

LIMITED LIABILITY COMPANY
“Micro-credit Company
“Financial group
Kompanion”

Financial Statements
For the year ended 31 December 2006

and Independent Auditors' Report

**LIMITED LIABILITY COMPANY
“MICRO-CREDIT COMPANY “FINANCIAL GROUP KOMPANION”**

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's audit report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Limited liability company "Micro-credit Company "Financial group Kompanion" (the "Company").

Management of the Company is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2006, 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 of the Kyrgyz Republic and IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company, and
- Detecting and preventing fraud and other irregularities.

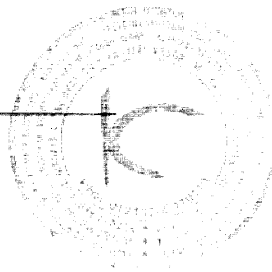
The financial statements for the year ended 31 December 2006 were authorized for issue on 17 May 2007 by the Management of the Company.


On behalf of the Management


Babyrjan Tolbatov
Chief Executive Officer

6 June 2007

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

6 June 2007

Bishkek,
Kyrgyz Republic

INDEPENDENT AUDITORS' REPORT

To the Owner and Board of Directors of Limited Liability Company Micro Credit Company "Financial group Kompanion"

We have audited the accompanying financial statements Limited Liability Company "Micro-credit Company "Financial group Kompanion" (hereinafter – "Company"), which comprise the balance sheet as at 31 December 2006, and the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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.

Auditor's Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw your attention to Note 2 to the accompanying financial statements. In the recent years the Kyrgyz Republic faces significant financial and economic difficulties. At present it is impossible to determine the future effect of the present economic uncertainty on the borrowers, clients and suppliers of the Company. Since the effect of the said factors on the operations of the Company cannot be predicted, the accompanying financial statements do not include provisions of any adjustments which would be needed due to such uncertainty. Possible adjusting entries can be made to the statements when the need to reflect them would be evident and they become known and estimable.

Deloitte & Touche


6 June 2007

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

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousand KGS)**

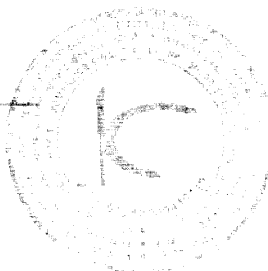
	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Interest income	5	114,082	50,305
Interest expense	5, 21	<u>(9,897)</u>	<u>(1,935)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		104,185	48,370
Provision for impairment losses on interest bearing assets	6	<u>(5,184)</u>	<u>(6,353)</u>
NET INTEREST INCOME		<u>99,001</u>	<u>42,017</u>
Net gain on translation differences		1,127	-
Fee and commission expense	7	(841)	(775)
Other income	8	<u>1,240</u>	<u>3,413</u>
NET NON-INTEREST INCOME		<u>1,526</u>	<u>2,638</u>
OPERATING INCOME		100,527	44,655
OPERATING EXPENSES	9, 21	<u>(72,169)</u>	<u>(48,118)</u>
OPERATING PROFIT/(LOSS)		28,358	(3,463)
Provision for impairment losses on other transactions	6	<u>(170)</u>	<u>(567)</u>
PROFIT/(LOSS) BEFORE INCOME TAX		28,188	(4,030)
Income tax expense	10	<u>(4,020)</u>	<u>(638)</u>
NET PROFIT/(LOSS)		<u>24,168</u>	<u>(4,668)</u>


On behalf of the Management


Babyrjan Tolbaev
Chief Executive Officer

17 May 2007

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

17 May 2007

Bishkek,
Kyrgyz Republic

The notes on pages 9-29 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2-3.

LIMITED LIABILITY COMPANY MICRO-CREDIT COMPANY "FINANCIAL GROUP KOMPANION"

**BALANCE SHEET
AS AT 31 DECEMBER 2006
(In thousand KGS)**

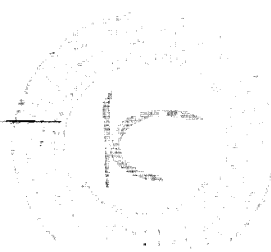
	Notes	31 December 2006	31 December 2005
ASSETS:			
Cash		380	677
Due from banks	12	41,600	26,848
Loans to customers	13	261,009	150,693
Property and equipment	14	15,227	11,211
Other assets	15, 19	2,510	1,078
TOTAL ASSETS		320,726	190,507
LIABILITIES AND EQUITY			
LIABILITIES:			
Borrowed funds	16	282,344	179,843
Income tax liabilities	10	1,457	467
Other liabilities	17, 21	7,628	5,068
Total liabilities		291,429	185,378
EQUITY:			
Share capital	18	10,000	10,000
Retained earnings/(Accumulated deficit)		19,297	(4,871)
Total equity		29,297	5,129
TOTAL LIABILITIES AND EQUITY		320,726	190,507

On behalf of the Management


Babyrjan Tolbaev
Chief Executive Officer

17 May 2007

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

17 May 2007

Bishkek,
Kyrgyz Republic


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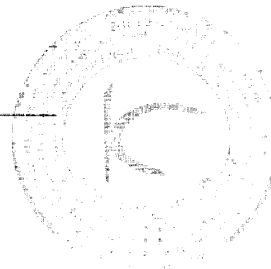
LIMITED LIABILITY COMPANY MICRO-CREDIT COMPANY "FINANCIAL GROUP KOMPANION"


**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousand KGS)**

	Notes	Share capital	Retained earnings	Total equity
31 December 2004 (unaudited)		100	(203)	(103)
Share capital increase		9,900	-	9,900
Net loss (unaudited)		-	(4,668)	(4,668)
31 December 2005 (unaudited)		<u>10,000</u>	<u>(4,871)</u>	<u>5,129</u>
Net profit		-	24,168	24,168
31 December 2006	18	<u>10,000</u>	<u>19,297</u>	<u>29,297</u>

On behalf of the Management


Babyrjan Tolbago
Chief Executive Officer




Ulanbek Akimkanov
Chief Accountant

17 May 2007

Bishkek,
Kyrgyz Republic

17 May 2007

Bishkek,
Kyrgyz Republic

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousand KGS)**

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax		28,188	(4,030)
Adjustments for:			
Provision for impairment losses on interest bearing assets	6	5,184	6,353
Provision for impairment losses on other assets	6	170	567
Unrealized (gain)/loss on foreign exchange operations		5,985	(502)
Amortization of fixed assets	9	2,581	1,624
Loss on disposal of fixed assets	8	103	14
Net change in recovery value of accrued interest income and expense		(962)	(3,093)
Cash flows from operating activities before changes in operating assets and liabilities		<u>41,249</u>	<u>933</u>
Changes in operating assets and liabilities			
Increase in operating assets:			
Loans to customers		(113,310)	(153,953)
Other assets		(1,109)	(214)
Increase in operating liabilities			
Due to banks		97,822	144,159
Other liabilities		<u>2,529</u>	<u>4,964</u>
Cash inflow from operating activities before taxation		27,181	(4,111)
Income tax paid		<u>(3,030)</u>	<u>(120)</u>
Net cash inflow from operating activities		<u>24,151</u>	<u>(4,231)</u>

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

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousand KGS)**

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchase of property and equipment	14	(6,700)	(10,939)
Prepayment for property and equipment		(493)	(325)
Net outflow of cash from investment activities		(7,193)	(11,264)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in share capital		-	9,900
Net cash outflow from financing activities		-	9,900
Effect of changes in foreign exchange rate on cash and cash equivalents		(2,503)	502
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		14,455	(5,093)
CASH AND CASH EQUIVALENTS, at the beginning of the year	11	27,525	32,618
CASH AND CASH EQUIVALENTS, at the end of the year	11	41,980	27,525

Interest paid and received by the Company during the year ended 31 December 2006 amounted to 8,685 thousand KGS and 111,892 thousand KGS, respectively.

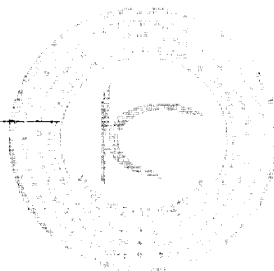
Interest paid and received by the Company during the year ended 31 December 2005 amounted to 1,935 thousand KGS and 47,213 thousand KGS, respectively.

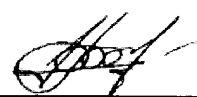
On behalf of the Management


Babyrjan Tolbaev
Chief Executive Officer

17 May 2007

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

17 May 2007

Bishkek,
Kyrgyz Republic

The notes on pages 9-29 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2-3.

LIMITED LIABILITYCOMPANY MICRO-CREDIT COMPANY “FINANCIAL GROUP KOMPANION”

NOTES TO THE FINANCIAL STATEMENTS 3A FOR THE YEAR ENDED 31 DECEMBER 2006 *(in thousand KGS, unless otherwise stated)*

1 ORGANISATION

Limited liability company Micro Credit Company “Financial group Kompanion” (the “Company”) has been carrying out its activities in Kyrgyz Republic since 2004. The activities of the Company is 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 #21732-3300-OOO(ИУ), and re-registered on 19 October 2005. The main activities of the Company is granting loans to customers.

The registered office of the Company is located on the following address: 28A 8 microdistrict, Bishkek, Kyrgyz Republic.

The Company’s operations are administered by the Head Office, which is located in Bishkek and as at 31 December 2006 the Company had 7 branches on the territory of the Kyrgyz Republic located in Osh, Kadamjai, Jalalabat, Talas, Naryn, Karakol and Balykchi.

As at 31 December 2006 and 2005 number of employees of the Company was equal to 249 and 189, respectively.

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

The present financial statement was approved by the Management board of the Company on 17 May 2007.

2. ECONOMIC ENVIRONMENT

In recent years, the Kyrgyz Republic has undergone substantial political, economic and social changes. 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 in the Kyrgyz Republic involve 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 high relative to those in developed markets, 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 (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements are presented in thousands of Kyrgyz Soms (KGS), unless otherwise indicated. These financial statements are prepared on the basis of accrual method and the historical cost principle.

The Company maintains its accounting records in accordance with legislation of the Kyrgyz Republic which requires application of IFRS.

Key assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period were made in relation to loans granted to the customers, the carrying amount of which at the reporting date estimated at 261,009 thousand KGS.

Loans granted to customers are stated at amortized cost/ at cost less reserve for impairment loss. Estimation of the impairment allowance includes a subjective factor. It is impossible to estimate the level of key assumptions and uncertainty factors' influence on the given balances as at the balance sheet date.

Functional currency

The functional currency of these 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 obligation of the financial instrument. Regular way purchase and sale of the 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

Cash and cash equivalents include cash on hand and due from banks.

Due from banks

In the normal course of business, the Company maintains cash at current accounts in commercial banks.

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 granted by the Company with fixed maturities are initially recognized at fair value. 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 these 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

Loans are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. 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 foreclosed all available collateral.

Allowance for impairment losses

The Company establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is 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, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is 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 determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to the profit and loss and the total of the allowance for impairment losses is deducted in arriving at assets as shown in balance sheet. Factors that the Company considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Company may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization, respectively. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

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

Buildings and construction	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.

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 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 or substantively enacted by the balance sheet date.

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 of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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.

In the Kyrgyz Republic where the Company operates also has 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.

Share capital

Share capital is recognized at initial cost.

Retirement and other benefit obligations

In accordance with the legal requirements of the Kyrgyz Republic, the Company withholds pension contributions from employee salaries and transfers them into state pension funds. Current contributions by the employer are calculated as a percentage of current gross salary payments with the expense charged in the period in which the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. 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

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 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. The discounting is made for the period of estimated useful life of the financial instrument and, if appropriate, for a shorter period.

Once a financial asset or a group 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.

Other income is credited to income statement when the related transactions are completed.

Loan servicing fees and other fees are recognized as revenue as the services are provided.

Method of translation into KGS

Monetary assets and liabilities denominated in foreign currencies are translated into KGS at the appropriate spot rates of exchange ruling 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 on foreign exchange operations.

Rates of exchange

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

	31 December 2006	31 December 2005
KGS/USD	38.1238	41.3011

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 derecognition, the Company does not offset the transferred asset and the associated liability.

Adoption of new standards

At the date of authorization of these financial statements, the following Standards and Interpretations applicable to the Company were issued but not yet effective:

- IFRS 7 “Financial Instruments: Disclosures” (effective 1 January 2007);
- Amendments to IAS 1 regarding disclosure on the Company’s objectives, policies and processes for managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards in future periods.

5. NET INTEREST INCOME

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Interest income		
Interest on loans to customers, including:		
Groups	94,385	40,481
Individuals	13,062	6,365
Additional interest charged at loans disbursement	<u>6,635</u>	<u>3,459</u>
Total interest income	<u>114,082</u>	<u>50,305</u>
Interest expense		
Interest expenses on borrowed funds, including:		
Mercy Corps	5,586	1,935
Microvest I, L.P.	1,767	-
Frontiers, LLC	1,756	-
Promissory notes issued to Credit Suisse Microfinance Fund Management Company and Dual Return Fund S.A.	<u>788</u>	<u>-</u>
Total interest expense	<u>9,897</u>	<u>1,935</u>
Net interest income	<u><u>104,185</u></u>	<u><u>48,370</u></u>

6. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses were as follows:

	Loans to customers	Other assets
31 December 2004 (unaudited)	-	-
Provision (unaudited)	6,353	567
Write-off of assets (unaudited)	<u>(93)</u>	<u>-</u>
31 December 2005	6,260	567
Provision	5,184	170
Write-off of assets	(582)	(567)
Recovery of assets previously written-off	<u>20</u>	<u>-</u>
31 December 2006	<u><u>10,882</u></u>	<u><u>170</u></u>

7. FEE AND COMMISSION EXPENSE

Fee and commission expense represent commissions charged by banks for servicing the account and making cash transfers.

8. OTHER INCOME, NET

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Income from Mercy Corps for collection of loans	863	2,941
Fines and penalties received	403	481
Loss from disposal of fixed assets	(103)	(14)
Other	77	5
	<u>1,240</u>	<u>3,413</u>
Total other income, net		

9. OPERATING EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Salary and bonuses	34,208	23,024
Contributions to Social Fund of Kyrgyz Republic	7,221	5,197
Operating lease	6,062	4,092
Taxes, other than income tax	4,304	1,107
Professional services	3,363	2,040
Transportation costs	2,989	1,660
Depreciation and amortization	2,581	1,624
Business trip and representative expenses	2,474	2,544
Communications, mail and courier expenses	1,627	1,642
Stationery	1,308	1,036
Training of personnel	1,000	1,487
Expenses for non-performance of contractual obligations	851	-
Property and equipment maintenance	620	447
Security	432	283
Utilities	396	234
Charities and sponsorship	251	102
Advertising and subscription costs	189	344
Other expenses	2,293	1,255
	<u>72,169</u>	<u>48,118</u>
Total operating expenses		

10. INCOME TAXES

The Company provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Kyrgyz Republic which may differ from International Financial Reporting Standards. For the years ended 31 December 2006 and 2005 the income tax rate was 10% and 20%, respectively.

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 2006 and 2005 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 2006 and 2005 comprise:

	31 December 2006	31 December 2005
Deferred assets:		
Accrued audit services fee	2,196	-
Provision on bonuses to employees	766	399
Provision on vacation	163	835
Total deferred assets	<u>3,125</u>	<u>1,234</u>
Deferred liabilities:		
Property, equipment and intangible assets	<u>5,165</u>	<u>3,593</u>
Total deferred liabilities	<u>5,165</u>	<u>3,593</u>
Net deferred tax liabilities at the statutory rate (10%)	<u>2,040</u>	<u>2,359</u>
Net deferred tax liabilities	<u>204</u>	<u>236</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Profit/(loss) before income tax	<u>28,188</u>	<u>(4,030)</u>
Tax at the statutory tax rate	2,819	(806)
Tax effect of permanent differences	1,201	1,694
Effect of change in income tax rates	-	(250)
Income tax expense	<u>4,020</u>	<u>638</u>
Current income tax expense	4,052	540
(Recovery)/provision for deferred income tax	(32)	98
Income tax expense	<u>4,020</u>	<u>638</u>
	2006	2005
Deferred income tax liabilities		
Beginning of the year	236	138
(Decrease)/increase of deferred tax on income for the year stated in profit and loss	<u>(32)</u>	<u>98</u>
End of the year	<u>204</u>	<u>236</u>

Income tax liabilities comprise as follows:

	31 December 2006	31 December 2005
Current income tax liabilities	1,253	231
Deferred income tax liabilities	<u>204</u>	<u>236</u>
Income tax liabilities	<u>1,457</u>	<u>467</u>

11. CASH AND CASH EQUIVALENTS

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

	31 December 2006	31 December 2005
Cash on hand	380	677
Due from banks	<u>41,600</u>	<u>26,848</u>
Total cash and cash equivalents	<u><u>41,980</u></u>	<u><u>27,525</u></u>

12. DUE FROM BANKS

The Company's current bank accounts as at 31 December 2006 and 2005 comprise of the following:

	31 December 2006	31 December 2005
Demir Kyrgyz International Bank, CJSC	35,914	11,430
Settlement and Savings Company, OJSC	4,990	12,560
Kyrgyzpromstroibank, OJSC	695	2,782
Kazkommertsbank-Kyrgyzstan, OJSC	<u>1</u>	<u>76</u>
Total due from banks	<u><u>41,600</u></u>	<u><u>26,848</u></u>

13. LOANS TO CUSTOMERS

	31 December 2006	31 December 2005
Originated loans	271,891	156,953
Less allowance for impairment losses	<u>(10,882)</u>	<u>(6,260)</u>
Total loans to customers	<u><u>261,009</u></u>	<u><u>150,693</u></u>

As at 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to KGS 5,283 thousand and KGS 3,093 thousand, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

As at 31 December 2006 and 2005 the loans to customers comprised of the following products:

	31 December 2006	31 December 2005
Group loans	215,037	123,141
Individual loans	<u>56,854</u>	<u>33,812</u>
	271,891	156,953
Less allowance for impairment losses	<u>(10,882)</u>	<u>(6,260)</u>
Loans to customers	<u><u>261,009</u></u>	<u><u>150,693</u></u>

The peculiarity of crediting groups is issue of unsecured loans to a group of persons signing a joint responsibility agreement.

The Company issued loans to its customers for development of small business.

	31 December 2006	31 December 2005
Unsecured loans – group loans	214,602	122,675
Loans secured by various collateral – individual loans	52,403	34,278
Unsecured loans – individual loans	4,886	-
	<u>271,891</u>	<u>156,953</u>
Less allowance for impairment losses	(10,882)	(6,260)
Loans to customers	<u>261,009</u>	<u>150,693</u>
	31 December 2006	31 December 2005
Analysis by sector:		
Trade	196,560	121,330
Agriculture	46,836	18,694
Industry	15,309	9,589
Services	13,186	7,340
	<u>271,891</u>	<u>156,953</u>
Less allowance for impairment losses	(10,882)	(6,260)
Loans to customers	<u>261,009</u>	<u>150,693</u>

As at 31 December 2006 and 2005 all of the credit portfolio is granted to customers operating in the Kyrgyz Republic, which represents a significant geographical concentration in one region.

As at 31 December 2006 and 2005 loans to customers included non-accrual loans for total amount of 939 thousand KGS and 698 thousand KGS, respectively.

14. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Buildings	Capital investments in leased property	Furniture and office equipment	Computer equipment	Vehicles	Intangible assets	Total
At cost							
31 December 2004 (unaudited)	-	121	281	491	1,049	-	1,942
Additions	-	137	2,648	5,855	2,252	47	10,939
Transfers	-	-	22	(22)	-	-	-
Disposals	-	(253)	(15)	(3)	-	-	(271)
31 December 2005	-	5	2,936	6,321	3,301	47	12,610
Additions	1,129	36	1,844	1,676	2,015	-	6,700
Transfers	-	-	35	(35)	-	-	-
Disposals	-	(41)	(29)	(102)	-	-	(172)
31 December 2006	1,129	-	4,786	7,860	5,316	47	19,138
Accumulated depreciation and amortization							
31 December 2004 (unaudited)	-	10	5	8	9	-	32
Charge for the year	-	245	342	774	258	5	1,624
Eliminated at disposals	-	(253)	(1)	(3)	-	-	(257)
31 December 2005	-	2	346	779	267	5	1,399
Charge for the year	17	39	757	1,304	455	9	2,581
Eliminated at disposals	-	(41)	(7)	(21)	-	-	(69)
Transfers	-	-	(5)	5	-	-	-
31 December 2006	17	-	1,091	2,067	722	14	3,911
Net book value							
31 December 2006	1,112	-	3,695	5,793	4,594	33	15,227
31 December 2005	-	3	2,590	5,542	3,034	42	11,211

15. OTHER ASSETS

	31 December 2006	31 December 2005
Inventory	550	115
Prepayment for services	521	739
Tax prepayments	511	-
Prepayment for property and equipment	493	325
Customs	339	12
Due from Mercy Corps	37	278
Other	229	176
	<u>2,680</u>	<u>1,645</u>
Less allowance for impairment losses	(170)	(567)
Total other assets	<u>2,510</u>	<u>1,078</u>

16. BORROWED FUNDS

	31 December 2006	31 December 2005
Mercy Corps	197,356	179,843
Microvest I, L.P.	37,604	-
Frontiers, LLC	20,000	-
Promissory notes issued to Credit Suisse Microfinance Fund Management Company	13,710	-
Promissory notes issued to Dual Return Fund S.A.	13,674	-
	<u>282,344</u>	<u>179,843</u>

Borrowed funds as at 31 December 2006 and 2005 were provided to the Company on the following terms:

Borrower	Original currency	Amount in original currency	Maturity date	Interest rate	31 December 2006 (000*KGS)	31 December 2005 (000*KGS)
Mercy Corps	KGS	118,000,000	on demand	0.00% 8% + positive Foreign Exchange	118,000	118,000
Mercy Corps CAIP loan (from Mercy Corps)	KGS	77,000,000	31/10/2009	Variable	77,513	60,000
Microvest I, L.P.	KGS	1,842,854	12/04/2010	0.00%	1,843	1,843
Frontiers, LLC	USD	1,000,000	15/09/2009	11.75%	37,604	-
Frontiers, LLC	KGS	20,000,000	30/04/2008	15.50%	20,000	-
Promissory notes issued to Credit Suisse Microfinance Fund Management Company	USD	350,000	27/03/2008	9.50%	13,710	-
Promissory notes issued to Dual Return Fund S.A.	USD	350,000	27/09/2007	9.25%	13,674	-
Total borrowed funds					<u>282,344</u>	<u>179,843</u>

As at 31 December 2006 accrued interest expense is included in borrowed funds amounting to KGS 1,211. There were no accrued interest expense as at 31 December 2005.

As at 31 December 2006 deferred commission paid on receipt of loans and amortized during the life of the received loan using effective interest rate method is included in borrowed funds amounting to

KGS 520 thousand. There were no borrowed funds with deferred commission as at 31 December 2005.

As at 31 December 2006 the loan portfolio in amount of KGS 25,259 thousand was placed as a security for the loan received from "Frontiers", LLC. This loan was repaid before maturity on 8 January 2007 (Note 20). There were no pledged assets as at 31 December 2005.

17. OTHER LIABILITIES

	31 December 2006	31 December 2005
Accounts payable for professional services	2,196	-
Taxes payable, other than income tax	1,493	2,513
Salary and bonuses accrued	1,061	30
Provision for vacation and bonuses to employees	929	1,234
Accounts payable for non-performance of contractual obligations	851	-
Accounts payable for services and goods	778	445
Due to Mercy Corps	274	773
Other	46	73
	<hr/>	<hr/>
Total other liabilities	7,628	5,068
	<hr/> <hr/>	<hr/> <hr/>

18. SHARE CAPITAL

As at 31 December 2006 and 2005 the Company's paid authorized share capital was comprised of KGS 10,000 thousand и KGS 10,000 thousand respectively.

19. FINANCIAL COMMITMENTS AND CONTINGENCIES

Capital commitments – The Company had no capital commitments as at 31 December 2006.

Operating lease commitments – As at 31 December 2006 and 2005 the Company had no effective uncancellable operating lease agreement commitments.

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 losses may be incurred as a result of these proceedings and as at 31 December 2006 and 2005 the provision on impairment of other assets amounted to KGS 170 thousand and KGS 567 thousand, respectively. Besides, as a result of a court decision from 16 May 2007 as at 31 December 2006 liabilities for non-performance of contractual obligations were recognized in amount of KGS 851 thousand (Note 20).

Taxes – 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, loss and impairment provisions and the market level for the pricing of deals. The Company believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Kyrgyz Republic. As at 31 December 2006 and 2005, the Company was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Company’s principal business activities are within the Kyrgyz Republic. Laws and regulations affecting the business environment in the Kyrgyz Republic are subject to rapid changes and the Company’s assets and operations could be at risk due to negative changes in the political and business environment.

20. SUBSEQUENT EVENTS

On 8 January 2007 the Company repaid the loan from Frontiers, LLC in amount of KGS 20,000 thousand before maturity.

On 7 February 2007 Oikocredit, Ecumenical Development Co-operative Society, U.A. and the Company signed a Loan Agreement for the amount of USD 400,000 with an interest rate of 11% and a maturity of 15 August 2010. In accordance with the Agreement, the Company received the loan from Oikocredit, Ecumenical Development Co-operative Society, U.A. on 15 February 2007.

On 7 February 2007 Oikocredit, Ecumenical Development Co-operative Society, U.A. and the Company signed a Loan Agreement for the amount of USD 400,000 (denominated in KGS) with an interest rate of 10.25% and a maturity of 20 April 2008. In accordance with the Agreement, the Company received the loan from Oikocredit, Ecumenical Development Co-operative Society, U.A. on 20 April 2007.

On 7 March 2007 Dual Return Fund S.I.C.A.V. and the Company signed a Loan Agreement for the amount of USD 500,000 with an interest rate of 9.75% and a maturity of 21 March 2009. In accordance with the Agreement, the Company received the loan from Dual Return Fund S.I.C.A.V. on 22 March 2007.

On 7 March 2007 Finethic Microfinance, Societe en Commandite par Actions S.C.A. and the Company signed a Loan Agreement for the amount of USD 500,000 with an interest rate of 9.75% and a maturity of 21 March 2009. In accordance with the Agreement, the Company received the loan from Dual Return Fund S.I.C.A.V. on 22 March 2007.

On 3 and 14 May 2007 Settlement and Savings Company, JSC and the Company signed a Loan Agreements for the amount of KGS 9,300 thousand and KGS 11,000 thousand respectively, with interest rates of 15% and a maturity date in 6 months. In accordance with each Agreement, the Company placed the loan portfolio in amount of not less than twice the loan amount as a security for each loan.

On 16 May 2007 the Company lost a case in amount of KGS 1,418 thousand. As at 31 December 2005 a provision has been already accrued in amount of KGS 567 thousand and in 2006 additional liability for payment of the remaining amount of KGS 851 thousand was recognized (Note 19).

21. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company. (This includes holding companies, subsidiaries and fellow subsidiaries);
- b) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and officers of the Company (also non-executive directors and close members of the families of such individuals);
- c) Parties with joint control over the Company.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Company had the following transactions outstanding with related parties:

	31 December 2006		31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Borrowed funds	197,356	282,344	179,843	179,843
Other assets	37	2,510	278	1,078
Other liabilities	274	7,628	773	5,068

Included in the income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		Year ended 31 December 2005 (unaudited)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest expense	5,586	9,897	1,935	1,935
Operating expenses				
- remuneration to key management personnel	6,291	34,208	4,626	23,024
- contributions to Social Fund of Kyrgyz Republic	1,324	7,221	1,072	5,197
Other income	863	1,240	2,941	3,413

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. 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 fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Company is presented below:

	31 December 2006		31 December 2005	
	Current amount	Fair value	Current amount	Fair value
Cash	380	380	677	677
Due from banks	41,600	41,600	26,848	26,848
Borrowed funds	282,344	282,344	179,843	179,843

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

23. 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 those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Company's risk management policies in relation to those risks follows.

The Company manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to repay liabilities as they fall due and meeting the demand in cash in the processing 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 financial department, which supports current liquidity on sufficient level to minimize the liquidity risk.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

Due to specific nature of the micro-financial market the management of the Company believes that the Company does not run a significant interest rate risk and relevant cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Company for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Company.

	31 December 2006	31 December 2005
ASSETS:		
Loans to customers		
- Individual loans	29.63%	29.45%
- Group loans	59.53%	58.32%
LIABILITIES:		
Borrowed funds	5.77%	8.00%

The analysis of interest rate and liquidity risk on 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	Overdue	Maturity undefined	31 December 2006 Total
ASSETS:							
Loans to customers	62,856	85,644	107,656	4,513	340	-	261,009
Total interest bearing assets	62,856	85,644	107,656	4,513	340	-	261,009
Cash	380	-	-	-	-	-	380
Due from banks	41,600	-	-	-	-	-	41,600
Property, equipment and intangible assets	-	-	-	-	-	15,227	15,227
Other assets	835	1,205	470	-	-	-	2,510
TOTAL ASSETS	105,671	86,849	108,126	4,513	340	15,227	320,726
LIABILITIES:							
Borrowed funds	21,211	-	13,343	127,947	-	-	162,501
Total interest bearing liabilities	21,211	-	13,343	127,947	-	-	162,501
Borrowed funds	118,000	-	-	1,843	-	-	119,843
Income tax liabilities	-	1,253	-	-	-	204	1,457
Other liabilities	1,792	1,861	3,975	-	-	-	7,628
TOTAL LIABILITIES	141,003	3,114	17,318	129,790	-	204	291,429
Liquidity gap	(35,332)	83,735	90,808	(125,277)			
Interest sensitivity gap	41,645	85,644	94,313	(123,434)			
Cumulative interest sensitivity gap	41,645	127,289	221,602	98,168			
Cumulative interest sensitivity gap as a percentage of total assets	13%	40%	69%	31%			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Overdue	Maturity undefined	31 December 2005 Total
ASSETS:							
Loans to customers	38,656	54,334	56,123	1,259	321	-	150,693
Total interest bearing assets	38,656	54,334	56,123	1,259	321	-	150,693
Cash	677	-	-	-	-	-	677
Due from banks	26,848	-	-	-	-	-	26,848
Property, equipment and intangible assets	-	-	-	-	-	11,211	11,211
Other assets	412	497	160	-	-	9	1,078
TOTAL ASSETS	66,593	54,831	56,283	1,259	321	11,220	190,507
LIABILITIES:							
Borrowed funds	-	-	-	60,000	-	-	60,000
Total interest bearing liabilities	-	-	-	60,000	-	-	60,000
Borrowed funds	118,000	-	-	1,843	-	-	119,843
Income tax liabilities	231	-	-	-	-	236	467
Other liabilities	3,057	1,176	835	-	-	-	5,068
TOTAL LIABILITIES	121,288	1,176	835	61,843	-	236	185,378
Liquidity gap	(54,695)	53,655	55,448	(60,584)			
Interest sensitivity gap	38,656	54,334	56,123	(58,741)			
Cumulative interest sensitivity gap	38,656	92,990	149,113	90,372			
Cumulative interest sensitivity gap as a percentage of total assets	20%	49%	78%	47%			

As at 31 December 2006 and 2005 the Company had a loan from Mercy Corps in amount of KGS 118,000 thousand, respectively, which has no definite maturity date (Note 16).

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 is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

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

	KGS	USD USD 1 = KGS 38.1238	31 December 2006 Total
ASSETS:			
Cash	380	-	380
Due from banks	34,992	6,608	41,600
Loans to customers	261,009		261,009
Property, equipment and intangible assets	15,227	-	15,227
Other assets	2,510	-	2,510
TOTAL ASSETS	314,118	6,608	320,726
LIABILITIES:			
Borrowed funds	217,356	64,988	282,344
Income tax liabilities	1,457	-	1,457
Other liabilities	7,063	565	7,628
TOTAL LIABILITIES	225,876	65,553	291,429
NET BALANCE SHEET POSITION	88,242	(58,945)	

	KGS	USD USD 1 = KGS 41.3011	31 December 2005 Total
ASSETS:			
Cash	677		677
Due from banks	26,772	76	26,848
Loans to customers	150,693	-	150,693
Property, equipment and intangible assets	11,211	-	11,211
Other assets	1,078	-	1,078
TOTAL ASSETS	190,431	76	190,507
LIABILITIES:			
Borrowed funds	179,843	-	179,843
Income tax liabilities	467	-	467
Other liabilities	5,068	-	5,068
TOTAL LIABILITIES	185,378	-	185,378
NET BALANCE SHEET POSITION	5,053	76	

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Company is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Company manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Company is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Company manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in fair value interest rates and its influence on the Company's profitability.

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 Management. Daily risk management is performed by the Credit Department.

The Company structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product are approved by the Management.

Where appropriate, and in the case of most loans, the Company obtains 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.

Geographical concentration

The finance and legal departments exercise control over the risk in the legislation and regulatory arena and assesses 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 set out below:

	Kyrgyz Republic	OECD countries	31 December 2006 Total
ASSETS:			
Cash	380	-	380
Due from banks	41,600	-	41,600
Loans to customers	261,009	-	261,009
Property, equipment and intangible assets	15,227	-	15,227
Other assets	2,510	-	2,510
TOTAL ASSETS	320,726	-	320,726
LIABILITIES:			
Borrowed funds	21,843	260,501	282,344
Income tax liabilities	1,457	-	1,457
Other liabilities	7,628	-	7,628
TOTAL LIABILITIES	30,928	260,501	291,429
NET POSITION	289,798	(260,501)	

	Kyrgyz Republic	OECD countries	31 December 2005 Total
ASSETS:			
Cash	677		677
Due from banks	26,848	-	26,848
Loans to customers	150,693	-	150,693
Property, equipment and intangible assets	11,211	-	11,211
Other assets	1,078	-	1,078
TOTAL ASSETS	<u>190,507</u>	<u>-</u>	<u>190,507</u>
LIABILITIES:			
Borrowed funds	1,843	178,000	179,843
Income tax liabilities	467	-	467
Other liabilities	5,068	-	5,068
TOTAL LIABILITIES	<u>7,378</u>	<u>178,000</u>	<u>185,378</u>
NET POSITION	<u>183,129</u>	<u>(178,000)</u>	