UniCredit Bank OJSC

Financial Statements

for the year ended 31 December 2012

Contents

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Independent Auditors' Report

To the Board of Directors of UniCredit Bank OJSC

We have audited the accompanying financial statements of UniCredit Bank OJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Bishkek LLC

KPMG Bishkek LLC

20 February 2013

	Note	2012 KGS'000	2011 KGS'000
Interest income	4	1,378,918	1,215,628
Interest expense	4	(388,969)	(264,465)
Net interest income		**989,949**	**951,163**
Fee and commission income	5	241,413	219,304
Fee and commission expense	6	(59,168)	(43,385)
Net fee and commission income		**182,245**	**175,919**
Net foreign exchange income	7	106,960	90,707
Other operating income/(expense)		2,747	(1,002)
Operating income		**1,281,901**	**1,216,787**
Recovery of /(charge for) impairment losses	8	62,432	(154,845)
Personnel expenses	9	(312,429)	(294,394)
Other general administrative expenses	10	(212,050)	(195,817)
Profit before income tax		**819,854**	**571,731**
Income tax expense	11	(84,588)	(54,146)
Profit for the year		**735,266**	**517,585**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(472)	2,418
Other comprehensive income for the year		**(472)**	**2,418**
Total comprehensive income for the year		**734,794**	**520,003**
Earnings per share	23		
Basic earnings per share, in KGS		52.52	36.97
Diluted earnings per share, in KGS		52.52	36.97

The financial statements as set out on pages 4 to 51 were approved by the Management on 20 February 2013.

Mr. B. Kapyshev
Chairman

Ms. D. Osmonova
Acting Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 51.

	Note	2012 KGS'000	2011 KGS'000
ASSETS			
Cash and cash equivalents	12	3,902,923	2,573,844
Available-for-sale financial assets			
- Held by the Bank	13	1,172,500	387,657
Loans and advances to banks and other financial institutions	14	831,223	244,777
Loans to customers	15	6,422,159	6,145,512
Property, equipment and intangible assets	16	431,526	412,215
Other assets	17	71,299	102,294
Total assets		**12,831,630**	**9,866,299**
LIABILITIES			
Deposits and balances from banks and other financial institutions	18	752,648	562,995
Current accounts and deposits from customers	19	7,624,161	5,069,353
Other borrowed funds	20	2,157,768	2,346,785
Current tax liability		15,153	20,187
Deferred tax liability	11	7,558	7,166
Other liabilities	21	336,193	396,898
Total liabilities		**10,893,481**	**8,403,384**
EQUITY			
Share capital	22	700,000	700,000
Revaluation reserve for available-for-sale financial assets		2,190	2,662
Retained earnings		1,235,959	760,253
Total equity		**1,938,149**	**1,462,915**
Total liabilities and equity		**12,831,630**	**9,866,299**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 51.

	2012 KGS'000	2011 KGS'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	1,385,267	1,209,987
Interest payments	(361,816)	(251,287)
Fee and commission receipts	242,573	219,771
Fee and commission payments	(59,161)	(43,371)
Net receipts from foreign exchange	108,302	90,182
Other income receipts	2,799	-
General administrative expenses payments	(444,922)	(471,922)
(Increase)/decrease in operating assets		
Available-for-sale financial assets	(782,427)	(267,970)
Loans and advances to banks and other financial institutions	(585,672)	195,207
Loans to customers	(145,296)	(1,815,169)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	179,254	(580,135)
Current accounts and deposits from customers	2,468,525	791,242
Net cash used in operating activities before income tax paid	**2,007,426**	**(923,465)**
Income tax paid	(60,960)	(46,951)
Cash flows from/(used in) operations	**1,946,466**	**(970,416)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(69,452)	(158,093)
Sales of property and equipment and intangible assets	17	366
Cash flows used in investing activities	**(69,435)**	**(157,727)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of other borrowed funds	706,960	1,825,734
Repayment of other borrowed funds	(943,743)	(452,360)
Dividends paid	(337,810)	(4,227)
Cash flows (used in)/from financing activities	**(574,593)**	**1,369,147**
Net increase in cash and cash equivalents	**1,302,438**	**241,004**
Effect of changes in exchange rates on cash and cash equivalents	26,641	(11,462)
Cash and cash equivalents as at the beginning of the year	2,573,844	2,344,302
Cash and cash equivalents as at the end of the year (Note 12)	**3,902,923**	**2,573,844**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 51.

KGS'000	Share capital	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance as at 1 January 2011	700,000	244	586,088	1,286,332
Total comprehensive income				
Profit for the year	-	-	517,585	517,585
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	-	2,418	-	2,418
Total comprehensive income for the year	**-**	**2,418**	**517,585**	**520,003**
Transactions with owners, recorded directly in equity				
Dividends declared	-	-	(343,420)	(343,420)
Total transactions with owners	**-**	**-**	**(343,420)**	**(343,420)**
Balance as at 31 December 2011	**700,000**	**2,662**	**760,253**	**1,462,915**
Balance as at 1 January 2012	700,000	2,662	760,253	1,462,915
Total comprehensive income				
Profit for the year	-	-	735,266	735,266
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	-	(472)	-	(472)
Total comprehensive income for the year	**-**	**(472)**	**735,266**	**734,794**
Transactions with owners, recorded directly in equity				
Dividends declared	-	-	(259,560)	(259,560)
Total transactions with owners	**-**	**-**	**(259,560)**	**(259,560)**
Balance as at 31 December 2012	**700,000**	**2,190**	**1,235,959**	**1,938,149**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 51.

1 Background

(a) Organisation and operations

UniCredit Bank OJSC (the "Bank") was established in the Kyrgyz Republic as an open joint-stock company in 1992. The Bank was previously known as ATFBank-Kyrgyzstan OJSC and in June 2010 was officially re-registered with the Ministry of Justice of the Kyrgyz Republic with its new name.

The principal activities are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of the Kyrgyz Republic (the "NBKR"). The Bank has a general banking license, and is a member of the state deposit insurance system in the Kyrgyz Republic. The Bank's registered office is 493, Zhibek Zholu avenue, Bishkek, 720070, the Kyrgyz Republic.

The Bank has 14 branches from which it conducts business throughout the Kyrgyz Republic. The majority of the assets and liabilities are located in the Kyrgyz Republic.

The Bank is a subsidiary of ATF Bank JSC (the "Parent"). At 31 December 2012 the Parent owned 97.14% of the outstanding shares (2011: 97.14%). Related party transactions are detailed in Note 29.

(b) Business environment

The Bank's operations are primarily located in Kyrgyzstan. Consequently, the Bank is exposed to the economic and financial markets of Kyrgyzstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kyrgyzstan. The financial statements reflect management's assessment of the impact of the Kyrgyzstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Kyrgyz som ("KGS") as, being the national currency of the Kyrgyz Republic, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KGS is also the presentation currency for the purposes of these financial statements.

Financial information presented in KGS is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 15 - loan impairment estimates.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Bank.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, nostro accounts with the NBKR and other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(j) Classification, continued

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method

- held-to-maturity investments that are measured at amortised cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price, liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Fixtures and fittings	3 to 7 years
Equipment	5 years
Motor vehicles	5 years.

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 5 years.

(f) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans to customers, loans to other financial institutions, cash equivalents and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3 Significant accounting policies, continued

(f) Impairment, continued

(iii) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss

- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

3 Significant accounting policies, continued

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Kyrgyz legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standards on its financial position or performance.

3 Significant accounting policies, continued

(l) New standards and interpretations not yet adopted, continued

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012	2011
	KGS'000	KGS'000
Interest income		
Loans to customers	1,271,665	1,136,257
Available-for-sale financial assets	59,565	41,808
Loans and advances to banks and other financial institutions	34,165	33,353
Amounts receivable under reverse repurchase agreements	13,133	3,653
Cash and cash equivalents	390	557
	1,378,918	**1,215,628**
Interest expense		
Current accounts and deposits from customers	222,844	157,613
Other borrowed funds	162,137	89,818
Deposits and balances from banks and other financial institutions	3,988	17,034
	388,969	**264,465**
Net interest income	**989,949**	**951,163**

Included within various line items under interest income for the year ended 31 December 2012 is a total of KGS 116,769 thousand (2011: KGS 101,378 thousand) accrued on impaired financial assets, which mainly comprise loans to customers including the amount on past due retail loans.

5 Fee and commission income

	2012	2011
	KGS'000	KGS'000
Cash withdrawal	107,930	100,133
Money transfers	63,118	62,109
Annual credit card maintenance	37,520	32,801
Foreign exchange	17,526	10,667
Guarantee and letter of credit issuance	5,909	4,449
Safe custody fees	1,876	1,590
Other	7,534	7,555
	241,413	**219,304**

6 Fee and commission expense

	2012	2011
	KGS'000	KGS'000
Settlement fees	18,820	15,900
Payment card maintenance fees	19,757	12,357
Payments to Deposits Insurance Fund	12,099	9,275
Foreign exchange fees	3,241	2,839
Cash transaction fees	3,103	2,144
Other	2,148	870
	59,168	**43,385**

7 Net foreign exchange income

	2012	2011
	KGS'000	KGS'000
Gain on spot transactions	108,303	90,182
Gain from revaluation of financial assets and liabilities	(1,343)	525
	106,960	**90,707**

8 Recovery of/(charge for) impairment losses

	2012	2011
	KGS'000	KGS'000
Loans to customers	54,573	(125,402)
Loans and advances to banks and other financial institutions	(448)	995
Credit related commitments	6,664	(25,255)
Other assets	1,643	(5,183)
	62,432	**(154,845)**

9 Personnel expenses

	2012	2011
	KGS'000	KGS'000
Employee compensation	271,351	252,982
Social taxes paid by the employer	41,078	41,412
	312,429	**294,394**

10 Other general administrative expenses

	2012 KGS'000	2011 KGS'000
Depreciation and amortisation	69,107	59,682
Repairs and maintenance	31,656	25,590
Operating lease expense	27,011	24,415
Security	23,835	23,415
Advertising and marketing	15,882	15,510
Professional services	12,248	8,151
Office supplies	7,791	10,035
Communications and information services	7,249	7,026
Travel expenses	3,942	7,361
Insurance	3,289	3,010
Representation	1,828	3,510
Taxes other than on income	602	636
Charity and sponsorship	340	689
Other	7,270	6,787
	212,050	**195,817**

11 Income tax expense

	2012 KGS'000	2011 KGS'000
Current tax expense		
Current year	84,196	59,936
Deferred tax expense		
Origination and reversal of temporary differences	392	(5,790)
Total income tax expense	**84,588**	**54,146**

The Bank's applicable tax rate for current and deferred tax is 10% (2011: 10%).

Reconciliation of effective tax rate:

	2012 KGS'000	2012 %	2011 KGS'000	2011 %
Profit before income tax	**819,854**	**100**	**571,731**	**100**
Income tax at the applicable tax rate	81,985	10	57,173	10
Non-deductible costs (non-taxable income)	2,603	0.3	(3,027)	(0.5)
	84,588	**10**	**54,146**	**9**

11 Income tax expense, continued

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as at 31 December 2012 and 2011. This deferred tax liability has been recognised in these financial statements. These deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows:

KGS'000	Balance 1 January 2012	Recognised in profit or loss	Balance 31 December 2012
Property, equipment and intangible assets	7,166	392	7,558

KGS'000	Balance 1 January 2011	Recognised in profit or loss	Balance 31 December 2011
Property, equipment and intangible assets	12,956	(5,790)	7,166

12 Cash and cash equivalents

	2012 KGS'000	2011 KGS'000
Cash on hand	**907,934**	**700,344**
Nostro accounts with the NBKR	**1,302,166**	**1,084,209**
Nostro accounts with other banks		
- rated from AA- to AA+	-	43,473
- rated A- to A+	1,450,057	569,735
- rated BBB	215,749	156,190
- rated below B+	9,529	4,198
- not rated	17,488	15,695
Total nostro accounts with other banks	**1,692,823**	**789,291**
Total cash and cash equivalents	**3,902,923**	**2,573,844**

None of the cash equivalents are impaired or past due.

As at 31 December 2012 the Bank has 2 banks (2011: four banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is KGS 2,348,625 thousand (2011: KGS 1,622,357 thousand).

13 Available-for-sale financial assets

	2012 KGS'000	2011 KGS'000
Held by the Bank		
Notes of the National Bank of the Kyrgyz Republic	898,967	239,229
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	273,533	148,428
	1,172,500	**387,657**

None of the available-for-sale financial assets are impaired or past due.

14 Loans and advances to banks and other financial institutions

	2012 KGS'000	2011 KGS'000
Loans and deposits		
Kyrgyz financial institutions	534,366	244,727
The Parent	242	238
Total loans and deposits	**534,608**	**244,965**
Reverse repurchase agreements	**297,251**	**-**
Impairment allowance	(636)	(188)
Net loans and advances to banks and other financial institutions	**831,223**	**244,777**

As at 31 December 2012 the Bank issued loans to microfinance companies with a gross value of KGS 534,366 thousand (2011: KGS 244,727 thousand), and received collateral of USD denominated deposits in the equivalent amount of KGS 625,591 thousand (2011: KGS 277,343 thousand) and KGS denominated deposits for the total amount of KGS 850 thousand (2011: KGS 15,420 thousand).

None of the loans to microfinance companies are impaired or past due.

The Management of the Bank believes that these transactions represent collateralised loans, rather than derivatives, and therefore has presented them on a gross basis.

(a) Collateral accepted as security for assets

At 31 December 2012 the fair value of financial assets collateralizing reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default is KGS 296,399 thousand (2011: nil).

(b) Concentration of loans and advances to banks

As at 31 December 2012 the Bank has no financial institutions (2011: nil), whose balances exceed 10% of equity.

(c) Analysis of movements in the impairment allowance

	2012 KGS'000	2011 KGS'000
Balance at the beginning of the year	188	1,183
Net charge/(reversal)	448	(995)
Balance at the end of the year	**636**	**188**

15 Loans to customers

	2012	2011
	KGS'000	KGS'000
Loans to corporate customers	**933,374**	**1,232,590**
Loans to retail customers		
Small business loans	3,797,898	3,514,898
Mortgage loans	1,606,062	1,383,033
Consumer loans	590,687	551,838
Credit cards	1,596	1,016
Total loans to retail customers	**5,996,243**	**5,450,785**
Gross loans to customers	**6,929,617**	**6,683,375**
Impairment allowance	(507,458)	(537,863)
Net loans to customers	**6,422,159**	**6,145,512**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers	Loans to retail customers	Total
	KGS'000	KGS'000	KGS'000
Balance at the beginning of the year	209,567	328,296	537,863
Net reversal	(51,233)	(3,340)	(54,573)
Write-offs	(409)	(14,211)	(14,620)
Recovery of write-offs	7,509	22,391	29,900
Effect of foreign currency translation	3,043	5,845	8,888
Balance at the end of the year	**168,477**	**338,981**	**507,458**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Loans to corporate customers	Loans to retail customers	Total
	KGS'000	KGS'000	KGS'000
Balance at the beginning of the year	154,123	256,415	410,538
Net charge	53,301	72,101	125,402
Write-offs	(234)	(21,306)	(21,540)
Recovery of write-offs	3,675	23,144	26,819
Effect of foreign currency translation	(1,298)	(2,058)	(3,356)
Balance at the end of the year	**209,567**	**328,296**	**537,863**

15 Loans to customers, continued

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans KGS'000	Impairment allowance KGS'000	Net loans KGS'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	762,783	(29,141)	733,642	3.8
Impaired loans:				
- not overdue	35,217	(10,320)	24,897	29.3
- overdue less than 90 days	12,562	(6,204)	6,358	49.4
- overdue more than 90 days and less than 1 year	122,812	(122,812)	-	100.0
Total impaired loans	**170,591**	**(139,336)**	**31,255**	**81.7**
Total loans to corporate customers	**933,374**	**(168,477)**	**764,897**	**18.1**
Loans to retail customers				
Small business loans				
- not overdue	3,709,824	(146,638)	3,563,186	4.0
- overdue less than 30 days	19,713	(2,308)	17,405	11.7
- overdue 30-89 days	8,605	(3,544)	5,061	41.2
- overdue 90-179 days	4,195	(3,066)	1,129	73.1
- overdue 180-360 days	55,561	(55,561)	-	100.0
Total small business loans	**3,797,898**	**(211,117)**	**3,586,781**	**5.6**
Mortgage loans				
- not overdue	1,569,048	(83,161)	1,485,887	5.3
- overdue less than 30 days	17,919	(2,109)	15,810	11.8
- overdue 90-179 days	5,782	(5,651)	131	97.7
- overdue 180-360 days	13,313	(13,313)	-	100.0
Total mortgage loans	**1,606,062**	**(104,234)**	**1,501,828**	**6.5**
Consumer loans				
- not overdue	577,351	(16,506)	560,845	2.9
- overdue less than 30 days	4,860	(335)	4,525	6.9
- overdue 30-89 days	2,745	(1,065)	1,680	38.8
- overdue 90-179 days	1,485	(1,434)	51	96.6
- overdue 180-360 days	4,246	(4,246)	-	100.0
Total consumer loans	**590,687**	**(23,586)**	**567,101**	**4.0**

15 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KGS'000	Impairment allowance KGS'000	Net loans KGS'000	Impairment allowance to gross loans, %
Credit cards				
- not overdue	1,497	(28)	1,469	1.9
- overdue less than 30 days	41	(2)	39	4.9
- overdue 30-89 days	58	(14)	44	24.1
Total credit cards	**1,596**	**(44)**	**1,552**	**2.8**
Total loans to retail customers	**5,996,243**	**(338,981)**	**5,657,262**	**5.7**
Total loans to customers	**6,929,617**	**(507,458)**	**6,422,159**	**7.3**

The following table provides information on the credit quality of loans to customers as at 31 December 2011:

	Gross loans KGS'000	Impairment allowance KGS'000	Net loans KGS'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	746,127	(34,322)	711,805	4.6
Impaired loans:				
- not overdue	425,650	(142,167)	283,483	33.4
- overdue less than 90 days	37,909	(16,415)	21,494	43.3
- overdue more than 90 days and less than 1 year	22,904	(16,663)	6,241	72.8
Total impaired loans	**486,463**	**(175,245)**	**311,218**	**36.0**
Total loans to corporate customers	**1,232,590**	**(209,567)**	**1,023,023**	**17.0**
Loans to retail customers				
Small business loans				
- not overdue	3,426,247	(164,460)	3,261,787	4.8
- overdue less than 30 days	38,704	(1,935)	36,769	5.0
- overdue 30-89 days	34,706	(22,871)	11,835	65.9
- overdue 90-179 days	8,361	(6,597)	1,764	78.9
- overdue 180-360 days	6,880	(6,880)	-	100.0
Total small business loans	**3,514,898**	**(202,743)**	**3,312,155**	**5.8**
Mortgage loans				
- not overdue	1,335,796	(89,498)	1,246,298	6.7
- overdue less than 30 days	31,509	(4,789)	26,720	15.2
- overdue 30-89 days	9,899	(3,979)	5,920	40.2
- overdue 90-179 days	4,033	(3,791)	242	94.0
- overdue 180-360 days	1,796	(1,796)	-	100.0
Total mortgage loans	**1,383,033**	**(103,853)**	**1,279,180**	**7.5**
Consumer loans				
- not overdue	539,622	(17,268)	522,354	3.2
- overdue less than 30 days	4,159	(334)	3,825	8.0
- overdue 30-89 days	5,164	(1,197)	3,967	23.2
- overdue 90-179 days	70	(62)	8	88.6
- overdue 180-360 days	2,823	(2,823)	-	100.0
Total consumer loans	**551,838**	**(21,684)**	**530,154**	**3.9**

15 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KGS'000	Impairment allowance KGS'000	Net loans KGS'000	Impairment allowance to gross loans, %
Credit cards				
- not overdue	1,006	(15)	991	1.5
- overdue less than 30 days	10	(1)	9	10.0
Total credit cards	**1,016**	**(16)**	**1,000**	**1.6**
Total loans to retail customers	**5,450,785**	**(328,296)**	**5,122,489**	**6.0**
Total loans to customers	**6,683,375**	**(537,863)**	**6,145,512**	**8.0**

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets
- negative force-majeure events.

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 3.8%
- loss identification period of one year
- a discount of between 50% and 70% to the originally appraised value if the property pledged is sold, a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2012 would be KGS 7,649 thousand lower/higher (2011: KGS 10,230 thousand) lower/higher.

(b) Key assumptions and judgments for estimating the loan impairment

Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past twelve months
- in 2010 the historical loss rate was adjusted upward as a result of political events, civil disorders that have taken place in Kyrgyzstan in April-June 2010, thus reflecting the expected deterioration in the economic environment and resulting losses inherent in the loan portfolio.

15 Loans to customers, continued

(b) Key assumptions and judgments for estimating the loan impairment, continued

Loans to retail customers, continued

- in the current year and in 2011 the adjustment of the historical loss rate was gradually reduced as the management believes that the situation has improved, however some risks remain.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the impairment allowance on loans to retail customers as at 31 December 2012 would be KGS 56,573 thousand lower/higher (2011: KGS 51,225 thousand).

(c) Analysis of collateral

(i) Loans to corporate customers

The following tables provides information on real estate collateral securing loans to corporate customers, net of impairment, as at 31 December 2012:

31 December 2012 KGS'000	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Loans without individual signs of impairment	733,642	-	733,642
Overdue or impaired loans	31,255	31,255	-
Total loans to corporate customers	**764,897**	**31,255**	**733,642**

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2011:

31 December 2011 KGS'000	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Cash and deposits	7,438	-	7,438
Real estate	704,367	-	704,367
Total loans without individual signs of impairment	**711,805**	**-**	**711,805**
Overdue or impaired loans			
Real estate	311,218	311,218	-
Total overdue or impaired loans	**311,218**	**311,218**	**-**
Total loans to corporate customers	**1,023,023**	**311,218**	**711,805**

The tables above are presented on the basis of excluding overcollateralization.

15 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

The Bank has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of borrowers, are not considered for impairment assessment purposes.

Management estimates that the impairment allowance on loans to corporate customers would have been KGS 31,255 thousand higher without any collateral (2011: KGS 311,218 thousand).

(ii) Loans to retail customers

The Bank's policy is to issue retail loans with a loan-to-value ratio of maximum 83.3%.

The history of obtaining and selling collateral in the event of a failure by the retail customer to meet obligations to the Bank when due demonstrates that the Bank has low practical ability to enforce the charge and successfully be paid through sale of collateral. Often, in case of defaults, the Bank's rights to collateral have been dimished significantly because of additional requirements to force current inhabitants to leave the pledged apartment, and as a result the net realisable value of collateral is estimated by the Bank significantly below market value of the apartment. Therefore in many cases, the Bank believes that the values of collaterals should not be taken into consideration in impairment testing and assumes that the collateral value has zero financial effect in mitigating credit risk.

During the year ended 31 December 2012 the Bank obtained KGS 2,069 thousand by taking control of collateral securing loans to retail customers (2011: nil).

15 Loans to customers, continued

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Kyrgyz Republic who operate in the following economic sectors:

	2012	2011
Corporate and small business loans	**KGS'000**	**KGS'000**
Trade	2,894,895	2,703,123
Manufacturing	380,276	255,273
Services	264,364	789,717
Agriculture	179,170	181,165
Real estate	99,406	134,536
Transportation	52,678	38,125
Other	860,483	645,549
Loans to others		
Mortgage loans	1,606,062	1,383,033
Consumer loans	590,687	551,838
Credit cards	1,596	1,016
	6,929,617	**6,683,375**
Impairment allowance	(507,458)	(537,863)
	6,422,159	**6,145,512**

Significant credit exposures

As at 31 December 2012 the Bank has no borrowers or groups of connected borrowers (2011: 1 borrower), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2011 was KGS 176,945 thousand.

Loan maturities

The maturity of the loan portfolio is presented in Note 24 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

16 Property, equipment and intangible assets

KGS'000	Buildings	Fixtures and fittings	Equipment	Motor vehicles	Construction in progress	Computer software and licenses	Total
Cost							
Balance at 1 January 2012	199,080	174,929	59,635	33,817	65,405	76,844	609,710
Additions	13,460	3,085	338	-	56,043	15,510	88,436
Disposals	(705)	(539)	(2,201)	-	-	(45)	(3,490)
Transfers	-	11,196	19,142	-	(112,182)	81,844	-
At 31 December 2012	**211,835**	**188,671**	**76,914**	**33,817**	**9,266**	**174,153**	**694,656**
Depreciation and amortisation							
Balance at 1 January 2012	(22,865)	(74,894)	(34,206)	(17,506)	-	(48,024)	(197,495)
Depreciation and amortisation for the year	(5,529)	(26,987)	(11,557)	(6,025)	-	(19,009)	(69,107)
Disposals	705	482	2,239	-	-	46	3,472
Balance at 31 December 2012	**(27,689)**	**(101,399)**	**(43,524)**	**(23,531)**	**-**	**(66,987)**	**(263,130)**
Carrying amounts							
At 31 December 2012	**184,146**	**87,272**	**33,390**	**10,286**	**9,266**	**107,166**	**431,526**

KGS'000	Buildings	Fixtures and fittings	Equipment	Motor vehicles	Construction in progress	Computer software and licenses	Total
Cost							
Balance at 1 January 2011	193,533	125,630	46,736	28,248	8,411	66,219	468,777
Additions	6,590	28,987	12,215	9,317	82,499	12,150	151,758
Disposals	(1,043)	(2,114)	(2,395)	(3,748)	-	(1,525)	(10,825)
Transfers	-	22,426	3,079	-	(25,505)	-	-
At 31 December 2011	**199,080**	**174,929**	**59,635**	**33,817**	**65,405**	**76,844**	**609,710**
Depreciation and amortisation							
Balance at 1 January 2011	(18,710)	(53,905)	(28,584)	(14,992)	-	(32,330)	(148,521)
Depreciation and amortisation for the year	(5,198)	(23,090)	(8,017)	(6,158)	-	(17,219)	(59,682)
Disposals	1,043	2,101	2,395	3,644	-	1,525	10,708
Balance at 31 December 2011	**(22,865)**	**(74,894)**	**(34,206)**	**(17,506)**	**-**	**(48,024)**	**(197,495)**
Carrying amounts							
At 31 December 2011	**176,215**	**100,035**	**25,429**	**16,311**	**65,405**	**28,820**	**412,215**

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2012 (2011: nil).

17 Other assets

	2012 KGS'000	2011 KGS'000
Money transfer receivables	43,914	28,621
Other receivables	9,011	14,710
Impairment allowance	(2,331)	(7,901)
Total other financial assets	**50,594**	**35,430**
Prepayments	13,513	57,044
Materials and supplies	3,405	5,384
Foreclosed property	12,696	10,627
Impairment allowance	(8,909)	(6,191)
Total other non-financial assets	**20,705**	**66,864**
Total other assets	**71,299**	**102,294**

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2012 are as follows:

	Other financial assets KGS'000	Other non-financial assets KGS'000	Total KGS'000
Balance at the beginning of the year	7,901	6,191	14,092
Net (reversal)/charge	(4,361)	2,718	(1,643)
Write-offs	(1,209)	-	(1,209)
Balance at the end of the year	**2,331**	**8,909**	**11,240**

Movements in the impairment allowance for the year ended 31 December 2011 are as follows:

	Other financial assets KGS'000	Other non-financial assets KGS'000	Total KGS'000
Balance at the beginning of the year	6,220	7,214	13,434
Net charge/(reversal)	6,206	(1,023)	5,183
Write-offs	(4,525)	-	(4,525)
Balance at the end of the year	**7,901**	**6,191**	**14,092**

As at 31 December 2012, included in other assets are overdue receivables of KGS 3,712 thousand (2011: KGS 5,205 thousand), of which KGS 1,479 thousand (2011: KGS 403 thousand) are overdue for more than 90 days but less than one year and KGS 2,233 thousand (2011: KGS 4,802 thousand) are overdue for more than one year.

As at 31 December 2012 and 2011 the Bank has no debtors, whose balances exceed 10% of equity.

18 Deposits and balances from banks and other financial institutions

	2012 KGS'000	2011 KGS'000
Current accounts and term deposits from other financial institutions	744,347	562,639
Vostro accounts	8,301	356
	752,648	**562,995**

18 Deposits and balances from banks and other financial institutions, continued

As at 31 December 2012, the Bank maintained term deposits with microfinance companies of KGS 626,441 thousand (2011: KGS 292,763 thousand) that serve as collateral for loans granted by the Bank (Note 14).

As at 31 December 2012 the Bank has two financial institutions (2011: two financial institutions and one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is KGS 434,808 thousand (2011: KGS 301,891 thousand).

19 Current accounts and deposits from customers

	2012 KGS'000	2011 KGS'000
Current accounts and demand deposits		
- Retail	943,773	711,043
- Corporate	3,928,731	2,484,148
Term deposits		
- Retail	2,420,934	1,752,275
- Corporate	330,723	121,887
	7,624,161	**5,069,353**

As at 31 December 2012, the Bank maintained customer deposit balances of KGS 110,513 thousand (2011: KGS 77,833 thousand) that serve as collateral for loans and off-balance sheet credit instruments granted by the Bank.

As at 31 December 2012, the Bank has 4 customers (2011: two customers), whose balances exceed 10% of equity. These balances as at 31 December 2011 are KGS 1,935,409 thousand (2011: KGS 489,882 thousand).

20 Other borrowed funds

	2012 KGS'000	2011 KGS'000
Loans from international financial institutions	1,433,399	1,648,495
Loans from the Parent	724,369	698,290
	2,157,768	**2,346,785**

The table below provides details of loans from banks as at 31 December 2012:

Counterparty	Currency	Issue date	Maturity date	2012 KGS'000
ATF Bank Kazakhstan	USD	19-Sep-12	19-Sep-14	724,369
EBRD (EBRD-B)	USD	18-Oct-11	18-Oct-16	335,665
IFC	USD	27-Jan-10	15-Aug-14	276,654
FMO (FMO-2)	USD	22-Aug-11	15-Dec-15	237,541
FMO (FMO-1)	USD	10-Jun-11	15-Dec-15	233,768
EBRD (EBRD-A)	USD	27-Jul-09	27-Jul-14	172,463
EBRD (EBRD-B)	KGS	19-Oct-11	19-Oct-16	137,193
EBRD (EBRD-A)	KGS	27-Jul-09	27-Jul-14	40,115
				2,157,768

20 Other borrowed funds, continued

The table below provides details of loans from banks as at 31 December 2011:

Counterparty	Currency	Issue date	Maturity date	2011 KGS'000
ATF Bank Kazakhstan	USD	23-Dec-11	23-Apr-13	698,290
IFC	USD	27-Jan-10	15-Aug-14	405,810
EBRD (EBRD-B)	USD	18-Oct-11	18-Oct-16	329,184
EBRD (EBRD-A)	USD	27-Jul-09	27-Jul-14	252,071
FMO (FMO-2)	USD	22-Aug-11	15-Dec-15	233,046
FMO (FMO-1)	USD	10-Jun-11	15-Dec-15	227,317
EBRD (EBRD-B)	KGS	19-Oct-11	19-Oct-16	139,174
EBRD (EBRD-A)	KGS	27-Jul-09	27-Jul-14	61,893
				2,346,785

21 Other liabilities

	2012 KGS'000	2011 KGS'000
Dividends payable	261,896	340,145
Other financial liabilities	31,757	8,098
Total other financial liabilities	**293,653**	**348,243**
Other taxes payable	6,341	6,528
Provision for guarantees and letters of credit issued	36,199	42,127
Total other non-financial liabilities	**42,540**	**48,655**
Total other liabilities	**336,193**	**396,898**

22 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 14,000 thousand ordinary shares (2011: 14,000 thousand). All shares have a nominal value of KGS 50.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Kyrgyz Republic. In accordance with the legislation of the Kyrgyz Republic, as at the reporting date, reserves available for distribution amounted to KGS 1,235,959 thousand (2011: KGS 760,253 thousand).

At the reporting date dividends were declared as follows:

	2012 KGS'000	2011 KGS'000
KGS 18.54 per ordinary share (2011: KGS 24.53)	259,560	343,420

23 Earnings per share

The calculation of earnings per share is based on the net profit, and a weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Bank has no dilutive potential ordinary shares.

	2012 KGS'000	2011 KGS'000
Net profit	735,266	517,585
Weighted average number of ordinary shares	14,000,000	14,000,000
Basic and diluted earnings per share, in KGS	**52.52**	**36.97**

24 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The Bank risk management policies aim to identify, measure, control, analyze, monitor, and develop preventive measures to minimize the risks faced by the Bank, to set risk limits, and to continuously measure risk levels and monitor adherence to the limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, bank products and services offered and regulative requirements.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Head of the Risk Department is responsible for the overall risk management and compliance with requirements of the current legislation, and ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of the Risk Department reports directly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees with strictly defined powers depending on the type and amount of the risk and credit quality.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in certain areas, and carrying out unannounced inspections, taking part in various commissions, and holding training workshops.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

24 Risk management, continued

(b) Market risk, continued

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Bank Management Board Chairman. Market risk limits are approved by ALCO based on recommendations of the Risk Department and the Parent bank.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

KGS'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2012							
ASSETS							
Available-for-sale financial assets	1,111,899	14,510	46,091	-	-	-	1,172,500
Loans and advances to banks and other financial institutions	789,336	40,784	439	422	-	242	831,223
Loans to customers	709,641	620,277	1,202,670	3,457,458	432,113	-	6,422,159
	2,610,876	**675,571**	**1,249,200**	**3,457,880**	**432,113**	**242**	**8,425,882**
LIABILITIES							
Deposits and balances from banks and other financial institutions	5,500	48,943	230	-	-	697,975	752,648
Current accounts and deposits from customers	849,712	509,947	908,055	429,116	2,379	4,924,952	7,624,161
Other borrowed funds	241,406	936,523	-	979,839	-	-	2,157,768
	1,096,618	**1,495,413**	**908,285**	**1,408,955**	**2,379**	**5,622,927**	**10,534,577**
	1,514,258	**(819,842)**	**340,915**	**2,048,925**	**429,743**	**(5,622,685)**	**(2,108,695)**

24 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KGS'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2011							
ASSETS							
Available-for-sale financial assets	360,150	-	27,507	-	-	-	387,657
Loans and advances to banks and other financial institutions	68,790	125,041	-	50,708	-	238	244,777
Loans to customers	517,744	494,924	957,546	3,698,754	476,544	-	6,145,512
	946,684	**619,965**	**985,053**	**3,749,462**	**476,544**	**238**	**6,777,946**
LIABILITIES							
Deposits and balances from banks and other financial institutions	600	48,149	150	-	-	514,096	562,995
Current accounts and deposits from customers	610,021	456,541	422,632	372,870	586	3,206,703	5,069,353
Other borrowed funds	1,063,470	191,757	-	1,091,558	-	-	2,346,785
	1,674,091	**696,447**	**422,782**	**1,464,428**	**586**	**3,720,799**	**7,979,133**
	(727,407)	**(76,482)**	**562,271**	**2,285,034**	**475,958**	**(3,720,561)**	**(1,201,187)**

Other borrowed funds which have variable interest rates were presented at the earliest repricing dates.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011.

24 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates, continued

	2012 Average effective interest rate, %		2011 Average effective interest rate, %	
	KGS	**USD**	**KGS**	**USD**
Interest bearing assets				
Available-for-sale financial assets	4.35	-	14.02	-
Loans and advances to banks and other financial institutions				
- Loans and advances to banks and other financial institutions	8.61	-	12.76	-
- Reverse repurchase agreements	2.67	-	-	-
Loans to customers	22.83	16.84	23.68	19.22
Interest bearing liabilities				
Deposits and balances from banks				
- Term deposits	4.02	8.00	10.95	8.00
Current accounts and deposits from customers				
- Term deposits	11.59	6.03	13.31	6.69
Other borrowed funds	13.45	6.14	15.48	5.77

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss KGS'000	**Equity KGS'000**	**Profit or loss KGS'000**	**Equity KGS'000**
100 bp parallel fall	(8,066)	(8,066)	2,724	2,724
100 bp parallel rise	8,066	8,066	(2,724)	(2,724)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2012		2011	
	Profit or loss KGS'000	**Equity KGS'000**	**Profit or loss KGS'000**	**Equity KGS'000**
100 bp parallel fall	-	1,150	-	405
100 bp parallel rise	-	(1,150)	-	(405)

24 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	KGS KGS'000	USD KGS'000	Other currencies KGS'000	Total KGS'000
ASSETS				
Cash and cash equivalents	1,717,079	1,885,685	300,159	3,902,923
Available-for-sale financial assets	1,172,500	-	-	1,172,500
Loans and advances to banks and other financial institutions	830,981	242	-	831,223
Loans to customers	2,172,864	4,249,295	-	6,422,159
Other financial assets	8,006	35,037	7,551	50,594
Total assets	**5,901,430**	**6,170,259**	**307,710**	**12,379,399**
LIABILITIES				
Deposits and balances from banks and other financial institutions	55,701	696,908	39	752,648
Current accounts and deposits from customers	3,931,231	3,430,176	262,754	7,624,161
Other borrowed funds	177,308	1,980,460	-	2,157,768
Other financial liabilities	280,854	12,013	786	293,653
Total liabilities	**4,445,094**	**6,119,557**	**263,579**	**10,828,230**
Net position as at 31 December 2012	**1,456,336**	**50,702**	**44,131**	**1,551,169**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2011:

	KGS KGS'000	USD KGS'000	Other currencies KGS'000	Total KGS'000
ASSETS				
Cash and cash equivalents	1,348,433	1,037,142	188,269	2,573,844
Available-for-sale financial assets	387,657	-	-	387,657
Loans and advances to banks and other financial institutions	244,539	238	-	244,777
Loans to customers	2,079,476	4,066,036	-	6,145,512
Other financial assets	9,699	21,763	3,968	35,430
Total assets	**4,069,804**	**5,125,179**	**192,237**	**9,387,220**
LIABILITIES				
Deposits and balances from banks and other financial institutions	45,201	517,638	156	562,995
Current accounts and deposits from customers	2,483,116	2,398,759	187,478	5,069,353
Other borrowed funds	201,067	2,145,718	-	2,346,785
Other financial liabilities	346,183	2,042	18	348,243
Total liabilities	**3,075,567**	**5,064,157**	**187,652**	**8,327,376**
Net position as at 31 December 2011	**994,237**	**61,022**	**4,585**	**1,059,844**

24 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KGS, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012		2011	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
10% appreciation of USD against KGS	4,563	4,563	5,492	5,492
10% appreciation of other currencies against KGS	3,972	3,972	413	413

A strengthening of the KGS against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee/Risk Management Committee, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Credit reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal and Accounting departments depending on the specific risks and pending final approval of the Credit Committee/Risk Management Committee.

24 Risk management, continued

(c) Credit risk, continued

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2012 KGS'000	2011 KGS'000
ASSETS		
Nostro accounts	2,994,989	1,873,500
Available-for-sale financial assets	1,172,500	387,657
Loans and advances to banks and other financial institutions	831,223	244,777
Loans to customers	6,422,159	6,145,512
Other financial assets	50,594	35,430
Total maximum exposure	**11,471,465**	**8,686,876**

For the analysis of concentrations of credit risk in respect of loans to customers refer to Note 15.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 26.

As at 31 December 2012 and 2011 the Bank does not have debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board and the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

24 Risk management, continued

(d) Liquidity risk, continued

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Management Board, approved by the Board of Directors and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial assets and liabilities and credit-related commitments on the basis of their remaining contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	169,494	381,868	202,986	242	-	754,590	752,648
Current accounts and deposits from customers	5,289,155	492,343	527,186	974,863	489,275	7,772,822	7,624,161
Other borrowed funds	58,833	78,085	91,974	320,705	1,835,608	2,385,205	2,157,768
Other financial liabilities	293,653	-	-	-	-	293,653	293,653
Total liabilities	**5,811,135**	**952,296**	**822,146**	**1,295,810**	**2,324,883**	**11,206,270**	**10,828,230**
Credit related commitments	**1,485,171**	**-**	**-**	**-**	**-**	**1,485,171**	**1,485,171**

24 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	499,796	15,141	49,708	159	-	564,804	562,995
Current accounts and deposits from customers	3,430,669	405,419	473,014	454,701	419,074	5,182,877	5,069,353
Other borrowed funds	528,040	81,743	-	127,449	2,011,499	2,748,731	2,346,785
Other financial liabilities	348,243	-	-	-	-	348,243	348,243
Total liabilities	**4,806,748**	**502,303**	**522,722**	**582,309**	**2,430,573**	**8,844,655**	**8,327,376**
Credit related commitments	**998,483**	**-**	**-**	**-**	**-**	**998,483**	**998,483**

In accordance with Kyrgyz legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contractual maturity dates. The amount of such deposits, by each time band, is as follows:

- from 1 to 3 months: KGS 486,426 thousand (2011: KGS 571,667 thousand)
- from 3 to 6 months: KGS 509,947 thousand (2011: KGS 451,028 thousand)
- from 6 to 12 months: KGS 908,055 thousand (2011: KGS 414,541 thousand)
- more than 1 year: KGS 431,495 thousand (2011: KGS 359,417 thousand).

24 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	3,902,923	-	-	-	-	-	-	3,902,923
Available-for-sale financial assets	898,967	212,932	60,601	-	-	-	-	1,172,500
Loans and advances to banks and other financial institutions	709,395	79,941	41,223	422	-	242	-	831,223
Loans to customers	255,410	411,016	1,822,947	3,457,458	432,113	-	43,215	6,422,159
Property, equipment and intangible assets	-	-	-	-	-	431,526	-	431,526
Other assets	67,512	-	-	3,787	-	-	-	71,299
Total assets	**5,834,207**	**703,889**	**1,924,771**	**3,461,667**	**432,113**	**431,768**	**43,215**	**12,831,630**
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	169,494	381,823	201,331	-	-	-	-	752,648
Current accounts and deposits from customers	5,288,238	486,426	1,418,002	429,116	2,379	-	-	7,624,161
Other borrowed funds	56,479	75,038	351,055	1,675,196	-	-	-	2,157,768
Current tax liability	15,153	-	-	-	-	-	-	15,153
Deferred tax liability	7,558	-	-	-	-	-	-	7,558
Other liabilities	336,193	-	-	-	-	-	-	336,193
Total liabilities	**5,873,115**	**943,287**	**1,970,388**	**2,104,312**	**2,379**	**-**	**-**	**10,893,481**
Net position	**(38,908)**	**(239,398)**	**(45,617)**	**1,357,355**	**429,734**	**431,768**	**43,215**	**1,938,149**

24 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	2,573,844	-	-	-	-	-	-	2,573,844
Available-for-sale financial assets	239,229	120,921	27,507	-	-	-	-	387,657
Loans and advances to banks and other financial institutions	818	67,972	125,041	50,708	238	-	-	244,777
Loans to customers	124,448	324,528	1,452,470	3,698,754	476,544	-	68,768	6,145,512
Property, equipment and intangible assets	-	-	-	-	-	412,215	-	412,215
Other assets	102,294	-	-	-	-	-	-	102,294
Total assets	**3,040,633**	**513,421**	**1,605,018**	**3,749,462**	**476,782**	**412,215**	**68,768**	**9,866,299**
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	499,796	14,900	48,299	-	-	-	-	562,995
Current accounts and deposits from customers	3,430,834	385,887	879,173	372,869	590	-	-	5,069,353
Other borrowed funds	527,289	77,929	117,357	1,624,209	-	-	-	2,346,785
Current tax liability	20,187	-	-	-	-	-	-	20,187
Deferred tax liability	7,166	-	-	-	-	-	-	7,166
Other liabilities	396,898	-	-	-	-	-	-	396,898
Total liabilities	**4,882,170**	**478,716**	**1,044,829**	**1,997,078**	**590**	**-**	**-**	**8,403,384**
Net position	**(1,841,537)**	**34,705**	**560,189**	**1,752,384**	**476,192**	**412,215**	**68,768**	**1,462,915**

24 Risk management, continued

(d) Liquidity risk, continued

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

As at 31 December 2012 and 31 December 2011, the Bank maintains the following lines of credit:

- USD 15 million USD credit line facility and KGS loan facility equivalent to 5 million USD from EBRD that is unsecured.
- USD 10 million credit facility from IFC that is unsecured.
- USD 10 million credit facility from FMO that is unsecured.

The Bank calculates the mandatory liquidity ratio (K3) on a daily basis in accordance with the requirements of the NBKR. The ratio is calculated as the ratio of the weekly average highly liquid assets to the weekly average liabilities payable on demand and should be at least 30%.

The Bank is in compliance with this statutory ratio as at 31 December 2012 and 2011. As at 31 December 2012 the K3 ratio is 76.3% (2011: 55.4%).

25 Capital management

The NBKR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBKR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2011, this minimum level is 12%. The Bank was in compliance with the statutory capital ratio as at 31 December 2012 and 2011.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

25 Capital management, continued

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December:

	2012 KGS'000	2011 KGS'000
Tier 1 capital		
Share capital	700,000	700,000
Retained earnings	1,235,959	760,253
Total tier 1 capital	**1,935,959**	**1,460,253**
Tier 2 capital		
Asset revaluation reserve	2,190	2,662
Total tier 2 capital	**2,190**	**2,662**
Total capital	**1,938,149**	**1,462,915**
Risk-weighted assets		
Banking book	**8,851,660**	**7,794,387**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**21.9%**	**18.77%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**21.9%**	**18.77%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank. The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2012 and 2011.

26 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

26 Commitments, continued

	2012 KGS'000	2011 KGS'000
Contracted amount		
Loan and credit line commitments	1,249,481	856,088
Guarantees and letters of credit	235,514	142,395
Other	176	-
	1,485,171	**998,483**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2012 and 2011 the Bank did not have significant credit concentrations related to commitments.

27 Operating leases

Leases as lessee

The Bank leases a number of premises and equipment under operating leases. Non-cancellable operating lease rentals are payable as follows:

	2012 KGS'000	2011 KGS'000
Less than 1 year	5,129	3,015
Between 1 and 5 years	60,967	74,819
More than 5 years	825	844
	66,921	**78,678**

During the year ended 31 December 2012, KGS 27,011 thousand was recognised as expense in the profit and loss in respect of operating leases (2011: KGS 24,415 thousand).

28 Contingencies

(a) Insurance

The insurance industry in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

28 Contingencies, continued

(c) Taxation contingencies

The taxation system in the Kyrgyz Republic continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Kyrgyz Republic that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kyrgyz tax legislation, official pronouncements of court decisions. However, the interpretations of the relevant authorities could differ and the effect on financial position of the Bank, if the authorities were successful in enforcing their interpretations, could be significant.

29 Related party transactions

(a) Control relationships

The Bank's parent is ATF Bank JSC. The party with ultimate control over the Bank is UniCredit S.p.A.

The parent produces publicly available financial statements.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2012 KGS'000	2011 KGS'000
Members of the Board of Directors	1,536	1,458
Members of the Management Board	33,008	32,362
	34,544	**33,820**

All compensation is in the form of short-term benefits.

The outstanding balances and average interest rates as at 31 December 2011 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2012 KGS'000	Average interest rate, %	2011 KGS'000	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers	5,550	15.6	8,257	14.6
LIABILITIES				
Current accounts and deposits from customers	2,259	5.1	1,910	5.2

The loans are in Kyrgyz soms and repayable by 2014 and 2020.

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2012 KGS'000	2011 KGS'000
Profit or loss		
Interest income	1,124	935
Interest expense	54	15

29 Related party transactions, continued

(c) Transactions with other related parties

Other related parties include the Parent, and UniCredit Bank Austria, UniCredit Bank CJSC, Moscow and Yapi Kredi, which are entities under common control. The outstanding balances and the related average interest rates as at 31 December 2012 and 2011 and related profit or loss amounts of transactions for the year ended 31 December 2012 and 2011 with other related parties are as follows:

	2012					2011				
	The Parent		Entities under common control			The Parent		Entities under common control		
	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	Total KGS'000	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	Total KGS'000
Statement of financial position										
ASSETS										
Cash and cash equivalents										
- In USD	111,751	-	1,055,702	-	1,167,453	56,600	-	257,428	-	313,790
- other currencies	56,343	-	7,597	-	63,940	28,349	-	7,145	-	35,494
Loans and deposits to banks and other financial institutions										
- In USD	243	-	-	-	243	238	-	-	-	238
LIABILITIES										
Deposits and balances from banks and other financial institutions										
- In KGS	550	-	-	-	550	42	-		-	42
Other borrowed funds										
- In USD	724,369	7	-	-	724,369	698,290	7		-	698,290
Other liabilities										
- In KGS	252,144	-	-	-	252,144	333,608	-	-	-	333,608
Profit (loss)										
Interest income	-	-	17	-	17	-	-	-	-	-
Interest expense	(46,575)	-	-	-	(46,575)	(2,309)		-		(2,309)
Fee and commission expense	(10,121)	-	-	-	(10,121)	(6,250)		(47)		(6,297)

30 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

KGS'000	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash equivalents	2,994,989	-	-	2,994,989	2,994,989
Available-for-sale financial assets	-	1,172,500	-	1,172,500	1,172,500
Loans and advances to banks and other financial institutions	831,223	-	-	831,223	831,223
Loans to customers	6,422,159	-	-	6,422,159	6,632,101
Other financial assets	50,594	-	-	50,594	50,594
	10,298,965	**1,172,500**	**-**	**11,471,465**	**11,681,407**
Deposits and balances from banks and other financial institutions	-	-	752,648	752,648	752,648
Current accounts and deposits from customers	-	-	7,624,161	7,624,161	7,636,085
Other borrowed funds	-	-	2,157,768	2,157,768	2,157,768
Other financial liabilities	-	-	293,653	293,653	293,653
	-	**-**	**10,828,230**	**10,828,230**	**10,840,154**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

KGS'000	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash equivalents	1,873,500	-	-	1,873,500	1,873,500
Available-for-sale financial assets	-	387,657	-	387,657	387,657
Loans and advances to banks and other financial institutions	244,777	-	-	244,777	244,777
Loans to customers	6,145,512	-	-	6,145,512	6,423,625
Other financial assets	35,430	-	-	35,430	35,430
	8,299,219	**387,657**	**-**	**8,686,876**	**8,964,989**
Deposits and balances from banks and other financial institutions	-	-	562,995	562,995	562,995
Current accounts and deposits from customers	-	-	5,069,353	5,069,353	5,074,722
Other borrowed funds	-	-	2,346,785	2,346,785	2,345,336
Other financial liabilities	-	-	348,243	348,243	348,243
	-	**-**	**8,327,376**	**8,327,376**	**8,331,296**

The estimated fair values of all financial assets and liabilities, except available-for-sale financial assets are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

30 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

(b) Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value of available-for-sale financial assets (Note 13) has been determined by using market observable inputs (Level 2).