751	10,195	1,316	2,716	47,761
31 December 2008	32,124	243	11,410	13,907	15,699	15,693	3,192	92,268

As at 31 December 2008 and 31 December 2007, the Company did not have property and equipment that was pledged as collateral.

As at 31 December 2008, property and equipment include fully depreciated equipment with an initial cost of KGS 76 thousand. As at 31 December 2007 the Company did not have fully depreciated equipment.

As at 31 December 2008 and 31 December 2007, the Company did not have property and equipment pledged as collateral for short-term borrowings from banks.

As at 31 December 2008 and 31 December 2007, intangible assets is comprised of software.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivative financial instruments	Nominal value	31 December 2008 Net fair value		Nominal value	31 December 2007 Net fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange swap contracts	1,245,048	83,311	-	168,540	18,721	-
		<u>83,311</u>	<u>-</u>		<u>18,721</u>	<u>-</u>

19. OTHER ASSETS

	31 December 2008	31 December 2007
Other non-financial assets		
Inventory	12,071	3,022
Prepayments for services and property	3,402	4,218
Prepayments on taxes other than income tax	733	1,366
Government fees	167	129
Other	1,064	462
	<u>17,437</u>	<u>9,197</u>
Less allowance for impairment losses	<u>(153)</u>	<u>(142)</u>
Total other assets	<u>17,284</u>	<u>9,055</u>

20. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Due to banks consist of following:

	Maturity	31 December 2008	31 December 2007
Promissory notes issued to Credit Suisse Microfinance Fund Management Company	26/06/2009	191,268	48,292
Promissory notes issued to Rural Impulse Fund	19/08/2011	150,869	-
Promissory notes issued to EBRD	24/08/2009	145,283	35,583
Promissory notes issued to Dual Return Fund SA	21/03/2009	123,300	54,166
Promissory notes issued to Finethic Microfinance	21/03/2009	108,050	18,235
Promissory notes issued to Oikocredit	19/04/2009	83,628	73,809
Promissory notes issued to Microvest, LP	15/09/2009	68,609	70,342
Promissory notes issued to Microcredit Enterprise Fund	10/10/2011	60,531	-
Promissory notes issued to Global Commercial Fund	01/11/2011	58,704	-
Promissory notes issued to Simbiotics	25/06/2009	28,874	72,382
Total due to banks and financial institutions		<u>1,019,116</u>	<u>372,809</u>

As at 31 December 2008 and 2007, due to banks and financial institutions include accrued interest expense amounting to KGS 14,355 thousand and KGS 5,330 thousand, respectively.

As at 31 December 2008 and 2007, due to banks and financial institutions include deferred commission paid on origination of loans amounting to KGS 3,021 thousand and KGS 1,718 thousand respectively.

The Company is obligated to comply with financial covenants in relation to other borrowed funds disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Company has not breached any of these covenants during the years ended 31 December 2008 and 2007.

21. OTHER LIABILITIES

	31 December 2008	31 December 2007
Other financial liabilities		
Provision for vacation and bonuses to employees	12,862	4,426
Accounts payable for services and goods	5,721	2,683
	<u>18,583</u>	<u>7,109</u>
Other non-financial liabilities		
Deferred income	13,886	-
Taxes payable, other than income tax	6,933	3,806
Other	239	832
	<u>21,058</u>	<u>4,638</u>
Total other liabilities	<u><u>39,641</u></u>	<u><u>11,747</u></u>

22. SUBORDINATED DEBT

	Currency	Maturity date year	Interest rate %	31 December 2008	31 December 2007
Subordinated debt	USD	31/12/2014	10.5%	239,474	215,419
				<u>239,474</u>	<u>215,419</u>

As at 31 December 2008 and 2007, subordinated debt to Deutsche Bank included accrued interest expense amounting to KGS 2,094 thousand and KGS 1,949 thousand respectively.

As at 31 December 2008 and 2007, subordinated debt to Deutsche Bank include deferred commission paid on origination of loans amounting to KGS 1,932 thousand and KGS 2,047 thousand respectively.

In the event of bankruptcy or liquidation of the Company, repayment of this debt is subordinate to the repayments of the Company's liabilities to all other creditors.

The Company is obligated to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Company has not breached any of these covenants during the years ended 31 December 2008 and 2007.

23. SHARE CAPITAL

As at 31 December 2008 and 31 December 2007, the Company's authorized and paid share capital amounted KGS 265,000 thousand and KGS 224,000 thousand, respectively.

During 2008, the Company declared and paid to the Company's Founder dividends in the amount of KGS 11,850 thousand.

24. FINANCIAL COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2008 and 2007, the Company had no material commitments for capital expenditure outstanding.

Operating lease commitments

As at 31 December 2008 and 2007, the Company had no material commitments for operating leases.

Legal proceedings

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

Taxation

Due to the presence in Kyrgyz commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Company's business activities was to be challenged by the tax authorities, the Company may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Company is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Specific volatility in global and the Kyrgyz Republic's financial markets

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. The Management of the Company believes that the Company is expected to continue as going concern notwithstanding the uncertainties as discussed in the paragraph.

Recoverability of financial assets

As a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date, there exists the potential that assets may not be recovered at their carrying amount in the regular course of business.

As at 31 December 2008, the Company had financial assets in the amount of KGS 1,554,317 thousand (KGS 828,219 thousand as at 31 December 2007). The recoverability of these financial assets depends to a large extent on the efficacy of the fiscal and other measures undertaken within various countries to achieve economic stability and recovery, i.e. factors beyond the Company's control. The recoverability of the Company's financial assets is determined based on conditions prevailing as of the reporting date. It is the management's opinion that no additional provision on financial assets is needed at present based on prevailing conditions and available information.

25. SUBSEQUENT EVENTS

On 2 February 2009, the Company obtained approval from the NBKR for transformation of the Company into the Closed Joint Stock Kompanion Financial Group Micro Finance Company. Constituent documents of the company were submitted to the Ministry of Justice of the Kyrgyz Republic for reorganization.

26. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is paid to the substance of the relationship rather than only their legal status. The Company had the following transactions outstanding with related parties:

	31 December 2008		31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Other liabilities	42	39,641	37	11,747

Included in the Income Statement for the years ended 31 December 2008 and 2007 there are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest expense	-	137,092	5,282	44,411
Operating expenses:	25,517	278,919	14,770	128,932
- remuneration to key management personnel	16,598	147,154	8,677	64,742
- contributions to Social Fund of Kyrgyz Republic	3,154	26,412	1,779	12,869
- rent of premises	5,180	15,085	3,772	9,061
- professional services	585	3,835	552	3,164
Other income	50	374	485	264

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The carrying amount of financial assets approximates their fair value due to the short-term nature of such financial instruments.

28. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a regular basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Company balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Company's overall capital risk management policy remains unchanged from 2007.

29. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Company's business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are:

- Credit risk
- Operational risk
- Liquidity risk
- Market risk

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives. Through the risk management framework, the Company manages the following risks:

Credit risk

The Company is exposed to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Company's Management. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Branch Management. Daily risk management is performed by the Credit Administration Department.

The Company has developed policies and procedures for the management of credit exposures including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Company's credit risk. The Company's credit policy is reviewed and approved by the Founder representative. The Company establishes limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. 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 but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Operational risk

The Company is exposed to operational risk which is the risk of losses that can be a result of any system inefficiencies or breaks of internal process, systems, presence of human error or effect of any external negative factor.

The Company's risk management policies are designed to identify and analyze this risk to set appropriate risk limits and controls.

Maximum Exposure

The Company's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets and contingent liabilities. For financial assets in the balance sheet, the maximum exposure equals to the carrying amount value of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets contingent liabilities, the maximum exposure to credit risk is the maximum amount the Company would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

					31 December 2008
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Cash	2,891	-	2,891	-	2,891
Due from banks	193,759	-	193,759	-	193,759
Investment held to maturity	205,401	-	205,401	-	205,401
Loans to customers	1,068,955	-	1,068,955	(94,103)	974,852
Financial assets at fair value through profit and loss	1,245,048	(1,161,737)	83,311	-	83,311
					31 December 2007
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Cash	4,026	-	4,026	-	4,026
Due from banks	68,920	-	68,920	-	68,920
Loans to customers	736,552	-	736,552	(139,121)	597,431
Financial assets at fair value through profit and loss	168,540	(149,819)	18,721	-	18,721

The following table details the credit ratings of financial assets held by the Company:

	AAA	AA	BB	Not rated	31 December 2008 Total
Cash	-	-	-	2,891	2,891
Due from banks	-	-	-	193,759	193,759
Investments held to maturity	-	-	-	205,401	205,401
Loans to customers	-	-	-	1,068,955	1,068,955
Financial assets at fair value through profit and loss	-	-	-	83,311	83,311
	AAA	AA	BB	Not rated	31 December 2007 Total
Cash	-	-	-	4,026	4,026
Due from banks	-	-	-	68,920	68,920
Loans to customers	-	-	-	736,552	736,552
Financial assets at fair value through profit and loss	-	-	-	18,721	18,721

The banking industry is generally exposed to credit risk through its financial assets and loans to customers. The credit risk exposure of the Company is concentrated within the Kyrgyz Republic. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Company's credit and risk management policy are not breached.

In determining the credit risk of financial assets which do not have ratings, the Company uses internal scoring models based on risk ranking criteria. The scoring model takes into consideration the financial performance of the borrower, the ability of repayment and any delays in repayment and the collateral pledged against any borrowings. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The Company manages credit risk of financial assets by use of an internal rating system. Loans are classified based on internal evaluations and other analytical procedures, Branches and Credit Administration Department classify loans according to their risk and the risk of potential losses, with classifications subject to the approval of the Credit Committee.

Standard loans

The financial condition of the borrower is assessed as stable and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. In case there are some minor negative indicators, the Company has confidence that the borrower will be able to cope with such (temporary) difficulties. Interest and principal are repaid in full and in a timely fashion or principal and/or interest are overdue for no more than 30 days. The borrower is considered as having the ability to repay the loan in accordance with its terms and conditions.

Doubtful 1st category

There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower repays the loan principal and the interest without delay and in full. Key characteristics are overdue amounts from 31 to 90 days, prolongation of loan, or the repayment of the loan depends to an extent on the realization of collateral. The amount of collateral is sufficient to cover principal amount, interest income accrued, and expenses related to the sale of collateral.

Doubtful 2nd category

The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative equity and it is probable that the borrower will be unable to repay the loan and the interest in full. Possibility of loss of doubtful assets is very high, but due to several specific expected factors, that could improve the quality of asset, its classification as loss is deferred until a more precise assessment can be performed. Key characteristics are overdue amounts from 91 to 180 days, or the quality of collateral has deteriorated since origination or it is absent.

Losses

In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralized or the value of the collateral covers less than 50 per cent of the borrowers' outstanding debt. Key characteristics are overdue amounts over 180 days, prolongation over 3 times or inability or refusal of the client to repay the loan, or absence of the borrower. Once all legal measures to recover the loan have been exhausted, the loan is accounted for as off-balance for at least five years in case of possible repayment.

	31 December 2008	31 December 2007
Standard – Group	1,012,269	619,896
Standard – Individual	101,771	146,430
Doubtful 1st category	1,962	1,229
Doubtful 2nd category	2,561	-
Losses	735	-
	<hr/>	<hr/>
	1,119,298	767,555
Less allowance for loans impairment	<hr/> (50,343) <hr/>	<hr/> (31,003) <hr/>
Loans to customers	<hr/> 1,068,955 <hr/>	<hr/> 736,552 <hr/>

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

	Financial assets past due and unimpaired					Financial assets that have been impaired	31 December 2008 Total
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Cash	2,891	-	-	-	-	-	2,891
Due from banks	193,759	-	-	-	-	-	193,759
Investments held to maturity	205,401	-	-	-	-	-	205,401
Loans to customers	-	-	-	-	-	1,068,955	1,068,955
Financial assets at fair value through profit and loss	83,311	-	-	-	-	-	83,311

	Financial assets past due and unimpaired					Financial assets that have been impaired	31 December 2007 Total
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Cash	4,026	-	-	-	-	-	4,026
Due from banks	68,920	-	-	-	-	-	68,920
Loans to customers	-	-	-	-	-	736,552	736,552
Financial assets at fair value through profit and loss	18,721	-	-	-	-	-	18,721

Geographical concentration

The Planning and Analysis Department exercises control over the risk related to changes in the legislation and regulatory arena and assess its influence on the Company's activity. This approach allows the Company to minimize potential losses from the investment climate fluctuations in the Kyrgyz Republic.

The geographical concentration of assets and liabilities is shown below:

	Kyrgyz Republic	OECD Countries	31 December 2008 Total
FINANCIAL ASSETS:			
Cash	2,891	-	2,891
Due from banks	193,759	-	193,759
Investments held to maturity	205,401	-	205,401
Loans to customers	1,068,955	-	1,068,955
Financial assets at fair value through profit and loss	83,311	-	83,311
TOTAL FINANCIAL ASSETS	1,554,317	-	1,554,317
FINANCIAL LIABILITIES:			
Due to banks and financial institutions	-	1,019,116	1,019,116
Subordinated debt	-	239,474	239,474
Other financial liabilities	18,583	-	18,583
TOTAL FINANCIAL LIABILITIES	18,583	1,258,590	1,277,173
NET POSITION	1,535,734	(1,258,590)	

	Kyrgyz Republic	OECD Countries	31 December 2007 Total
FINANCIAL ASSETS:			
Cash	4,026	-	4,026
Due from banks	68,920	-	68,920
Loans to customers	736,552	-	736,552
Financial assets at fair value through profit and loss	18,721	-	18,721
TOTAL FINANCIAL ASSETS	828,219	-	828,219
FINANCIAL LIABILITIES:			
Due to banks and financial institutions	-	372,809	372,809
Subordinated debt	-	215,419	215,419
Other financial liabilities	7,109	-	7,109
TOTAL FINANCIAL LIABILITIES	7,109	588,228	595,337
NET POSITION	821,110	(588,228)	

Liquidity risk

Liquidity risk refers to availability of funds to repay liabilities as they fall due and meeting the demand in cash in the process of crediting customers.

The Management controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period. Current liquidity is managed by the Chief Financial Officer, which supports current liquidity on sufficient level to minimize the liquidity risk.

The analysis of interest rate and liquidity risk is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS:							
Due from banks	-	19,740	19,709	-	-	-	39,449
Investments held to maturity	151,289	54,112	-	-	-	-	205,401
Loans to customers	10,452	102,706	909,835	43,186	-	2,776	1,068,955
Financial assets at fair value through profit and loss	-	-	83,311	-	-	-	83,311
Total interest bearing financial assets	161,741	176,558	1,012,855	43,186	-	2,776	1,397,116
Cash	2,891	-	-	-	-	-	2,891
Due from banks	154,310	-	-	-	-	-	154,310
TOTAL FINANCIAL ASSETS	318,942	176,558	1,012,855	43,186	-	2,776	1,554,317
FINANCIAL LIABILITIES:							
Due to banks and financial institutions	-	55,570	147,297	816,249	-	-	1,019,116
Subordinated debt	-	-	-	-	239,474	-	239,474
Total interest bearing financial liabilities	-	55,570	147,297	816,249	239,474	-	1,258,590
Other financial liabilities	18,583	-	-	-	-	-	18,583
TOTAL FINANCIAL LIABILITIES	18,583	55,570	147,297	816,249	239,474	-	1,277,173
Liquidity gap	300,359	120,988	865,558	(773,063)	(239,474)		
Interest sensitivity gap	161,741	120,988	865,558	(773,063)	(239,474)		
Cumulative interest sensitivity gap	161,741	282,729	1,148,287	375,224	135,750		
Cumulative interest sensitivity gap as a percentage of total assets	10%	18%	74%	24%	9%		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
FINANCIAL ASSETS:							
Due from banks		17,955		-	-	-	17,955
Loans to customers	27,157	73,771	550,365	85,256	-	3	736,552
Financial assets at fair value through profit and loss	-	-	18,721	-	-	-	18,721
Total interest bearing financial assets	27,157	91,726	569,086	85,256	-	3	773,228
Cash	4,026	-	-	-	-	-	4,026
Due from banks	50,965	-	-	-	-	-	50,965
TOTAL FINANCIAL ASSETS	82,148	91,726	569,086	85,256	-	3	828,219
FINANCIAL LIABILITIES:							
Due to banks and financial institutions	-	13,890	151,300	207,619	-	-	372,809
Subordinated debt	-	-	-	-	215,419	-	215,419
Total interest bearing financial liabilities	-	13,890	151,300	207,619	215,419	-	588,228
Other financial liabilities	7,109	-	-	-	-	-	7,109
TOTAL FINANCIAL LIABILITIES	7,109	13,890	151,300	207,619	215,419	-	595,337
Liquidity gap	75,039	77,836	417,786	(122,363)	(215,419)		
Interest sensitivity gap	27,157	77,836	417,786	(122,363)	(215,419)		
Cumulative interest sensitivity gap	27,157	104,993	522,779	400,416	184,997		
Cumulative interest sensitivity gap as a percentage of total assets	3%	13%	63%	48%	22%		

Substantially all of the Company'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 Company's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the balance sheet as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the balance sheet under the effective interest rate method.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL LIABILITIES								
Due to banks	9,61%	73,785	79,253	456,735	815,726	-	-	1,425,499
Subordinated debt	10,5%	-	6,352	19,055	102,116	266,813	-	394,336
Total interest bearing financial liabilities		73,785	85,605	475,790	917,842	266,813	-	1,819,835
Other financial liabilities		18,583	-	-	-	-	-	18,583
Total financial liabilities		92,368	85,605	475,790	917,842	266,813	-	1,838,418
	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
FINANCIAL LIABILITIES								
Due to banks	9,87%	1,023	36,016	322,904	1,315,941	-	-	1,675,884
Subordinated debt	10,5%	-	5,720	17,349	91,775	263,353	-	378,197
Total interest bearing financial liabilities		1,023	41,736	340,253	1,407,716	263,353	-	2,054,081
Other financial liabilities		7,109	-	-	-	-	-	7,109
Total financial liabilities		8,132	41,736	340,253	1,407,716	263,353	-	2,061,190

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Company is exposed. There have been no changes as to the way the Company measures risk or to the risk it is exposed in 2008.

The Company is exposed to interest rate risks as Company borrows funds at both fixed and floating rates. The risk is managed by the Company maintaining an appropriate mix between fixed and floating rate borrowings.

The Credit Administration and Treasury Departments also manage interest rate and market risks by matching the Company's interest rate position, which provides the Company with a positive interest margin. The Planning and Analysis Department conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in interest rates and its influence on the Company's profitability.

Interest rate sensitivity risk

The following table details the Company's sensitivity to 3% and 1% increase, decrease in interest rates in 2008 and 2007, respectively. Management of the Company believes that given the current economic conditions in the Kyrgyz Republic that a 3% increase is a realistic movement in the interest rates. This is sensitivity rate used when reporting interest rate internally to key management personnel and represents management's assessment of the possible change in interest rates. The sensitivity analysis includes only outstanding assets and liabilities with floating rates.

Impact on profit before tax based on asset values as at 31 December 2008 and 31 December 2007:

	31 December 2008		31 December 2007	
	Interest rate +3%	Interest rate -3%	Interest rate +1%	Interest rate -1%
Liabilities:				
Due to banks and financial institutions	<u>7,410</u>	<u>(7,410)</u>	<u>727</u>	<u>(727)</u>
Net impact on profit before tax	<u><u>7,410</u></u>	<u><u>(7,410)</u></u>	<u><u>727</u></u>	<u><u>(727)</u></u>

Impact on shareholders equity:

	31 December 2008		31 December 2007	
	Interest rate +3%	Interest rate -3%	Interest rate +1%	Interest rate -1%
Liabilities:				
Due to banks and financial institutions	<u>6,669</u>	<u>(6,669)</u>	<u>654</u>	<u>(654)</u>
Net impact on shareholder's equity	<u><u>6,669</u></u>	<u><u>(6,669)</u></u>	<u><u>654</u></u>	<u><u>(654)</u></u>

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 Company's financial state and cash flows are exposed to effects of fluctuations in the foreign currency exchange rates. The management controls currency risk by management of the open currency position on the estimated basis of KGS devaluation and other macroeconomic indicators, which gives the Company an opportunity to minimize losses from significant currency rates fluctuations toward its national currency.

The Company designates certain derivative financial instruments to hedge currency risk exposure, which include cross currency swaps and back-to-back loans with commercial banks. The resulting foreign currency translation gain from such transactions for the year ended 31 December 2008 was recognized in profit and loss account of KGS 78,636 thousand (2007: KGS 349 thousand).

The Company's exposure to foreign currency exchange rate risk is presented in the tables below:

	KGS	USD USD 1 = KGS 39.4181	31 December 2008 Total
FINANCIAL ASSETS:			
Cash	2,891	-	2,891
Due from banks	41,250	152,509	193,759
Investments held to maturity	205,401	-	205,401
Loans to customers	1,068,955	-	1,068,955
Financial assets at fair value through profit and loss	<u>(1,161,737)</u>	<u>1,245,048</u>	<u>83,311</u>
TOTAL FINANCIAL ASSETS	<u><u>156,760</u></u>	<u><u>1,397,557</u></u>	<u><u>1,554,317</u></u>
FINANCIAL LIABILITIES:			
Due to banks and financial institutions	43,092	976,024	1,019,116
Subordinated debt	-	239,474	239,474
Other financial liabilities	<u>18,516</u>	<u>67</u>	<u>18,583</u>
TOTAL FINANCIAL LIABILITIES	<u><u>61,608</u></u>	<u><u>1,215,565</u></u>	<u><u>1,277,173</u></u>
NET BALANCE SHEET POSITION	<u><u>95,152</u></u>	<u><u>181,992</u></u>	

	KGS	USD USD 1 = 39.4181 KGS	31 December 2008 Total
Accounts payable on spot and derivative contracts	1,161,737	-	1,161,737
Accounts receivable on spot and derivative contracts	-	1,245,048	1,245,048

NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION

1,161,737	1,245,048
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	KGS	USD USD 1 = KGS 35.4988	31 December 2007 Total
FINANCIAL ASSETS:			
Cash	4,026	-	4,026
Due from banks	33,979	34,941	68,920
Loans to customers	736,552	-	736,552
Financial assets at fair value through profit and loss	(149,819)	168,540	18,721
TOTAL FINANCIAL ASSETS	624,738	203,481	828,219

FINANCIAL LIABILITIES:

Due to banks and financial institutions	37,486	335,323	372,809
Subordinated debt	-	215,419	215,419
Other financial liabilities	7,109	-	7,109
TOTAL FINANCIAL LIABILITIES	44,595	550,742	595,337

NET BALANCE SHEET POSITION

580,143	(347,261)
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	KGS	USD USD 1 = 35.4988 KGS	31 December 2007 Total
Accounts payable on spot and derivative contracts	149,819	-	149,819
Accounts receivable on spot and derivative contracts	-	168,540	168,540
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(149,819)	168,540	

Currency risk sensitivity

The following table details the Company's sensitivity to a 10% and 5% increase and decrease in the US Dollar/Kyrgyz Som exchange rates in 2008 and 2007. Management of the Company believe that given the current economic conditions in the Kyrgyz Republic that a 10% decrease is a realistic movement in the Som exchange rates against the US Dollar. This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% and 5% change in currency rates as at 31 December 2008 and 2007, respectively.

Impact on net profit based on asset values as at 31 December 2008 and 31 December 2007:

	31 December 2008 KGS/USD 39.4181		31 December 2007 KGS/USD 35.4988	
	10%	(10)%	5%	(5)%
Impact on profit and loss	18,199	(18,199)	(17,363)	17,363

Impact on shareholders equity:

	31 December 2008		31 December 2007	
	KGS/USD		KGS/USD	
	10%	(10)%	5%	(5)%
Impact on shareholder's equity	16,379	(16,379)	(15,627)	15,627

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty.

30. SEGMENT REPORTING

The operations of the Company relate solely to commercial lending activities and are based in the Kyrgyz Republic.