National Bank for Foreign Economic Activity of the Republic of Uzbekistan

Consolidated Financial Statements

Year ended December 31, 2006
Together with Report of Independent Auditors

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder
National Bank for Foreign Economic Activity of the Republic of Uzbekistan

We have audited the accompanying consolidated financial statements of National Bank for Foreign Economic Activity of the Republic of Uzbekistan ("the Bank"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of operations, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated 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 auditors' 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 consolidated financial statements present fairly, in all material respects, the financial position of National Bank for Foreign Economic Activity of the Republic of Uzbekistan as at December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young MChJ

April 2, 2007

CONSOLIDATED BALANCE SHEET

As of December 31, 2006

(Millions of US Dollars)

	Notes	2006	2005
Assets			
Cash and cash equivalents	5	429	219
Amounts due from credit institutions	6	71	58
Loans to customers	7, 9	1,722	1,945
Assets held-for-sale		-	20
Property and equipment	10	179	196
Other assets	11	79	74
Total assets		**2,480**	**2,512**
Liabilities			
Amounts due to the Central Bank and Government of Uzbekistan	12	380	398
Amounts due to credit institutions	13	56	14
Amounts due to customers	14	679	542
Interstate credits	15	883	1,083
Tax liabilities	8	35	25
Provisions	9	5	-
Other liabilities	11	6	12
Total liabilities		**2,044**	**2,074**
Equity	16		
Share capital		400	400
Additional paid-in capital		20	20
Retained earnings		16	18
Total equity		**436**	**438**
Total liabilities and equity		**2,480**	**2,512**
Financial commitments and contingencies	17	354	398

Signed and authorized for release on behalf of the Board of the Bank

Saidakhmad Rakhimov — Chairman

Lyalya Khayrutdinova — Chief Accountant

April 2, 2007

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 2006

(Millions of US Dollars)

	Notes	*2006*	*2005*
Interest income			
Loans to customers		113	112
Other		12	7
		125	**119**
Interest expense			
Amounts due to customers		(33)	(36)
Amounts due to the Central Bank of Uzbekistan		(10)	(7)
Interstate credits and amounts due to credit institutions		(45)	(48)
		(88)	**(91)**
Net interest income		37	28
Impairment of interest earning assets	9	(7)	(58)
Net interest income/(loss) after impairment of interest earning assets		**30**	**(30)**
Fee and commission income		44	41
Fee and commission expense		(6)	(5)
Net fee and commission income	18	**38**	**36**
Gain less losses from foreign currencies		3	-
Other income		7	4
Other non-interest income		**10**	**4**
Salaries and benefits	19	(17)	(16)
Depreciation	10	(18)	(16)
Other administrative and operating expenses	19	(24)	(29)
Provision for guarantees issued	9	(5)	-
Other non-interest expense		**(64)**	**(61)**
Income/(loss) before income tax expense		**14**	**(51)**
Income tax (expense)/benefit	8	(12)	6
Income/(loss) for the year		**2**	**(45)**

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2006

(Millions of US Dollars)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total Equity*
December 31, 2004	**400**	**20**	**65**	**485**
Loss for the year	-	-	(45)	(45)
Dividends to the shareholder of the Bank (Note 5)	-	-	(2)	(2)
December 31, 2005	**400**	**20**	**18**	**438**
Profit for the year	-	-	2	2
Dividends to the shareholder of the Bank (Note 5)	-	-	(4)	(4)
December 31, 2006	**400**	**20**	**16**	**436**

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2006

(Millions of US Dollars)

	Notes	*2006*	*2005*
Cash flows from operating activities			
Income/(loss) before income tax expense		14	(51)
Adjustments for:			
Depreciation		18	16
Allowance for loan impairment		7	58
Provision for guarantees issued		5	-
Operating income before changes in net operating assets		**44**	**23**
(Increase)/decrease in operating assets			
Amounts due from credit institutions		(13)	(21)
Loans to customers		236	293
Assets held-for-sale		-	(20)
Other assets		(5)	(30)
Increase/(decrease) in operating liabilities			
Amounts due to the Central Bank and Government of Uzbekistan		(18)	13
Amounts due to credit institutions		42	(38)
Amounts due to customers		137	41
Interstate credits		(200)	(372)
Other liabilities		(6)	3
Net cash flows from/(used in) operating activities before income tax		**217**	**(108)**
Income tax paid		(2)	(2)
Net cash from/(used in) operating activities		**215**	**(110)**
Cash flows from investing activities			
Purchase of property and equipment		(5)	(1)
Net cash used in investing activities		**(5)**	**(1)**
Net increase/(decrease) in cash and cash equivalents		**210**	**(111)**
Cash and cash equivalents, beginning		**219**	**330**
Cash and cash equivalents, ending	5	**429**	**219**
Supplemental information:			
Interest paid		(87)	(91)
Interest received		119	86

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

(Millions of US Dollars)

1. Principal Activities

The National Bank for Foreign Economic Activity of the Republic of Uzbekistan (the "Bank"), incorporated in the Republic of Uzbekistan ("Uzbekistan"), was established by a Presidential Decree on September 7, 1991. The Bank was registered as a closed (or private) stock company with limited liability by the Central Bank of Uzbekistan (the "CBU") on October 25, 1991 and commenced operations in November 1991. The Bank was registered as a 100% government owned banking institution in March 1993.

The Bank services the Government of Uzbekistan, state-owned and private enterprises, and individual customers located primarily in Uzbekistan. The Bank's head office is in Tashkent and as at December 31, 2006 it has 92 other branches located throughout Uzbekistan.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations issued by the International Accounting Standards Board, International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") issued by the International Accounting Standards Committee that remain in effect.

The Bank's functional currency, defined by the Bank in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" is the United States Dollars ("USD") as the majority of the Bank's transactions are denominated, measured, or funded in this currency and the USD is the primary currency in which the Bank generates and expends cash.

To comply with Uzbekistan accounting and tax regulations the Bank also maintains its records and prepares its financial statements in Uzbek Soums ("UZS"). UZS is the presentation currency of the Bank different from its functional currency. The accompanying financial statements differ from the financial statements issued for statutory purposes in Uzbekistan in that they reflect certain adjustments, not recorded on the Bank's books, which are appropriate to present the financial position, results of operations, and cash flows of the Bank in accordance with IFRS. The principal adjustments are related primarily to revenue and expense recognition, valuation of securities, allowance for loan impairment, foreign exchange differences, and deferred income taxes.

The UZS is not a convertible currency outside the Republic of Uzbekistan. Within the Republic of Uzbekistan, official exchange rates are determined weekly by the CBU, and generally approximate the exchange rates used in conducting commercial foreign exchange operations. At December 31, 2006 the official exchange rate was UZS 1,240 to USD 1 (December 31, 2005 – UZS 1,180 to USD 1). At April 2, 2007, the official exchange rate was UZS 1,250.07 to USD 1.

Transactions denominated in currencies other than the USD are recorded at the official exchange rate on the date of the transaction or by using a monthly average of the daily official exchange rate. Monetary assets and liabilities denominated in currencies other than the USD at a balance sheet date are translated into their USD-equivalent value using the official exchange rate at the respective balance sheet date.

For convenience purposes and to comply with Uzbekistan regulations, the accompanying consolidated balance sheet and the related consolidated statement of operations, consolidated statement of changes in equity, and consolidated statement of cash flows were translated from the functional currency, the US Dollar, to the Uzbek Soums, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", which specifies the procedure for translating the items in financial statements from a functional currency into a presentation currency when financial statements are presented in a currency other than the functional currency, and the functional currency is not the currency of a hyperinflationary economy. The following methodologies and assumptions (which are in accordance with IAS 21) were used to translate the Bank's consolidated financial statements from the US Dollar (functional currency) to the Uzbek soums (convenience presentation – presentation currency):

(Millions of US Dollars)

2. Basis of preparation (continued)

General (continued)

- Balance sheet amounts as of December 31, 2006 and 2005 are translated into the presentation currency by applying the official exchange rates as of December 31, 2006 (UZS 1,240 to USD 1) and December 31, 2005 (UZS 1,180 to USD 1), respectively;

- Income and expense items for 2006 and 2005 are translated at the official exchange rate on the date of the transaction or by using a monthly average of the official exchange rate;

- Equity items other than income or expense items for the period that are included in the balance of the retained earnings are translated into the presentation currency by applying the official exchange rate as the date of each balance sheet presented; and

- All exchange differences resulting from translation in accordance with the above methodologies and assumptions are recognized directly in equity.

Refer to Note 24 for financial statements prepared in presentation currency for convenience purposes.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 "Financial Instruments: Recognition and Measurement": Financial Guarantees, effective for annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under the amended IAS 39, financial guarantee contracts are recognized initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

The adoption of the above pronouncement did not have a significant impact on the Bank's consolidated financial statements.

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures";
Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures";
IFRIC 8 "Scope of IFRS 2";
IFRIC 9 "Reassessment of Embedded Derivatives";
IFRIC 10 "Interim Financial Reporting and Impairment"
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
IFRIC 12 "Service Concession Arrangements"

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the consolidated financial statements to evaluate the significance of the Bank's financial instruments, the nature and extend of risks arising from those financial instruments, and the Bank's objectives , policies and processes for managing capital.

(Millions of US Dollars)

2. Basis of preparation (continued)

Consolidated subsidiaries

The consolidated financial statements include the following subsidiaries:

2006

Subsidiaries	***Ownership/ Voting, %***	***Country***	***Date of incorporation***	***Industry***
Asia Invest Bank	85	Russia	1996	Banking
VIP Service Centre	100	Uzbekistan	1998	Special purpose company
Other	100	Uzbekistan	1995-1998	Other

2005

Subsidiaries	***Ownership/ Voting, %***	***Country***	***Date of incorporation***	***Industry***
Asia Invest Bank	85	Russia	1996	Banking
VIP Service Centre	100	Uzbekistan	1998	Special purpose company
Other	100	Uzbekistan	1995-1998	Other

Associates

The following associates are accounted for under the equity method:

2006

Associates	***Ownership/ Voting, %***	***Country***	***Date of incorporation***	***Industry***
Uz AIG	49	Uzbekistan	1994	Insurance
Uzbekleasing International	35	Uzbekistan	1995	Leasing

2005

Associates	***Ownership/ Voting, %***	***Country***	***Date of incorporation***	***Industry***
Uz AIG	49	Uzbekistan	1994	Insurance
Uzbekleasing International	35	Uzbekistan	1995	Leasing
Toshkent Toytepa Textile	42	Uzbekistan	2005	Textile

(Millions of US Dollars)

2. Basis of preparation (continued)

Reconciliation of UAL and IFRS equity and profit/(loss) for the year

Equity and profit/(loss) for the year are reconciled between UAL and IFRS as follows:

	2006		2005	
	Equity	*Loss/profit for the year*	*Equity*	*Loss for the year*
Uzbek Accounting Legislation (combined) [unaudited]	**555**	**(4)**	**563**	**(3)**
Provision for losses	(69)	22	(91)	(39)
Provision on guarantees issued	(5)	(5)	-	-
Valuation of equity participation	(10)	2	(12)	(1)
Deferred tax	(35)	(10)	(25)	1
Accounting for subsidiaries	4	(3)	7	(2)
Other	(4)	-	(4)	(1)
International Financial Reporting Standards	**436**	**2**	**438**	**(45)**

3. Summary of accounting policies

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the consolidated statement of income, and its share of movements in reserves is recognised in equity. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

(Millions of US Dollars)

3. Summary of accounting policies (continued)

Financial assets (continued)

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated statement of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated statement of income when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBU, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

(Millions of US Dollars)

3. Summary of accounting policies (continued)

Amounts due from credit institutions

In the normal course of business, the Bank maintains current accounts or places deposits for various periods of time with other banks. Amounts due from credit institutions with fixed maturity are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment.

Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement on income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(Millions of US Dollars)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Taxation

The Bank and its subsidiaries file income tax returns with the relevant tax authorities in Uzbekistan and the Russian Federation on a separate entity basis.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Uzbekistan and Russia also have various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

(Millions of US Dollars)

3. Summary of accounting policies (continued)

Property and Equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20
Furniture, fixture and equipment	5-11

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Borrowings

Borrowings, which include amounts due to the CBU, amounts due to credit institutions and to customers are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of operations when the borrowings are derecognised as well as through the amortisation process.

Retirement and other benefit obligations

The Bank does not have any pension arrangements separate from the State pension systems of the Republic of Uzbekistan, which require current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Assets classified as held-for-sale

The Bank classifies a non-current asset (or a disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed within one year from the date of classification of the non-current asset (or disposal group) as held-for-sale.

(Millions of US Dollars)

3. Summary of accounting policies (continued)

Assets classified as held-for-sale (continued)

The Bank measures an asset (or disposal group) classified as held-for-sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

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

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Related parties transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise;
(b) associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

(Millions of US Dollars)

3. Summary of accounting policies (continued)

Related parties transactions (continued)

Starting January 1, 2005, IAS 24 (revised) removed the exemption for state-controlled entities from the requirement to disclose transactions with other state-controlled entities. Since the Bank is a state-owned entity, all state-owned entities are considered to be related parties of the Bank. Accordingly, starting from 2005, the Bank discloses outstanding balances and transactions with such entities in the notes to the consolidated financial statements. Comparative figures are amended accordingly (Note 22).

Reclassifications

The following reclassification has been made to 2005 balances to conform to the 2006 presentation.

Amount	*Previously reported*	*As reclassified*	*Comment*
1	Fee and commission income and expense	Interest income on loans to customers	Reclassification of commission income related to loans net of related commission expense to interest income on loans

4. Significant accounting judgements and estimates

The preparation of consolidated financial statements requires management to use its judgement and make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of consolidated financial statements. The actual results may differ from these estimates and it is possible that these differences may have a material effect on the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans

The Bank regularly reviews its loans to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses its experienced judgement to adjust observable data for a group of loans to reflect current circumstances.

Provision on guarantees issued

The Bank reviews its guarantees issued and creates provision for probable losses by assessing the financial condition and the creditworthiness of guarantee holders. In case the guarantee holder has a loan received from the Bank, the loan loss allowance rate calculated for that borrower is applied to estimate the provision on guarantees.

Taxation

Uzbekistan tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant national authorities. Tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at December 31, 2006 management believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax positions will be sustained.

(Millions of US Dollars)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2006	*2005*
Cash on hand	21	21
Amounts due from the CBU	60	97
Correspondent nostro accounts with Organization of Economic Cooperation and Development ("OECD") based banks	33	21
Interest-bearing deposits with OECD based banks	289	79
Interest-bearing deposits and correspondent nostro accounts with non-OECD based banks	11	1
Due from Uzbek Financial Institutions	15	-
Cash and cash equivalents	**429**	**219**

Non-cash transactions performed by the Bank during 2006 are represented by dividends allocated in the form property plant and equipment of USD 4 (2005 – USD 2).

Interest-bearing deposits represent overnight and short-term placements in USD which are placed, subject to the Bank's counterparty and country limits, with various OECD based banks at prevailing international money market rates ranging from 1.9% to 5.29% per annum at December 31, 2006 and from 2.3% to 4.21% per annum at December 31, 2005.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2006	*2005*
Obligatory reserve with the CBU	52	34
Loans to non-OECD based banks	4	5
Interest-bearing deposits with OECD based banks	4	10
Interest-bearing deposits with non-OECD based banks	1	9
Restricted cash	10	-
Amounts due from credit institutions	**71**	**58**

Under Uzbek legislation, the Bank is required to maintain, in the form of non-interest bearing deposits, certain cash reserves with the CBU which are computed as a percentage of certain Bank liabilities and are subject to certain usage restrictions. At December 31, 2006 and 2005, such reserves were USD 52 and USD 34, respectively.

Interest-bearing deposits with OECD based banks represent USD deposits that carry contractual annual interest rates of about 5% at December 31, 2006 and 4% at December 31, 2005.

Loans to non-OECD based banks are EUR-denominated and carry contractual annual interest rates ranging from 6% to 7% at December 31, 2006 and from 5% to 6% at December 31, 2005.

Restricted cash is represented by the interstate credits received from China Development Bank (CDB) in the amount of USD 10 that were not refinanced to the borrowers at December 31, 2006 due to technical delay in fulfillment of the loan issuance terms by the borrowers. The funds received from CDB were placed in overnight deposits at December 31, 2006 with OECD based banks.

(Millions of US Dollars)

7. Loans to customers

Loans to customers comprise:

	2006	*2005*
Loans to customers	1,750	1,959
Factoring	9	4
	1,759	1,963
Direct financing leases (gross investment in the leases)	261	322
Less - Unearned finance income	(43)	(51)
	218	271
Gross loans	1,977	2,234
Less - Allowance for loan impairment	(255)	(289)
Loans to customers	**1,722**	**1,945**

As of December 31, 2006, the Bank had a concentration of loans represented by USD 926 due from the ten largest borrowers (47% of gross loan portfolio) (2005 – USD 1,104 or 49%). An allowance of USD 98 (2005 – USD 108) was made against these loans.

At December 31, 2006, contractual annual interest rates charged by the Bank on customer loans ranged from 0.5% to 14% for USD loans, from 0% to 39% for UZS loans, from 0.8% to 7.7% for Euro loans, and 3% for Japanese Yen loans. At December 31, 2005, contractual annual interest rates charged by the Bank on customer loans ranged from 0.5% to 20% for USD loans, from 0% to 45% for UZS loans, from 0.8% to 12% for Euro loans, from 3% to 3.9% for Japanese Yen loans. The above annual interest ranges are broad due to certain loans being funded through placements with the Bank, where the Bank earns a small margin on the transaction. Lower rate loans are funded or collateralized with cash by the government or through a government program.

Loans have been extended to the following types of customers:

	2006	*2005*
State-owned entities	1,156	1,468
Private companies	769	712
Government agencies	52	54
	1,977	**2,234**

Loans are made principally within Uzbekistan in the following industry sectors:

	2006	*2005*
Transport	438	516
Manufacturing and mining	425	476
Light industry	378	353
Food	129	160
Construction	115	118
Energy	85	189
Retail and trading	61	55
Government agencies	51	52
Other	295	315
	1,977	**2,234**

(Millions of US Dollars)

7. Loans to customers (continued)

The Bank accepted the guarantees from the Government of Uzbekistan and other property as collateral for commercial loans. The breakdown of loan portfolio by types of collateral accepted is summarized in the table below:

	2006	*2005*
Government guarantee	1,542	1,862
Assets pledged	249	203
No collateral (unsecured)	70	34
Other	116	135
	1,977	**2,234**

The loans secured by guarantees from the Government of Uzbekistan have been granted at commercial terms and conditions.

8. Taxation

Uzbekistan and the Russian Federation are the only tax jurisdictions in which the Bank's income was taxed. Taxes paid in the Russian Federation are not significant. Income tax assets (liabilities) consisted of the following at December 31:

	2006	*2005*
Current income tax asset (Note 11)	1	2
Deferred income tax liability	(35)	(25)
Income tax liability	**(34)**	**(23)**

The components of the provision for income taxes charged to the consolidated statement of income were as follows for the years ended December 31:

	2006	*2005*
Current income tax expense	2	2
Deferred income tax expense/(benefit)	10	(8)
Income tax expense/(benefit)	**12**	**(6)**

The current portion of the tax provision was calculated by applying the Uzbekistan statutory tax rate of 12% and 15% in 2006 and 2005, to the Bank's taxable profit reported for Uzbekistan tax purposes. The tax rate for companies other than banks was also 12% for 2006 and 15% for 2005.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2006	*2005*
Income/(loss) before tax	**14**	**(51)**
Statutory tax rate	12%	15%
Theoretical income tax expense/(benefit) at the statutory rate	**2**	**(8)**
Tax effect of permanent differences:		
Losses of branches	4	7
Statutory non-deductible business expenses	3	3
Income tax exempt resulting from qualified growth in time deposits	(3)	(2)
Tax exemption on interest and commission income on loans extended to NAC "Havo Yullari"	(2)	-
Foreign exchange translation differences	2	(1)
Change in statutory tax rate	6	(5)
Income tax expense/(benefit)	**12**	**(6)**

(Millions of US Dollars)

8. Taxation (continued)

Deferred tax assets and liabilities as of December 31 and their movements for the respective years comprise:

	2006	*2005*
Tax effect of deductible temporary differences:		
Allowances for loan impairment	12	11
Accrued interest expenses	4	2
Deferred tax assets	**16**	**13**
Tax effect of taxable temporary differences:		
Property and equipment	(21)	(19)
Accrued interest income	(30)	(19)
Deferred tax liability	**(51)**	**(38)**
Net deferred tax liability	**(35)**	**(25)**

9. Allowance for impairment and provisions

Changes in the allowance for loan impairment consisted of the following at December 31:

	2006	*2005*
Balance at beginning of the year	289	226
Recoveries	1	13
Write offs	(42)	(8)
Charge	7	58
Balance at end of year	**255**	**289**

In 2006 a provision of USD 5 (2005 – nil) was created against guarantees issued to JV “Yadem Textile” as a result of deterioration of its financial condition and creditworthiness.

10. Property and equipment

The movement in property and equipment were as follows:

	Buildings		*Furniture, fixtures and equipment*		*Construction in progress*		*Total*	
	2006	*2005*	*2006*	*2005*	*2006*	*2005*	*2006*	*2005*
Balance at beginning of year	212	198	76	74	15	32	303	304
Additions	3	16	27	14	-	2	30	32
Disposals	(3)	(2)	(23)	(12)	(3)	(19)	(29)	(33)
Balance at end of year	**212**	**212**	**80**	**76**	**12**	**15**	**304**	**303**
Accumulated depreciation at beginning of year	(54)	(44)	(53)	(47)	-	-	(107)	(91)
Depreciation	(12)	(10)	(6)	(6)	-	-	(18)	(16)
Balance at end of year	**(66)**	**(54)**	**(59)**	**(53)**	**-**	**-**	**(125)**	**(107)**
Net carrying amount	**146**	**158**	**21**	**23**	**12**	**15**	**179**	**196**

(Millions of US Dollars)

11. Other assets and liabilities

Other assets comprise:

	2006	*2005*
Debt securities owned (available-for-sale)	30	7
Other equity participations (available-for-sale)	26	25
Overdue notes	13	4
Investments in associates (under equity method)	2	23
Accrued commission receivable	1	3
Income tax assets (Note 8)	1	2
Other	6	10
Other assets	**79**	**74**

Debt securities owned mainly represented short-term treasury bills of the CBU with an interest rate of 6%.

Other liabilities comprise:

	2006	*2005*
Commission on lease	3	5
Other	3	7
Other liabilities	**6**	**12**

12. Amounts due to the Central Bank and Government of Uzbekistan

Amounts due to the CBU and Government of Uzbekistan consist of the following:

	2006	*2005*
Amounts owed to the Government of Uzbekistan	196	205
Correspondent accounts of the CBU	100	99
Interest-bearing placements from the CBU	59	63
Funds received from the CBU for centralized lending	25	31
Amounts due to the CBU and Government of Uzbekistan	**380**	**398**

At December 31, 2006 and 2005, interest-bearing placements from the CBU carry annual market interest rates which varied from 5.10% to 5.12% and from 4.04% to 4.14% for USD placements, respectively.

At December 31, 2006 and 2005, funds received from the CBU for centralized lending represent funds, which are used by the Bank under special programs to provide lending to targeted industries. The Bank acts as an agent of the state by extending loans to a number of industrial enterprises of the Republic of Uzbekistan. Separate agreements are concluded between the Bank and the CBU, and between the Bank and the borrower. The Bank earns from 0.3% to 1% margin on these loans. Terms of the respective agreements are matched. If the borrower fails to repay the loan and interest accrued in accordance with the terms of the loan agreement, the terms are usually extended by the government order accordingly. There were no government orders to extend the terms of loan agreements during 2006. At December 31, 2006 and 2005 these funds carried interest ranging from 2.7% to 18% and from 2.7% to 18%, respectively.

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2006	*2005*
Interest-bearing placements from non-OECD based banks	41	7
Correspondent loro accounts of non-OECD based banks	15	7
Amounts due to credit institutions	**56**	**14**

(Millions of US Dollars)

13. Amounts due to credit institutions (continued)

At December 31, 2006 interest-bearing placements from non-OECD based banks carry contractual interest rates ranging from 4.80% to 4.92% for USD-denominated placements, from 2.75% to 3.29% for EURO-denominated placements and from 6% to 7% for UZS-denominated placements, per annum. At December 31, 2005 interest-bearing placements from non-OECD based banks carry contractual interest rates ranging from 3.7% to 4.5% for USD-denominated placements, 2.22% for EURO-denominated placements and 16% for UZS-denominated placements, per annum.

14. Amounts due to customers

Amounts due to customers comprise:

	2006	*2005*
Current account balances	505	422
Time deposits	174	120
Amounts due to customers	**679**	**542**

At December 31, 2006 and 2005, customer balances bear interest ranging from 1.31% to 4.75% and from 0.79% to 9% per annum for USD deposits, and from 0% to 18% and from 0% to 36% per annum for UZS deposits, respectively.

Amounts due to customers include accounts with the following types of customers:

	2006	*2005*
Private enterprises	282	223
State and budgetary organisations	196	160
Individuals	184	139
Other	17	20
Amounts due to customers	**679**	**542**

As presented in the table above, the Bank has received significant funds from private enterprises, state and budgetary organisations, and individuals. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

15. Interstate credits

Interstate credits represent loans, which have been made available to the Bank by foreign export-import agencies, banks, and international lending organizations mostly under the guarantees of certain government agencies and the sovereign guarantee of the Government of Uzbekistan. At December 31, 2006, contractual interest rates on interstate credits ranged from 0% to 9.2% per annum for USD interstate credits, from 0.3% to 6.5% for Euro interstate credits and 2.5% for Japanese Yen interstate credits. At December 31, 2005, contractual interest rates on interstate credits ranged from 0% to 8% per annum for USD interstate credits, from 0.3% to 6.5% for Euro interstate credits and from 2.5% to 3.4% for Japanese Yen interstate credits. The Bank utilizes this funding mechanism to lend money to various local companies under comparable terms and conditions. The Bank's interest spread on these operations ranged from 0% to 3.25% and is based on the Bank's assessment of the borrower's creditworthiness. Amounts loaned by the Bank are included within customer loans and advances in the accompanying consolidated balance sheet.

At December 31, 2006 and 2005, the interstate credits included USD 218 and USD 271, respectively, of loans related to financing of aircraft leases.

(Millions of US Dollars)

15. Interstate credits (continued)

At December 31, 2006 interstate credits mature as follows based upon contractual terms:

2007	248
2008	192
2009	131
2010	98
2011	61
Thereafter	153
	883

At December 31, 2006 and 2005, the Bank had USD 51 and USD 42, respectively, of unused and available interstate credit lines.

Interstate credits include loans totaling USD 3 from foreign financial institutions, which have restrictive financial covenants. The Bank is not in compliance with certain such covenants, and this provides the lenders with certain legal remedies under the loan agreements. The management believes that the financial institutions will not use these remedies.

16. Authorized and contributed capital

At December 31, 2006 and 2005, the Bank's authorized and contributed capital consisted of UZS 4,000 million and USD 336. The sole contributor to the Capital Fund is the Cabinet of Ministers of Uzbekistan. The Bank has not issued any shares.

At December 31, 2006 and 2005, the Bank’s distributable reserves amounted to UZS 40,179 million and UZS 24,871 million, respectively.

17. Commitments and contingencies

Operating environment

Uzbekistan is an emerging market economy, and its legislation regarding banking operations, foreign currency transactions, and taxation is constantly evolving as the government attempts to manage the economy. Risks inherent in conducting business in an emerging market economy include but are not limited to below-investment-grade credit quality and volatility in the financial markets and the general economy.

The Bank's financial position and operating results will continue to be affected by future political and economic developments in Uzbekistan including the application of existing and future legislation and tax regulations which significantly impact Uzbekistan financial markets and the economy overall. The Bank does not believe that these general emerging market contingencies, as related to its operations, are any more significant than those of similar enterprises in Uzbekistan.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

(Millions of US Dollars)

17. Commitments and contingencies (continued)

Financial commitments and contingencies

At December 31, the Bank's financial commitments and contingencies comprised the following:

	2006	*2005*
Credit related commitments		
Guarantees	291	326
Letters of credit	135	116
Undrawn loan commitments	4	3
	430	**445**
Capital expenditure commitments	1	4
Less – Cash held as security against letters of credit and guarantees	(77)	(51)
Financial commitments and contingencies	**354**	**398**

Insurance

The Bank's property is insured for USD 34. The Bank has currently obtained insurance coverage related to liabilities arising from errors or omissions in amount of USD 1.

18. Net fee and commission income

Net fee and commission income comprise:

	2006	*2005*
Settlement operations	22	16
Cash collection	8	8
Currency conversion operations	6	6
Guarantees and letters of credit	4	9
Other	4	2
Fee and commission income	**44**	**41**
Cash operations	(3)	(2)
Currency conversion operations	(2)	(2)
Other	(1)	(1)
Fee and commission expense	**(6)**	**(5)**
Net fee and commission income	**38**	**36**

(Millions of US Dollars)

19. Salaries and other administrative and operating expenses

Salaries and benefits, as well as other administrative and operating expenses comprise:

	2006	*2005*
Salaries and bonuses	11	12
Social security costs	3	1
Other employment taxes	3	3
Salaries and benefits	**17**	**16**
Operating taxes	9	10
Repair and maintenance of property and equipment	2	2
Office supplies	2	2
Security	2	2
Deposit Insurance Fund	2	2
Communications	1	1
Charity	1	1
Business travel and related	1	1
(Recovery of losses)/loss on investments	(2)	4
Other	6	4
Other administrative and operating expenses	**24**	**29**

20. Financial risk management policies

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main financial risks inherent to the Bank's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates. A summary description of the Bank's risk management policies in relation to those risks follows.

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower and product are approved monthly by the Board of Directors. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying consolidated financial statements and the disclosed financial commitments.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

(Millions of US Dollars)

20. Financial risk management policies (continued)

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of the CBU. The Bank's exposure to foreign currency exchange rate risk follows:

			2006		
	UZS	***USD***	***EUR***	***Other***	***Total***
Assets:					
Cash and cash equivalents	39	350	25	15	**429**
Due from credit institutions	46	21	4	-	**71**
Loans to customers	185	1,141	306	90	**1,722**
Other assets	32	16	-	3	**51**
	302	**1,528**	**335**	**108**	**2,273**
Liabilities:					
Due to the CBU and Government	43	335	1	1	**380**
Due to credit institutions	33	21	-	2	**56**
Due to customers	374	264	21	20	**679**
Interstate credits	-	394	357	132	**883**
Other liabilities	37	3	-	1	**41**
	487	**1,017**	**379**	**156**	**2,039**
Net balance sheet position	**(185)**	**511**	**(44)**	**(48)**	**234**
Net off-balance sheet position – financial commitments and contingencies	3	328	7	16	**354**

			2005		
	UZS	***USD***	***EUR***	***Other***	***Total***
Assets:					
Cash and cash equivalents	102	86	20	11	**219**
Due from credit institutions	33	15	5	5	**58**
Loans to customers	185	1,247	381	132	**1,945**
Other assets	14	8	-	4	**26**
	334	**1,356**	**406**	**152**	**2,248**
Liabilities:					
Due to the CBU and Government	54	341	3	-	**398**
Due to credit institutions	4	8	1	1	**14**
Due to customers	303	202	15	22	**542**
Interstate credits	-	501	425	157	**1,083**
Other liabilities	27	6	-	4	**37**
	388	**1,058**	**444**	**184**	**2,074**
Net balance sheet position	**(54)**	**298**	**(38)**	**(32)**	**174**
Net off-balance sheet position – financial commitments and contingencies	7	359	9	23	**398**

As of December 31, 2006 and 2005, included in other liabilities are tax liabilities in the amount of USD 35 and USD 25, respectively.

(Millions of US Dollars)

20. Financial risk management policies (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

At December 31, the effective average interest rates by currencies and comparative market rates for interest generating/ bearing monetary financial instruments were as follows:

	2006			*2005*		
	UZS	***USD***	***Other***	***UZS***	***USD***	***Other***
Bank rates:						
Due from credit institutions	14.0%	5.2%	3.5%	-	4.2%	1.5%
Debt securities owned (available-for-sale)	12.4%	-	-	17.7%	-	-
Loans to customers	15.8%	7.4%	4.0%	16.4%	5.6%	3.0%
Due to credit institutions	4.3%	1.9%	1.1%	9.9%	2.3%	1.1%
Customer deposits	4.8%	0.3%	-	5.8%	0.4%	-

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2006							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	101	316	12	-	-	-	-	**429**
Due from credit institutions	63	-	-	3	5	-	-	**71**
Loans to customers	367	62	74	327	585	213	94	**1,722**
Other assets	18	2	-	29	1	-	1	**51**
	549	**380**	**86**	**359**	**591**	**213**	**95**	**2,273**
Liabilities:								
Due to the CBU and Government	132	82	1	145	7	13	-	**380**
Due to credit institutions	15	18	11	12	-	-	-	**56**
Due to customers	491	82	50	34	20	2	-	**679**
Interstate credits	-	27	45	176	482	153	-	**883**
Other liabilities	38	-	-	3	-	-	-	**41**
	676	**209**	**107**	**370**	**509**	**168**	**-**	**2,039**
Net position	**(127)**	**171**	**(21)**	**(11)**	**82**	**45**	**95**	**234**
Accumulated gap	**(127)**	**44**	**23**	**12**	**94**	**139**	**234**	

(Millions of US Dollars)

20. Financial risk management policies (continued)

Liquidity risk (continued)

	2005							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	43	167	9	-	-	-	-	**219**
Due from credit institutions	41	10	2	-	5	-	-	**58**
Loans to customers	534	67	85	307	756	158	38	**1,945**
Other assets	16	1	-	5	1	-	3	**26**
	634	**245**	**96**	**312**	**762**	**158**	**41**	**2,248**
Liabilities:								
Due to the CBU and Government	124	143	2	103	10	16	-	**398**
Due to credit institutions	8	5	-	1	-	-	-	**14**
Due to customers	427	26	54	20	13	2	-	**542**
Interstate credits	-	37	56	203	632	155	-	**1,083**
Other liabilities	32	5	-	-	-	-	-	**37**
	591	**216**	**112**	**327**	**655**	**173**	**-**	**2,074**
Net position	**43**	**29**	**(16)**	**(15)**	**107**	**(15)**	**41**	**174**
Accumulated gap	**43**	**72**	**56**	**41**	**148**	**133**	**174**	

As of December 31, 2006 and 2005, included in other liabilities are tax liabilities in the amount of USD 35 and USD 25, respectively.

21. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The management believes, based upon its best estimates, that as of December 31, 2006 and 2005, carrying values of substantially all the Bank's monetary assets and liabilities approximate their estimated fair values.

The following table summarises the carrying amounts and fair values of the financial assets and liabilities of the Bank:

	2006		***2005***	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Financial assets				
Due from credit institutions	71	71	58	58
Loans to customers	1,722	1,722	1,945	1,945
Financial liabilities				
Due to the CBU and Government	380	374	398	386
Due to credit institutions	56	56	14	14
Due to customers	679	676	542	540

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

Amounts due from and to credit institutions and customers

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

(Millions of US Dollars)

22. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions at the year end, and related expense and income for the year are as follows:

	The Uzbek Government and the CBU		***State-owned entities***	
	2006	***2005***	***2006***	***2005***
Loans outstanding at January 1, gross	-	-	1,522	1,664
Loans outstanding at December 31, gross	**-**	**-**	**1,208**	**1,522**
Less – Allowance for impairment at December 31	-	-	(118)	(111)
Loans outstanding at December 31, net	**-**	**-**	**1,090**	**1,411**
Interest income on loans	-	-	57	61
Impairment (charge)/reversal for loans	-	-	(7)	3
Deposits at January 1	398	385	160	164
Deposits at December 31	**380**	**398**	**196**	**160**
Interest expense on deposits	16	13	2	1
Commitments and guarantees issued	-	-	338	297
Commitments and guarantees received	1,542	1,862	-	-

23. Capital adequacy

The Bank is subject to various regulatory requirements administered by the CBU. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions, which, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under statutory capital adequacy guidelines and the regulatory framework of Uzbekistan, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and off-balance sheet items as calculated under regulatory accounting practices. The quantitative measures established by the CBU to ensure capital adequacy require banks to maintain minimum amounts and ratios, as set forth in the table below, of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital divided by total assets adjusted by the amount of intangible assets. The CBU requires that capital adequacy ratios be calculated by using UZS equivalents of the Bank's capital amounts. The Bank complies with the capital adequacy ratios set by the CBU.

The table below summarizes the Bank's actual capital amounts and actual and required ratios at December 31:

	2006	***2005***
Amounts in UZS equivalent (in billions):		
Tier 1 capital	461	433
Total risk based capital adjusted for equity participations	442	367
Ratio of total capital to risk-weighted assets:		
Bank's ratio	31.2%	29.0%
Required ratio	10.0%	10.0%
Ratio of Tier 1 capital to risk-weighted assets:		
Bank's ratio	32.5%	34.2%
Required ratio	5.0%	5.0%
Ratio of Tier 1 capital to total assets less intangibles:		
Bank's ratio	15.4%	15.1%
Required ratio	6.0%	6.0%

(Millions of US Dollars)

23. Capital adequacy (continued)

The Bank's international risk-adjusted capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risk, as of December 31, 2006 and 2005, was 17% and 18%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

(Millions of Uzbek Soums)

24. Consolidated financial statements for convenience purposes – presentation currency

The following financial statements are presented in millions of UZS and translated for convenience purposes on the basis described in Note 2 above:

	2006	*2005*
Assets		
Cash and cash equivalents	531,960	258,420
Amounts due from credit institutions	88,040	68,440
Loans to customers	2,135,280	2,295,100
Assets held-for-sale	-	23,600
Property and equipment	221,960	231,280
Other assets	97,960	87,320
Total assets	**3,075,200**	**2,964,160**
Liabilities		
Amounts due to the Central Bank and Government of Uzbekistan	471,200	469,640
Amounts due to credit institutions	69,440	16,520
Amounts due to customers	841,960	639,560
Interstate credits	1,094,920	1,277,940
Tax liabilities	43,400	29,500
Provisions	6,200	-
Other liabilities	7,440	14,160
Total liabilities	**2,534,560**	**2,447,320**
Equity		
Share capital	496,000	472,000
Additional paid-in capital	24,800	23,600
Retained earnings	19,840	21,240
Total equity	**540,640**	**516,840**
Total liabilities and equity	**3,075,200**	**2,964,160**
Financial commitments and contingencies	438,960	469,640

(Millions of Uzbek Soums)

24. Consolidated financial statements for convenience purposes – presentation currency (continued)

	2006	*2005*
Interest income		
Loans to customers	137,700	124,654
Other	14,623	7,791
	152,323	**132,445**
Interest expense		
Amounts due to customers	(40,213)	(40,067)
Amounts due to the Central Bank of Uzbekistan	(12,186)	(7,791)
Interstate credits and amounts due to credit institutions	(54,836)	(53,423)
	(107,235)	**(101,281)**
Net interest income	**45,088**	**31,164**
Impairment of interest earning assets	(8,530)	(64,553)
Net interest income/(loss) after impairment of interest earning assets	**36,558**	**(33,389)**
Fee and commission income	53,618	45,632
Fee and commission expense	(7,311)	(5,565)
Net fee and commission income	**46,307**	**40,067**
Gains less losses from foreign currencies	3,656	-
Other income	8,530	4,452
Other non-interest income	**12,186**	**4,452**
Salaries and benefits	(20,716)	(17,808)
Depreciation	(21,934)	(17,808)
Other administrative and operating expenses	(29,246)	(32,276)
Provision for guarantees issued	(6,093)	-
Other non-interest expense	**(77,989)**	**(67,892)**
Income/(loss) before income tax expense	**17,062**	**(56,762)**
Income tax (expense)/benefit	(14,623)	6,678
Income/(loss) for the year	**2,439**	**(50,084)**

(Millions of Uzbek Soums)

24. Consolidated financial statements for convenience purposes – presentation currency (continued)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
December 31, 2004	**423,200**	**21,160**	**68,770**	**513,130**
Loss for the year	-	-	(50,084)	(50,084)
Dividends to the shareholder of the Bank	-	-	(2,226)	(2,226)
Exchange differences resulting from translation from a functional currency to a presentation currency	48,800	2,440	4,780	56,020
December 31, 2005	**472,000**	**23,600**	**21,240**	**516,840**
Profit for the year	-	-	2,439	2,439
Dividends to the shareholder of the Bank	-	-	(4,874)	(4,874)
Exchange differences resulting from translation from a functional currency to a presentation currency	24,000	1,200	1,035	26,235
December 31, 2006	**496,000**	**24,800**	**19,840**	**540,640**

(Millions of Uzbek Soums)

24. Consolidated financial statements for convenience purposes – presentation currency (continued)

	2006	*2005*
Cash flows from operating activities		
Income/(loss) before income tax expense	17,062	(56,762)
Adjustments for:		
Depreciation	21,934	17,808
Allowance for loan impairment	8,530	64,553
Provision for guarantees issued	6,093	-
Operating income before changes in net operating assets	**53,619**	**25,599**
(Increase)/decrease in operating assets		
Amounts due from credit institutions	(16,120)	(24,780)
Loans to customers	292,640	345,740
Assets held-for-sale	-	(23,600)
Other assets	(5,409)	(34,060)
Increase/(decrease) in operating liabilities		
Amounts due to the Central Bank and Government of Uzbekistan	(22,320)	15,340
Amounts due to credit institutions	52,080	(44,840)
Amounts due to customers	169,880	48,380
Interstate credits	(248,000)	(438,960)
Other liabilities	(7,440)	3,540
Net cash flows from/(used in) operating activities before income tax	**268,930**	**(127,641)**
Income tax paid	(2,437)	(2,226)
Net cash from/(used in) operating activities	**266,493**	**(129,867)**
Cash flows from investing activities		
Purchase of property and equipment	(6,093)	(1,113)
Net cash used in investing activities	**(6,093)**	**(1,113)**
Effect of exchange rates changes on cash and cash equivalents	13,140	40,260
Net increase/(decrease) in cash and cash equivalents	**273,540**	**(90,720)**
Cash and cash equivalents, beginning	**258,420**	**349,140**
Cash and cash equivalents, ending	**531,960**	**258,420**
Supplemental information:		
Interest paid	(106,016)	(101,281)
Interest received	145,011	95,716