

“Kompanion Financial Group”

Micro-credit Limited Liability
Company

Financial Statements

For the year ended 31 December 2007

and Independent Auditors' Report

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

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS	1
INDEPENDENT AUDITORS’ REPORT	2-3
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007:	
Income Statement	4
Balance sheet	5
Statement of changes in equity	6
Statement of cash flows	7-8
Notes to the financial statements	9-33

“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 2007

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditor’s 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 “Kompanion Financial Group” Micro-credit Limited Liability Company (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 2007, 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 2007 were authorized for issue on 31 March 2008 by the Management of the Company.

On behalf of the Management:



Kubanychbek Abdraimov
Chief Executive Officer

31 March 2008

Bishkek,
Kyrgyz Republic



Ulanbek Akimkanov
Chief Accountant

31 March 2008

Bishkek,
Kyrgyz Republic

INDEPENDENT AUDITORS' REPORT

To the Owner and Board of Directors of "Kompanion Financial Group" Micro-credit Limited Liability Company

We have audited the accompanying financial statements "Kompanion Financial Group" Micro-credit Limited Liability Company (hereinafter – "Company"), which comprise the balance sheet as at 31 December 2007, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except for the scope limitation described below, 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 2007, 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

31 March 2008

“KOMPANION FINANCIAL GROUP” MICRO-CREDIT LIMITED LIABILITY COMPANY

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(in thousand Kyrgyz Som)**

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	5	256,225	114,082
Interest expense	5, 21	<u>(44,411)</u>	<u>(9,897)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		211,814	104,185
Provision for impairment losses on interest bearing assets	6	<u>(21,442)</u>	<u>(5,184)</u>
NET INTEREST INCOME		<u>190,372</u>	<u>99,001</u>
Net gain on translation differences		9,781	1,127
Fee and commission expense	7	(2,657)	(841)
Other income, net	8, 21	<u>524</u>	<u>1,240</u>
NET NON-INTEREST INCOME		<u>7,648</u>	<u>1,526</u>
OPERATING INCOME		198,020	100,527
OPERATING EXPENSES	9, 21	<u>(128,932)</u>	<u>(72,169)</u>
OPERATING PROFIT		69,088	28,358
Provision for impairment losses on other assets	6	<u>(142)</u>	<u>(170)</u>
PROFIT BEFORE INCOME TAX		68,946	28,188
Income tax expense	10	<u>(10,393)</u>	<u>(4,020)</u>
NET PROFIT		<u><u>58,553</u></u>	<u><u>24,168</u></u>

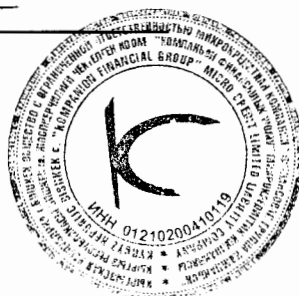
On behalf of the Management:



Kubanychbek Abdraimov
Chief Executive Officer

31 March 2008

Bishkek,
Kyrgyz Republic





Ulanbek Akimkanov
Chief Accountant

31 March 2008

Bishkek,
Kyrgyz Republic

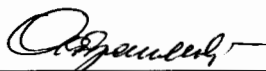
The notes on pages 9-33 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2-3.

"KOMPANION FINANCIAL GROUP" MICRO-CREDIT LIMITED LIABILITY COMPANY

**BALANCE SHEET
AS AT 31 DECEMBER 2007
(in thousand Kyrgyz Som)**

	Notes	31 December 2007	31 December 2006
ASSETS:			
Cash	11	4,026	380
Due from banks	12	131,231	41,600
Loans to customers	13	736,552	261,009
Property and equipment	14	47,761	15,227
Other assets	15, 21	9,555	2,510
TOTAL ASSETS		929,125	320,726
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and financial institutions	16, 21	631,818	282,344
Income tax liabilities	10	3,007	1,457
Other liabilities	17, 21	11,747	7,628
Total liabilities		646,572	291,429
EQUITY:			
Share capital	18	224,000	10,000
Retained earnings		58,553	19,297
Total equity		282,553	29,297
TOTAL LIABILITIES AND EQUITY		929,125	320,726

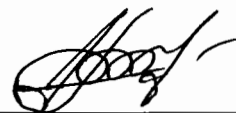
On behalf of the Management:



Kubanychbek Abdaimov
Chief Executive Officer

31 March 2008

Bishkek,
Kyrgyz Republic

Ulanbek Akimkanov
Chief Accountant

31 March 2008

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 2007
(in thousand Kyrgyz Som)**

	Notes	Share capital	Retained Earnings/(Accumulated Deficit)	Total equity
31 December 2005 (unaudited)		10,000	(4,871)	5,129
Net profit		-	24,168	24,168
31 December 2006		10,000	19,297	29,297
Share capital increase		196,843	-	196,843
Transfer of dividends to share capital		17,157	(17,157)	-
Dividends paid		-	(2,140)	(2,140)
Net profit		-	58,553	58,553
31 December 2007	18	224,000	58,553	282,553

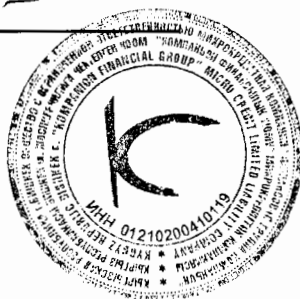
On behalf of the Management:



Kubanychbek Abdaimov
Chief Executive Officer

31 March 2008

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

31 March 2008

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Kyrgyz Republic

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“KOMPANION FINANCIAL GROUP” MICRO-CREDIT LIMITED LIABILITY COMPANY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007
(in thousand Kyrgyz Som)**

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		68,946	28,188
Adjustments for:			
Provision for impairment losses on interest bearing assets	6	21,442	5,184
Provision for impairment losses on other assets	6	142	170
Unrealized (gain)/loss on foreign exchange operations		(12,624)	5,985
Amortization of fixed assets	14	3,976	2,581
Loss on disposal of fixed assets	8	271	103
Net change in accrued interest income and expense		(925)	(962)
Cash flows from operating activities before changes in operating assets and liabilities		<u>81,228</u>	<u>41,249</u>
Changes in operating assets and liabilities			
Increase in operating assets:			
Due from banks		(43,590)	-
Loans to customers		(489,192)	(113,310)
Other assets		(3,806)	(1,109)
Increase in operating liabilities			
Due to banks and financial institutions		371,804	97,822
Other liabilities		<u>4,119</u>	<u>2,529</u>
Cash (outflow)/inflow from operating activities before taxation		(79,437)	27,181
Income tax paid		<u>(8,843)</u>	<u>(3,030)</u>
Net cash (outflow)/inflow from operating activities		<u>(88,280)</u>	<u>24,151</u>

“KOMPANION FINANCIAL GROUP” MICRO-CREDIT LIMITED LIABILITY COMPANY

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007
(in thousand Kyrgyz Som)**

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchase of property and equipment	14	(37,166)	(6,700)
Proceeds on sale of property, plant and equipment		385	-
Prepayment for property and equipment		(3,239)	(493)
Net outflow of cash from investment activities		(40,020)	(7,193)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in share capital		196,843	-
Dividends paid		(2,140)	-
Net cash inflow from financing activities		194,703	-
Effect of changes in foreign exchange rate on cash and cash equivalents		(16,716)	(2,503)
NET INCREASE IN CASH AND CASH EQUIVALENTS		49,687	14,455
CASH AND CASH EQUIVALENTS, at the beginning of the year	11	41,980	27,525
CASH AND CASH EQUIVALENTS, at the end of the year	11	91,667	41,980

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.

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.

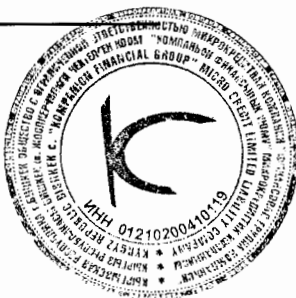
On behalf of the Management:



Kubanychbek Abdraimov
Chief Executive Officer

31 March 2008

Bishkek,
Kyrgyz Republic




Ulanbek Akimkanov
Chief Accountant

31 March 2008

Bishkek,
Kyrgyz Republic

The notes on pages 9-33 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2-3.

“KOMPANION FINANCIAL GROUP” MICRO-CREDIT LIMITED LIABILITY COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(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 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 #21732-3300-000, and re-registered on 13 December 2007. The main activities of the Company is granting micro-credits to legal and physical entities.

The Company is registered and located on the following address: Togolok Moldo 10, Bishkek, Kyrgyz Republic.

The Company's operations are administered in the Head Office, which is located in Bishkek and as at 31 December 2007 the Company had 10 branches on the territory of the Kyrgyz Republic.

As at 31 December 2007 and 2006 number of employees of the Company was equal to 503 and 249, 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 31 March 2008.

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.

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 with original maturities within 90 days, which may be converted to cash within a short period of time.

Due from banks

In the normal course of business, the Company maintains cash at current accounts and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment losses.

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 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 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.

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	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.

Dividends 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 International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

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 origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan.

All other commissions are recognized when 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 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 2007	31 December 2006
KGS/USD	35.4988	38.1238

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.

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

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. The Company considers accounting estimates related to allowance for impairment of loans 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 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 behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Company uses management's judgment to adjust observable data for a group 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 conditions will take place in the Kyrgyz Republic and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Adoption of new 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 reporting periods beginning on 1 January 2007. 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 except for the effect of application of IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7").

IFRS 7 is effective for the annual period beginning on or after 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. Adoption of IFRS 7 did not affect the classification and measurement of Company's financial instruments in the financial statements. Additional information was disclosed in the

financials statements for the current and comparative reporting periods as required by IFRS 7.

5. NET INTEREST INCOME

	Year ended 31 December 2007	Year ended 31 December 2006
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
- interest income on impaired assets	224,910	99,943
- interest income on unimpaired assets	<u>31,315</u>	<u>14,139</u>
Total interest income	<u>256,225</u>	<u>114,082</u>
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers, including:		
Group	220,389	101,020
Individual	32,398	13,062
Interest on due from banks	<u>3,438</u>	<u>-</u>
Total interest income on financial assets recorded at amortized cost	<u>256,225</u>	<u>114,082</u>
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost comprise:		
Interest expenses on due to financial institutions	31,334	9,897
Interest on due to banks	<u>13,077</u>	<u>-</u>
Total interest expense on financial assets recorded at amortized cost	<u>44,411</u>	<u>9,897</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>211,814</u>	<u>104,185</u>

6. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses were as follows:

	Other assets	Loans to customers
31 December 2005	567	6,260
Provision	170	5,184
Write-off of assets	(567)	(582)
Recovery of assets previously written-off	<u>-</u>	<u>20</u>
31 December 2006	<u>170</u>	<u>10,882</u>
Provision	142	21,442
Write-off of assets	(170)	(1,333)
Recovery of assets previously written-off	<u>-</u>	<u>12</u>
31 December 2007	<u>142</u>	<u>31,003</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 2007	Year ended 31 December 2006
Project compensations	485	634
Fines and penalties received	260	403
Income from Mercy Corps for collection of loans	-	229
Loss from disposal of fixed assets	(271)	(103)
Other	50	77
	<hr/>	<hr/>
Total other income	524	1,240

9. OPERATING EXPENSES

	Year ended 31 December 2007	Year ended 31 December 2006
Salary and bonuses	64,742	34,208
Contributions to Social Fund of Kyrgyz Republic	12,869	7,221
Transportation costs	8,452	2,989
Operating lease	9,061	6,062
Taxes, other than income tax	5,347	4,304
Business trip and representative expenses	4,036	2,474
Depreciation and amortization	3,976	2,581
Professional services	3,164	3,363
Communications, mail and courier expenses	3,095	1,627
Training of personnel	1,924	1,000
Stationery	1,730	1,308
Security	1,430	432
Advertising and subscription costs	1,335	189
Charities and sponsorship	651	251
Utilities	606	396
Property and equipment maintenance	530	620
Expenses for non-performance of contractual obligations	65	851
Other expenses	5,919	2,293
	<hr/>	<hr/>
Total operating expenses	128,932	72,169

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 2007 and 2006 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 2007 and 2006 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 2007 and 2006 comprise:

	31 December 2007	31 December 2006
Deferred assets:		
Provision on vacation	2,308	163
Provision on bonuses to employees	2,067	766
Accrued audit services fee	1,960	2,196
Other provisions	142	-
	<u>6,477</u>	<u>3,125</u>
Total deferred assets		
	<u>6,477</u>	<u>3,125</u>
Deferred liabilities:		
Property, equipment and intangible assets	13,236	5,165
	<u>13,236</u>	<u>5,165</u>
Total deferred liabilities		
	<u>13,236</u>	<u>5,165</u>
Net deferred tax liabilities at the statutory rate (10%)	6,759	2,040
	<u>6,759</u>	<u>2,040</u>
Net deferred tax liabilities	<u>676</u>	<u>204</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2007 and 2006 are explained as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	<u>68,946</u>	<u>28,188</u>
Tax at the statutory tax rate	6,895	2,819
Tax effect of permanent differences	3,498	1,201
	<u>10,393</u>	<u>4,020</u>
Income tax expense		
	<u>10,393</u>	<u>4,020</u>
Current income tax expense	9,921	4,052
Provision/(recovery) for deferred income tax	472	(32)
	<u>10,393</u>	<u>4,020</u>
Income tax expense		
	<u>10,393</u>	<u>4,020</u>
	2007	2006
Deferred income tax liabilities		
Beginning of the year	204	236
Increase/(decrease) of deferred tax on income for the year	472	(32)
	<u>676</u>	<u>204</u>
End of the year		
	<u>676</u>	<u>204</u>

Income tax liabilities comprise as follows:

	31 December 2007	31 December 2006
Current income tax liabilities	2,331	1,253
Deferred income tax liabilities	676	204
	<u>3,007</u>	<u>1,457</u>
Income tax liabilities		
	<u>3,007</u>	<u>1,457</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 2007	31 December 2006
Cash on hand	4,026	380
Due from banks (within three month of maturity)	87,641	41,600
Total cash and cash equivalents	91,667	41,980

12. DUE FROM BANKS

	31 December 2007	31 December 2006
Demir Kyrgyz International Bank, CJSC	99,462	35,914
Kyrgyz Investment Credit Bank, CJSC	22,309	-
Settlement and Savings Company, OJSC	7,838	4,990
Kyrgyzpromstroibank, OJSC	1,550	695
Kazkommertsbank-Kyrgyzstan, OJSC	72	1
Total due from banks	131,231	41,600

Included in due from banks is accrued interest in the amount of KGS 411 thousand as at 31 December 2007 (Nil as at 31 December 2006).

As at 31 December 2007 and 2006 the Company had due from one bank, which individually exceeded 10% of the Company's equity.

As at 31 December 2007 and 2006 the maximum credit risk exposure on due from one bank amounted to KGS 99,462 thousand and KGS 35,914 thousand, respectively, which represents significant concentration.

13. LOANS TO CUSTOMERS

	31 December 2007	31 December 2006
Originated loans	767,555	271,891
Less allowance for impairment losses	(31,003)	(10,882)
Total loans to customers	736,552	261,009

As at 31 December 2007 and 2006 accrued interest income included in loans to customers amounted to KGS 13,076 thousand and KGS 5,283 thousand, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

As at 31 December 2007 and 2006 the loans to customers comprised of the following products:

	31 December 2007	31 December 2006
Group loans	619,927	215,037
Individual loans	<u>147,628</u>	<u>56,854</u>
	767,555	271,891
Less allowance for impairment losses	<u>(31,003)</u>	<u>(10,882)</u>
Loans to customers	<u><u>736,552</u></u>	<u><u>261,009</u></u>

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

	31 December 2007	31 December 2006
Unsecured loans – group loans	619,927	214,602
Loans secured by various collateral – individual loans	139,121	52,403
Unsecured loans – individual loans	<u>8,507</u>	<u>4,886</u>
	767,555	271,891
Less allowance for impairment losses	<u>(31,003)</u>	<u>(10,882)</u>
Loans to customers	<u><u>736,552</u></u>	<u><u>261,009</u></u>

	31 December 2007	31 December 2006
Analysis by sector:		
Trade	432,602	196,560
Agriculture	249,034	46,836
Industry	44,862	15,309
Services	<u>41,057</u>	<u>13,186</u>
	767,555	271,891
Less allowance for impairment losses	<u>(31,003)</u>	<u>(10,882)</u>
Loans to customers	<u><u>736,552</u></u>	<u><u>261,009</u></u>

As at 31 December 2007 and 2006 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 2007 there were no non-accrual loans (2006 - KGS 939 thousand).

14. PROPERTY AND EQUIPMENT

	Buildings	Capital investments in leased property	Furniture and office equipment	Computer equipment	Vehicles	Intangible assets	CIP	Total
At cost								
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
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
Accumulated depreciation and amortization								
31 December 2005	-	2	346	779	267	5	-	1,399
Charge for the year	17	39	757	1,304	455	9	-	2,581
Transfers	-	-	(5)	5	-	-	-	-
Eliminated at disposals	-	(41)	(7)	(21)	-	-	-	(69)
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
Net book value								
31 December 2007	23,436	27	4,320	5,751	10,195	1,316	2,716	47,761
31 December 2006	1,112	-	3,695	5,793	4,594	33	-	15,227

15. OTHER ASSETS

	31 December 2007	31 December 2006
Inventory	3,022	550
Prepayment for services	865	521
Tax prepayments	1,866	511
Prepayment for property and equipment	3,239	493
Customs	129	339
Due from Mercy Corps	-	37
Other	576	229
	9,697	2,680
Less allowance for impairment losses	(142)	(170)
Total other assets	9,555	2,510

16. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31 December 2007	31 December 2006
Promissory notes issued to Deutsche Bank	215,419	-
Promissory notes issued to Oikocredit	73,809	-
Promissory notes issued to Symbiotics	72,382	-
Microvest I, L.P.	70,342	37,604
Promissory notes issued to Dual Return Fund S.A.	54,166	13,674
Promissory notes issued to Credit Suisse Microfinance Fund Management Company	48,292	13,710
Loans from Demir Kyrgyz International Bank, CJSC	43,590	-
Promissory notes issued to European Bank for Reconstruction and Development	35,583	-
Promissory notes issued to Finethic Microfinance	18,235	-
Mercy Corps	-	197,356
Frontiers MCC, LLC	-	20,000
Total due to banks and financial institutions	631,818	282,344

Due to banks and financial institutions as at 31 December 2007 and 2006 were provided to the Company on the following terms:

Borrower	Original currency	Amount in original currency	Maturity date	Interest Rate	31 December 2007 (000'KGS)	31 December 2006 (000'KGS)
Promissory notes issued to Deutsche Bank	USD	6,071,120	30/11/2014	10.50%	215,419	-
Microvest I, L.P.	USD	1,000,000	15/09/2009	11.75%	35,203	37,604
Microvest I, L.P.	USD	1,000,000	30/06/2010	10.50%	35,139	-
Promissory notes issued to Oikocredit	USD	400,000	07/08/2010	11.00%	14,795	-
Promissory notes issued to Oikocredit	USD	36,723,947	19/04/2009	9.75%+NBK R rate, not less 10.50%	15,562	-
Promissory notes issued to Oikocredit	USD	15,219,984	07/09/2009	9.75%+NBK R rate, not less 10.50%	21,528	-
Promissory notes issued to Oikocredit	USD	600,000	13/09/2011	10.50%	21,924	-
Promissory notes issued to Symbiotics	USD	1,000,000	25/06/2009	9.75%	36,701	-
Promissory notes issued to Symbiotics	USD	1,000,000	12/12/2009	9.75%	35,681	-
Promissory notes issued to Dual Return Fund S.A.	USD	350,000	27/09/2007	9.25%	-	13,674
Promissory notes issued to Dual Return Fund S.A.	USD	500,000	21/03/2009	9.75%	18,235	-
Promissory notes issued to Dual Return Fund S.A.	USD	1,000,000	16/05/2009	9.75%	35,931	-
Promissory notes issued to Credit Suisse Microfinance Fund Management Company	USD	350,000	27/03/2008	9.50%	12,736	13,710
Promissory notes issued to Credit Suisse Microfinance Fund Management Company	USD	500,000	26/06/2009	9.75%	17,778	-
Promissory notes issued to Credit Suisse Microfinance Fund Management Company	USD	1,000,000	28/08/2009	9.75%	17,778	-
Promissory notes issued to European Bank for Reconstruction and Development	USD	1,000,000	24/08/2009	5.75%+ forward % for future date	35,583	-
Promissory notes issued to Finethic Microfinance	USD	500,000	21/03/2009	9.75%	18,235	-
Loan from Demir Kyrgyz International Bank, CJSC	KGS	15,000	20/08/2008	8.00%	15,000	-
Loan from Demir Kyrgyz International Bank, CJSC	KGS	4,690	26/08/2008	8.00%	4,690	-
Loan from Demir Kyrgyz International Bank, CJSC	KGS	23,900	04/12/2008	8.00%	23,900	-
Mercy Corps	KGS	118,000,000	on demand	0.00%	-	118,000
Mercy Corps	KGS	77,000,000	31/10/2009	8% + positive Foreign Exchange Variable	-	77,513
CAIP loan (from Mercy Corps)	KGS	1,842,854	12/04/2010	0.00%	-	1,843
Frontiers MCC, LLC	KGS	20,000,000	30/04/2008	15.50%	-	20,000
Total due to banks and financial institutions					<u>631,818</u>	<u>282,344</u>

As at 31 December 2007 and 2006 accrued interest expense is included in due to banks and financial institutions amounting to KGS 7,279 thousand and KGS 1,211 thousand, respectively.

As at 31 December 2007 and 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 due to banks and financial institutions amounting to KGS 3,766 thousand and KGS 520 thousand, respectively.

17. OTHER LIABILITIES

	31 December 2007	31 December 2006
Financial liabilities		
Provision for vacation and bonuses to employees	4,375	929
Accounts payable for professional services	1,960	2,196
Accounts payable for services and goods	723	778
Salary and bonuses accrued	51	1,061
Accounts payable for non-performance of contractual obligations	-	851
Due to Mercy Corps	-	274
	<u>7,109</u>	<u>6,089</u>
Non-financial liabilities		
Taxes payable, other than income tax	3,806	1,493
Other	832	46
	<u>4,638</u>	<u>1,539</u>
Total other liabilities	<u><u>11,747</u></u>	<u><u>7,628</u></u>

18. SHARE CAPITAL

As at 31 December 2007 and 2006 the Company's paid authorized share capital was comprised of KGS 224,000 thousand and KGS 10,000 thousand respectively.

During 2007 the Company declared and paid dividends for 2006 in the amounts of KGS 19,297 thousand, KGS 17,157 thousand of which were directed on share capital increase.

19. FINANCIAL COMMITMENTS AND CONTINGENCIES

Capital commitments – The Company had no capital commitments as at 31 December 2007.

Operating lease commitments – As at 31 December 2007 and 2006 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 no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

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 2007 and 2006, 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 17 January 2008 Oikocredit Ecumenical Development Co-operative Society, U.A. and the Company signed a Loan Agreement for the amount of KGS 26,793 thousand in USD equivalent of 750 thousand with variable rate of 4.75% plus NBKR rate, and a maturity of 17 January 2010.

On 17 January 2008 CJSC Manas Bank and the Company signed a Loan Agreement for the amount of KGS 35,000 thousand with the interest rate of 3.5% with the maturity date of 17 July, 2008. The loan is collateralized by the deposit in CJSC Manas Bank in amount of KGS 1,000 thousand.

On 30 January 2008, the Company transferred KGS 41,000 thousand to capital and accrued dividends in amount of KGS 11,850 thousand from prior year retained earnings in accordance with the decision of Shareholders as of 29 January 2008.

On 26 February 2008, Credit Suisse Microfinance Fund and the Company signed a Loan agreement for the amount of USD 1,000 thousand with the interest rate of 9.75% and the maturity date of 25 February 2010. Per loan agreement, the loan is uncollateralized.

On 12 March 2008, OJSC Settlement and Savings Company and the Company entered into Swap agreement where the Company received KGS 18,200 thousand in exchange of USD 500 thousand. The agreement has an interest rate of 3% and completion date of 12 March 2009.

On 28 March 2008, OJSC Settlement and Savings Company and the Company entered into Swap agreement for the amount of KGS 13,497 thousand for USD 370 thousand with the interest rate of 3% and completion date of 27 March 2009.

On 25 March 2008, Global Commercial Microfinance Consortium and the Company signed a Loan agreement for the amount of USD 750 thousand with the interest rate of 5% plus LIBOR rate, and the maturity date of 1 November 2010. The loan is uncollateralized.

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 2007		31 December 2006	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Due to banks and financial institutions	-	631,818	197,356	282,344
Other assets	-	9,555	37	2,510
Other liabilities	37	11,747	274	7,628

Included in the income statement for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest expense	5,282	44,411	5,586	9,897
Operating expenses				
- remuneration to key management personnel	8,677	64,742	6,291	34,208
- contributions to Social Fund of Kyrgyz Republic	1,779	12,869	1,324	7,221
- specialist services	552	3,164	-	3,363
Other income	485	524	863	1,240

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 2007		31 December 2006	
	Current amount	Fair value	Current amount	Fair value
Cash	4,026	4,026	380	380
Due from banks	131,231	131,231	41,600	41,600
Due to banks and financial institutions	631,818	631,818	282,344	282,344

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.

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

Interest rates charged on due from banks closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

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 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 risks in the following manner:

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 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 Board of Directors. 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.

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 is equal to the carrying amount value of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets and 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 2007				
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	237,460	(106,229)	131,231	-	131,231
Loans to customers	767,555	-	767,555	139,121	628,434

	31 December 2006				
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	41,600	-	41,600	-	41,600
Loans to customers	271,891	-	271,891	52,403	219,488

The following table details the credit ratings of financial assets held by the Company as at 31 December 2007:

	AAA	AA3	A2	Not rated	31 December 2007 Total
Due from banks	-	-	-	131,231	131,231
Loans to customers	-	-	-	736,552	736,552

	AAA	AA3	A2	Not rated	31 December 2006 Total
Due from banks	-	-	-	41,600	41,600
Loans to customers	-	-	-	261,009	261,009

The banking industry is generally exposed to credit risk through its financial assets and loans to customers. With regard to the loans to customers this Credit risk exposure of the Company is concentrated within the Kyrgyzstan 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.

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 2007 Total
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	-	Total
Due from banks	131,231	-	-	-	-	-	131,231
Loans to customers	734,330	660	-	-	-	1,562	736,552

	Financial assets past due and unimpaired					Financial assets that have been impaired	31 December
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year		2006
Due from banks	41,600	-	-	-	-	-	41,600
Loans to customers	259,024	964	-	215	-	806	261,009

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 2007 Total
FINANCIAL ASSETS:			
Cash	4,026	-	4,026
Due from banks	131,231	-	131,231
Loans to customers	736,552	-	736,552
TOTAL FINANCIAL ASSETS	871,809	-	871,809
FINANCIAL LIABILITIES:			
Due to banks and financial institutions	-	631,818	631,818
Other financial liabilities	7,109	-	7,109
TOTAL FINANCIAL LIABILITIES	7,109	631,818	638,927
NET POSITION	864,700	(631,818)	
	Kyrgyz Republic	OECD countries	31 December 2006 Total
FINANCIAL ASSETS:			
Cash	380	-	380
Due from banks	41,600	-	41,600
Loans to customers	261,009	-	261,009
TOTAL FINANCIAL ASSETS	302,989	-	302,989
FINANCIAL LIABILITIES:			
Due to banks and financial institutions	21,843	260,501	282,344
Other financial liabilities	6,089	-	6,089
TOTAL FINANCIAL LIABILITIES	27,932	260,501	288,433
NET POSITION	275,057	(260,501)	

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.

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	Over 5 years	Overdue	31 December 2007 Total
FINANCIAL ASSETS:							
Loans to customers	27,157	73,771	550,365	85,256	-	3	736,552
Total interest bearing assets	27,157	73,771	550,365	85,256	-	3	736,552
Cash	4,026	-	-	-	-	-	4,026
Due from banks	87,641	-	43,590	-	-	-	131,231
TOTAL FINANCIAL ASSETS	118,824	73,771	593,955	85,256	-	3	871,809
FINANCIAL LIABILITIES:							
Due to banks and financial institutions	-	13,890	175,200	229,258	213,470	-	631,818
Total interest bearing liabilities	-	13,890	175,200	229,258	213,470	-	631,818
Other financial liabilities	7,109	-	-	-	-	-	7,109
TOTAL FINANCIAL LIABILITIES	7,109	13,890	175,200	229,258	213,470	-	638,927
Liquidity gap	111,715	59,881	418,755	(144,002)	(213,470)		
Interest sensitivity gap	27,157	59,881	375,165	(144,002)	(213,470)		
Cumulative interest sensitivity gap	27,157	87,038	462,203	318,201	104,731		
Cumulative interest sensitivity gap as a percentage of total assets	3%	9%	50%	34%	11%		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Overdue	31 December 2006 Total
FINANCIAL 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
TOTAL FINANCIAL ASSETS	104,836	85,644	107,656	4,513	340	302,989
FINANCIAL LIABILITIES:						
Due to banks and financial institutions	21,211	-	13,343	127,947	-	162,501
Total interest bearing liabilities	21,211	-	13,343	127,947	-	162,501
Due to banks and financial institutions	118,000	-	-	1,843	-	119,843
Other financial liabilities	863	1,861	3,365	-	-	6,089
TOTAL FINANCIAL LIABILITIES	140,074	1,861	16,708	129,790	-	288,433
Liquidity gap	(35,238)	83,783	90,948	(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%		

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.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the 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.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Company's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above. Interest rate risk is managed by increasing or decreasing positions within limits specified by the Company's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities. The Company's interest rate policy is reviewed and approved by the Company's Management.

	31 December 2007	31 December 2006
FINANCIAL ASSETS:		
Due from banks	5%	-
Loans to customers		
- Individual loans	29.02%	29.63%
- Group loans	60.96%	59.53%
FINANCIAL LIABILITIES:		
Due to banks and financial institutions	12.46%	5.77%

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 2007.

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 Department also manages 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.

The small part of the Company's loan contracts and other financial liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Company monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity risk

The Company manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Planning and Analysis Department 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.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	As at 31 December 2007		As at 31 December 2006	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Liabilities:				
Due to banks and financial institutions	727	(727)	775	(775)
Net impact on profit before tax	727	(727)	775	(775)

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 35.4988	31 December 2007 Total
FINANCIAL ASSETS:			
Cash	4,026	-	4,026
Due from banks	53,868	77,363	131,231
Loans to customers	736,552	-	736,552
TOTAL FINANCIAL ASSETS	794,446	77,363	871,809
FINANCIAL LIABILITIES:			
Due to banks and financial institutions	81,076	550,742	631,818
Other financial liabilities	7,109	-	7,109
TOTAL FINANCIAL LIABILITIES	88,185	550,742	638,927
NET BALANCE SHEET POSITION	706,261	(473,379)	
	KGS	USD USD 1 = KGS 38.1238	31 December 2006 Total
FINANCIAL ASSETS:			
Cash	380	-	380
Due from banks	34,992	6,608	41,600
Loans to customers	261,009	-	261,009
TOTAL FINANCIAL ASSETS	296,381	6,608	302,989
FINANCIAL LIABILITIES:			
Due to banks and financial institutions	217,356	64,988	282,344
Other financial liabilities	5,524	565	6,089
TOTAL FINANCIAL LIABILITIES	222,880	65,553	288,433
NET BALANCE SHEET POSITION	73,501	(58,945)	

Currency risk Sensitivity

The following table details the Company's Sensitivity to a 10% increase and decrease in the foreign currency against the som. 10% 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% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans issued within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at 31 December 2007	
	KGS/USD	
		35,4988
	10%	(10)%
Impact on profit and loss	(47,338)	47,338

	As at 31 December 2006	
	KGS/USD	
		38,1238
	10%	(10)%
Impact on profit and loss	(5,894)	5,894

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 the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the 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.

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.