

JSCICB “Uzpromstroybank”

Financial Statements

Year ended December 31, 2005

Together with Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Joint-Stock Commercial Industrial-Construction Bank Uzpromstroybank –

We have audited the accompanying balance sheet of Joint-Stock Commercial and Industrial-Construction Bank Uzpromstroybank (the "Bank") as of December 31, 2005, and the related statements of income, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 3 to the accompanying financial statements. As further discussed therein, operations in Uzbekistan entail significant uncertainties that could affect the Bank in the foreseeable future. The accompanying financial statements do not include any adjustments that might result from the future clarification of these uncertainties. Such adjustments, if any, will be reported when they become known and estimable.

Ernst & Young MChJ

March 7, 2006

BALANCE SHEET**For the year ended December 31, 2005***(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Assets			
Cash and cash equivalents	7	102,822,839	96,107,485
Amounts due from credit institutions	8	72,350,822	35,442,201
Available-for-sale securities	9	4,372,957	3,710,919
Loans to customers	10	310,386,195	268,749,380
Property and equipment	11	22,106,954	16,539,741
Intangible assets	12	2,024,259	1,119,216
Tax assets	13	3,885,530	2,889,223
Other assets	15	3,579,944	3,122,875
Total assets		521,529,500	427,681,040
Liabilities			
Amounts due to Central Bank and Government	16	75,007,916	87,871,856
Amounts due to credit institutions	17	101,329,802	87,973,648
Amounts due to customers	18	309,341,915	217,597,604
Other liabilities		1,134,722	1,060,233
Total liabilities		486,814,355	394,503,341
Equity	19		
Share capital		23,843,703	22,679,852
Reserves and accumulated deficit		10,871,442	10,497,847
Total equity		34,715,145	33,177,699
Total equity and liabilities		521,529,500	427,681,040
Financial commitments and contingencies	20		

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

Kiyomiddin K. Rustamov

Saidkamol S. Khodjaev

March 7, 2006




STATEMENT OF INCOME**For the year ended December 31, 2005***(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Interest income			
Loans to customers		26,666,485	22,148,319
Amounts due from credit institutions		3,619,846	1,950,408
Securities		1,016,958	749,173
		31,303,289	24,847,900
Interest expense			
Amounts due to credit institutions		(6,634,793)	(7,465,120)
Amounts due to customers		(13,224,363)	(13,282,768)
		(19,859,156)	(20,747,888)
Net interest income		11,444,133	4,100,012
Impairment of interest earning assets	14	(5,903,319)	(2,945,561)
Net interest income after impairment of interest earning assets		5,540,814	1,154,451
Fee and commission income		23,098,996	19,365,334
Fee and commission expense		(3,106,956)	(2,468,522)
Net fee and commission income	21	19,992,040	16,896,812
Losses on impairment of available-for-sale securities		(27,513)	(51,462)
Gains less losses from foreign currencies:			
- dealing		1,114,747	1,281,675
- translation differences		1,326,328	1,147,672
Dividend income		312,460	374,528
Other operating income		240,047	278,552
Other non interest income		22,958,109	19,927,777
Salaries and benefits	22	(8,727,179)	(7,124,650)
Other operating expenses	22	(11,948,970)	(8,725,327)
Depreciation and amortisation	11,12	(1,721,187)	(1,025,034)
Net reversal of other provisions	14	310,814	578,341
Other non interest expense		(22,086,522)	(16,296,670)
Loss on net monetary position		(2,483,040)	(778,890)
Profit before income tax expense		3,929,361	4,006,668
Income tax expense	13	(1,390,089)	(1,098,724)
Profit for the year		2,539,272	2,907,944

STATEMENT OF CHANGES IN EQUITY**For the year ended December 31, 2005***(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)*

	<i>Share capital</i>	<i>Inflation adjustment to share capital</i>	<i>Accumulated deficit</i>	<i>Reserves</i>	<i>Total equity</i>
December 31, 2003	9,823,632	11,672,585	(6,312,492)	16,695,698	31,879,423
Shares issued and paid	376,368	-	-	-	376,368
Effect of inflation on share capital	-	807,267	-	-	807,267
Transfers	-	-	(3,938,229)	3,938,229	-
Profit for the year	-	-	2,907,944	-	2,907,944
Dividends paid	-	-	(2,793,303)	-	(2,793,303)
December 31, 2004	10,200,000	12,479,852	(10,136,080)	20,633,927	33,177,699
Shares issued and paid	1,117,208	-	-	-	1,117,208
Effect of inflation on share capital	-	46,643	-	-	46,643
Transfers	-	-	(3,850,297)	3,850,297	-
Profit for the year	-	-	2,539,272	-	2,539,272
Dividends paid	-	-	(2,165,677)	-	(2,165,677)
December 31, 2005	11,317,208	12,526,495	(13,612,782)	24,484,224	34,715,145

STATEMENT OF CASH FLOWS**For the year ended December 31, 2005***(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Cash flows from operating activities			
Interest, fees and commissions received		56,062,508	47,737,083
Interest, fees and commissions paid		(26,980,681)	(27,323,058)
Realised gains less losses from dealing in foreign currencies		1,195,091	1,249,668
Other operating income received		1,916,864	996,939
Salaries and salary related expenses		(8,593,311)	(6,998,222)
Other administrative and operating expenses		(11,380,971)	(6,665,656)
Effect of inflation		(925,974)	(1,244,643)
Cash flows from operating activities before changes in operating assets and liabilities		11,293,526	7,752,111
Net (increase)/decrease in operating assets			
Obligatory reserve with the Central Bank		(14,605,553)	(1,869,637)
Available-for-sale securities		(745,874)	593,981
Amounts due from credit institutions		(28,901,381)	(12,908,537)
Loans to customers		(70,688,803)	(54,459,915)
Other assets		(312,639)	(1,593,905)
Net increase/(decrease) in operating liabilities			
Amounts due to Central Bank and Government		(4,063,196)	(3,712,174)
Amounts due to credit institutions		20,358,979	35,918,794
Amounts due to customers		113,607,342	61,398,800
Other liabilities		(433,694)	11,933,580
Net cash flows from operating activities before income tax		25,508,707	43,053,098
Corporate income tax paid		(3,329,693)	(1,780,745)
Net cash from operating activities		22,179,014	41,272,353
Cash flows from investing activities			
Purchase of investment securities		(180,043)	(169,420)
Proceeds from sale of investment securities		8,443	44,561
Dividends received		312,460	374,539
Purchase of intangible assets		(1,218,339)	(724,551)
Purchase of property and equipment		(7,077,362)	(5,705,532)
Effect of inflation		355,193	179,396
Net cash used in investing activities		(7,799,648)	(6,001,007)
Cash flows from financing activities			
Proceeds from issue of share capital		1,163,851	405,725
Dividends paid		(2,165,677)	(2,793,303)
Effect of inflation		40,151	78,065
Net cash used in financing activities		(961,675)	(2,309,513)
Effect of exchange rates changes on cash and cash equivalents		251,637	56,184
Effect of inflation on cash and cash equivalents		(6,953,974)	(2,397,400)
Net increase in cash and cash equivalents		6,715,354	30,620,617
Cash and cash equivalents, beginning		96,107,485	65,486,868
Cash and cash equivalents, ending	7	102,822,839	96,107,485

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

1. Principal activities

Uzbek Joint-Stock Commercial Industrial and Construction Bank “Uzpromstroybank” (the “Bank”) was formed in 1991 as an open joint-stock company under the laws of the Republic of Uzbekistan. The Bank possesses general banking license No. 530/17 issued by the Central Bank of Uzbekistan (“CBU”), and general license for foreign currency operations No. 1, granted on July 25, 1991 and August 17, 1993, respectively. The Bank accepts deposits from the public and makes loans, transfers payments in Uzbekistan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. A significant portion of the Bank’s activities are related to its role as a government agent in allocating centralized resources of the government to the strategic industries of economy such as oil and gas, power industry, chemicals, manufacturing and mining. These activities represent a significant part of the Bank’s assets, funding sources and income generation.

The Bank is among the six largest banks in Uzbekistan in terms of total assets determined under local accounting rules. Its main office is located in Tashkent and it has 46 branches. The Bank’s registered legal address is 3, Shakhrisabzskaya Street, Tashkent.

As of December 31, 2005, NHC “Uzbekneftegaz”, state oil and gas company, owned more than 46% of the outstanding shares. All other shareholders owned less than 5% of the outstanding shares of the Bank as of December 31, 2005.

2. Liquidity

As of December 31, 2005, the Bank had an accumulated negative gap extending from less than one month up to one year amounting to UZS 54,627,539.

Management monitors the Bank’s liquidity positions and has plans to reduce the liquidity gap extending from less than one month up to one year in the foreseeable future. The Bank intends to reduce the concentration in its deposits base by further attracting small and medium size corporate and retail depositors.

Management also believes that the majority of its ‘on demand’ customer accounts will be extended over their initial contractual maturity and the Bank would be given sufficient notice so as to realize its liquid assets to enable repayment to its depositors.

The Bank’s two largest shareholders, NHC “Uzbekneftegaz” and SJSC “Uzbekenergo” (cumulatively holding 51% of share capital), have undertaken to provide the Bank with cash, should the Bank require funding to manage its liquidity.

3. Operating environment

Uzbekistan continues to undergo substantial economic and social changes. As an emerging market, Uzbekistan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. The Uzbek Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, operations in Uzbekistan involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include a currency that is not freely convertible, onerous currency conversion controls, low liquidity levels for debt and equity markets, and continuing inflation.

The Bank could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Bank’s assets, and the ability of the Bank to maintain or pay its obligations as they mature. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank’s financial statements in the period when they become known and estimable.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

3. Operating environment (continued)

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Uzbekistan. The following table summarizes the official exchange rate of the Uzbek Soum (“UZS”) to one US Dollar established by CBU:

<i>December 31</i>	<i>Exchange rate</i>
2005	1,180
2004	1,058
2003	980
2002	970

Subsequently, CBU’s exchange rate has increased to 1,202.91 UZS to one US Dollar as of March 7, 2006.

4. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of UZS, expressed in terms of the purchasing power of the UZS as of December 31, 2005, unless otherwise indicated, as the majority of the Bank’s transactions are denominated, measured, or funded in this currency and the Uzbek Soum is the primary currency, in which the Bank generates and expends cash. Transactions in other currencies are treated as transactions in foreign currencies.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Uzbek Soums in accordance with Uzbek accounting and banking legislation and instructions (“UAL”). These financial statements are based on the Bank’s statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between UAL and IFRS is presented later in this note.

The financial statements are prepared under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities, as well as the required hyperinflationary adjustments.

These financial statements are presented in thousands of Uzbek Soums (“UZS”), unless otherwise indicated.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

IFRS 3 “Business Combinations”,
IAS 2 (revised) “Inventories”;
IAS 8 (revised) “Accounting Policies, Changes in Accounting Estimates and Errors”;
IAS 10 (revised) “Events after the Balance Sheet Date”;
IAS 16 (revised) “Property, Plant and Equipment”;
IAS 17 (revised) “Leases”;
IAS 21 (revised) “The Effects of Changes in Foreign Exchange Rates”;
IAS 24 (revised) “Related Party Disclosures”;
IAS 32 (revised) “Financial Instruments: Presentation and Disclosure”; and
IAS 39 (revised) “Financial Instruments: Recognition and Measurement”.

New and revised standards did not have effect on the Bank’s financial statements.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

4. Basis of preparation (continued)

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:

IAS 19 (amended 2004) "Employee Benefits";
IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
IFRS 7 "Financial Instruments: Disclosures";
IFRIC 4 "Determining whether an Arrangement contains a Lease";
IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's financial statements in the period of initial application.

Inflation accounting

Uzbekistan meets the definition of a hyperinflationary economy as defined by International Accounting Standard 29 ("IAS") "Financial Reporting in Hyperinflationary Economies". The inflation rate based on the Uzbekistan consumer price index ("CPI") as calculated by the State Committee on Statistics (Goskomstat), was 7.8% for 2005 (3.8% for 2004 and 2003, respectively). Although the cumulative inflation index for the three year period ended December 31, 2005 is less than 100%, it is considered that the remaining criteria set forth by IAS 29 indicate that Uzbekistan continued to experience conditions that meet the definition of a hyperinflationary economy during 2005 and the preceding three years.

The following methodologies and assumptions were used in the preparation of the Bank's financial statements to meet the requirements of IAS 29:

- Monetary assets and liabilities, as well as non-monetary items stated at fair value, as of December 31, 2005, are not restated because they are already expressed in terms of the monetary unit current as of December 31, 2005;
- Non-monetary assets and liabilities, and equity items have been restated by applying the relevant conversion factors to the historical cost ("restated cost"). Monthly income and expenses during the reporting period are restated from the end of the month when the item was recognized;
- Certain income statement amounts, such as impairment of financial assets, provisions for losses and the diminution in value of securities and investments have been assumed to occur at the end of the respective year in which they were determined unless related to a specific point in time;
- Comparative financial statements were restated by applying the 2005 conversion factor.

The application of this principle results in an adjustment to the statement of income for the loss of purchasing power of the Uzbek Soum during the respective reporting period. This loss on net monetary position is calculated as the difference resulting from the restatement of non-monetary assets, shareholders' equity and items of income and expense.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

4. Basis of preparation (continued)

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

Equity and profit for the year are reconciled between UAL and IFRS as follows:

	2005		2004	
	<i>Equity</i>	<i>Profit for the year</i>	<i>Equity</i>	<i>Profit for the year</i>
Uzbek Accounting Legislation (unaudited)	47,691,446	8,920,749	43,746,998	8,950,494
Inflation impact on:				
Non-monetary capital items	-	(3,125,217)	-	(1,358,869)
Other non-monetary items	4,543,500	2,150,301	2,393,198	1,042,141
Impairment of financial assets	(20,418,741)	(3,806,366)	(16,612,373)	(3,401,569)
Deferred taxation	1,519,740	225,177	1,294,563	748,426
Income tax	1,413,120	242,397	1,170,722	(309,935)
Effect of accrued interest	484,910	(1,830,254)	2,309,199	(1,406,183)
Bonus to employees	(299,406)	(155,511)	(143,896)	(143,896)
Other operating expenses	(213,355)	710,325	(923,680)	(923,680)
Operating tax expenses	(43,229)	11,132	(54,361)	35,704
Income recorded to funds	-	(849,259)	-	(400,973)
Accrual of audit fees	-	-	-	78,955
Foreign exchange gain	37,160	37,160	-	-
Other	-	8,638	(2,671)	(2,671)
International Financial Reporting Standards	34,715,145	2,539,272	33,177,699	2,907,944

5. Summary of accounting policies

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 after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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.

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.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

5. Summary of accounting policies (continued)

Financial assets (continued)

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 the aforementioned category. 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 statement of income. However, interest calculated using the effective interest method is recognised in the 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 arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

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.

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 shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the 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 statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

5. Summary of accounting policies (continued)

Allowances for impairment of financial assets (continued)

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans 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 amount of allowance for loan impairment in the 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 statement on income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments are reversed through the 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.

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 statement of income.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

5. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Uzbekistan.

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.

Uzbekistan also has various operating taxes that are assessed on the Bank activities. These taxes are included as a component of other operating expenses.

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 assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	20
Furniture and fixtures	7
Computers and office equipment	5-10
Motor vehicles	5

Leasehold improvements are amortised over the life of the related leased asset. 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.

Intangible Assets

Intangible assets primarily include computer software. Computer software costs are recognized as assets at restated cost and are amortized using the straight-line method over their useful lives, but not exceeding a period of five years.

Intangible assets under development are not depreciated. Amortization of these assets will begin when the related assets are placed in service.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

5. Summary of accounting policies (continued)

Borrowings

Borrowings, which include amounts due to credit institutions, amounts due to customers, debt securities issued, 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 income when the liabilities 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 system of the Republic of Uzbekistan, which requires 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.

Share capital

Share capital

Share capital is recognized at restated cost.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

5. Summary of accounting policies (continued)

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.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet 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 to realise the asset and settle the liability simultaneously.

Foreign currency translation

The financial statements are presented in Uzbek Soums, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBU exchange rates at December 31, 2005 and 2004 were 1,180 UZS and 1,058 UZS to 1 USD, respectively.

6. Significant accounting judgements and estimates

The preparation of 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 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.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

6. Significant accounting judgements and estimates (continued)

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. Recent events within the Republic of Uzbekistan suggest that the 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 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax positions will be sustained.

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>2005</i>	<i>2004</i>
Cash on hand	31,088,092	20,011,554
Current accounts with the Central Bank	23,516,664	21,344,245
Current accounts with other credit institutions	48,206,627	43,371,686
Reverse repurchase agreements with credit institutions up to 90 days	11,456	11,380,000
Cash and cash equivalents	102,822,839	96,107,485

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<i>2005</i>	<i>2004</i>
Obligatory reserve with the Central Bank	23,155,410	9,847,746
Time deposits for more than 90 days or overdue	49,195,412	25,863,955
Less – Allowances for impairment (Note 14)	-	(269,500)
Amounts due from credit institutions	72,350,822	35,442,201

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBU, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

8. Amounts due from credit institutions (continued)

As of December 31, 2005 UZS 39,257,353 (2004 – UZS 20,230,823) was placed in current accounts and inter-bank deposits with 11 internationally recognised OECD banks, who are the main counterparties of the Bank in performing international settlements. Of these amounts, UZS 36,525,653 (2004 – UZS 18,049,352) were pledged to the counterparty bank as collateral for open commitments.

As of December 31, 2005, inter-bank time deposits and loans include UZS 9,938,059 (2004 – UZS 16,625,805) placed with four Uzbek banks.

9. Available-for-sale securities

Available-for-sale securities owned comprise:

	<i>2005</i>	<i>2004</i>
Treasury bills of the Ministry of Finance	2,590,039	2,952,223
Corporate bonds	1,106,957	92,000
Corporate shares	675,961	666,696
Available-for-sale securities	4,372,957	3,710,919

Nominal interest rates and maturities of these securities are as follows:

	<i>2005</i>		<i>2004</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Treasury bills of the Ministry of Finance	10% - 15%	2006	10% - 14%	2005
Corporate bonds	22% - 28%	2006 - 2008	28%	2005

10. Loans to customers

Loans to customers comprise:

	<i>2005</i>	<i>2004</i>
Loans to customers	328,680,917	282,482,553
Factoring	1,284,854	1,977,264
	329,965,771	284,459,817
Less – Allowance for loan impairment (Note 14)	(19,579,576)	(15,710,437)
Loans to customers	310,386,195	268,749,380

As of December 31, 2005, the Bank had a concentration of loans represented by UZS 196,405,506 due from the ten largest borrowers (60% of gross loan portfolio) (2004 – UZS 162,943,934 or 57%). An allowance of UZS 5,506,512 (2004 – UZS 6,176,380) was made against these loans.

Loans and advances to customers include loans granted under the EBRD Small and Medium Enterprise Support Programme of UZS 5,344,804 (2004 – UZS 6,607,631). An allowance of UZS 3,589,107 (2004 – UZS 437,093) was made against these loans.

Loans have been extended to the following types of customers:

	<i>2005</i>	<i>2004</i>
State companies	160,984,179	114,567,872
Private companies	140,395,347	156,843,610
Individuals	28,586,245	13,048,335
	329,965,771	284,459,817

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

10. Loans to customers (continued)

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

	2005	2004
Machinery and other manufacturing	68,375,571	68,391,872
Oil & gas and energy	68,014,075	73,020,516
Chemicals	66,939,518	57,777,425
Individuals	28,586,245	13,048,335
Construction and construction materials	25,470,610	16,372,844
Trading companies	20,739,172	29,763,086
Textile	11,885,691	3,870,073
Food	11,680,378	7,131,369
Telecommunication	11,587,766	-
Agriculture	7,891,717	8,044,890
Transport	3,012,995	3,620,985
Other	5,782,033	3,418,422
	329,965,771	284,459,817

11. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Furniture and fixtures	Assets under construction	Total
Cost				
December 31, 2004	14,783,546	11,222,738	1,028,228	27,034,512
Additions	2,046,012	2,715,590	2,315,760	7,077,362
Disposals	(50,839)	(207,802)	(11,761)	(270,402)
Transfers	2,515,197	354,044	(2,869,241)	-
December 31, 2005	19,293,916	14,084,570	462,986	33,841,472
Accumulated depreciation				
December 31, 2004	2,028,280	8,466,491	-	10,494,771
Depreciation charge	800,808	643,659	-	1,444,467
Disposals	(12,007)	(192,713)	-	(204,720)
December 31, 2005	2,817,081	8,917,437	-	11,734,518
Net book value:				
December 31, 2004	12,755,266	2,756,247	1,028,228	16,539,741
December 31, 2005	16,476,835	5,167,133	462,986	22,106,954

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

11. Property and equipment (continued)

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Assets under construction</i>	<i>Total</i>
Cost				
December 31, 2003	12,080,096	9,078,693	1,075,988	22,234,777
Additions	156,467	2,454,246	2,782,039	5,392,752
Disposals	(130,654)	(432,057)	(30,306)	(593,017)
Transfers	2,677,637	121,856	(2,799,493)	-
December 31, 2004	14,783,546	11,222,738	1,028,228	27,034,512
Accumulated depreciation				
December 31, 2003	1,435,013	8,611,995	-	10,047,008
Depreciation charge	619,074	263,212	-	882,286
Disposals	(25,807)	(408,716)	-	(434,523)
December 31, 2004	2,028,280	8,466,491	-	10,494,771
Net book value:				
December 31, 2003	10,645,083	466,698	1,075,988	12,187,769
December 31, 2004	12,755,266	2,756,247	1,028,228	16,539,741

12. Intangible assets

Intangible assets represent accounting, foreign currency exchange and other software, legislative database and electronic mail systems. As of December 31, 2005 the total cost amounted to UZS 2,549,217 (2004 – UZS 1,383,599) and accumulated amortization to UZS 524,958 (2004 – UZS 264,383). Amortization charge for 2005 was UZS 276,720 (2004 – UZS 142,748).

13. Taxation

The corporate income tax expense comprises:

	<i>2005</i>	<i>2004</i>
Current tax charge	1,615,266	1,847,150
Deferred tax credit – origination and reversal of temporary differences	(225,177)	(748,426)
Income tax expense	1,390,089	1,098,724

Uzbek legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 15% for 2005 and 18% in 2004. The tax rate for companies other than banks was also 15% for 2005 and 18% for 2004.

Tax assets comprise:

	<i>2005</i>	<i>2004</i>
Current tax asset	2,365,790	1,594,660
Deferred tax asset	1,519,740	1,294,563
Tax asset	3,885,530	2,889,223

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

13. Taxation (continued)

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:

	2005	2004
Income before tax	3,929,361	4,006,668
Statutory tax rate	15%	18%
Theoretical income tax expense (benefit) at the statutory rate	589,404	721,200
Benefit related to increase in customer deposits	(1,264,002)	(1,234,787)
Salary related expenses	949,581	843,699
Effect of change in tax rates	538,643	323,189
Restatement of non-monetary items	375,026	203,830
Investment in fixed assets	(134,995)	(155,381)
Operating taxes	125,049	147,929
Statutory revaluation of fixed assets	94,351	50,535
Non tax deductible provisions for losses	(58,118)	18,364
Income tax on securities	(39,297)	(137,207)
Charity	37,570	74,879
Transportation	36,766	35,375
Expenses recorded to funds	35,929	18,981
Other	104,182	188,118
Income tax expense	1,390,089	1,098,724

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

	2005	2004
Tax effect of deductible temporary differences:		
Allowance for loan impairment	2,075,588	1,804,077
Allowance for impairment of deposits with credit institutions	-	40,425
Other accruals	255,348	145,087
Deferred tax asset	2,330,936	1,989,589
Tax effect of taxable temporary differences:		
Inflation restatement of non-monetary assets	(545,220)	(350,794)
Accrued interest income	(265,976)	(344,232)
Deferred tax liability	(811,196)	(695,026)
Deferred tax asset	1,519,740	1,294,563

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

14. Allowances for impairment and provisions

The movements in the allowances for impairment of interest earning assets were as follows:

	<i>Due from credit institutions</i>	<i>Loans to customers</i>	<i>Other assets</i>	<i>Total</i>
December 31, 2003	-	13,706,332	10,084,385	23,790,717
Charge (reversal)	269,500	2,676,061	(578,341)	2,367,220
Write-offs	-	(671,956)	(9,160,732)	(9,832,688)
Translation differences	-	-	603,249	603,249
December 31, 2004	269,500	15,710,437	948,561	16,928,498
Charge (reversal)	(269,500)	6,172,819	(310,814)	5,592,505
Write-offs	-	(2,303,680)	(504)	(2,304,184)
Translation differences	-	-	110,450	110,450
December 31, 2005	-	19,579,576	747,693	20,327,269

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. In accordance with the Uzbek legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

15. Other assets

Other assets comprise:

	<i>2005</i>	<i>2004</i>
Trade debtors and prepayments	1,052,486	770,132
Accrued commission income	1,018,232	746,756
Prepayments for small operating equipment	788,950	762,060
Assets under litigation	351,494	682,875
Other assets	1,116,475	1,109,613
	4,327,637	4,071,436
Less – Allowance for impairment of other assets (Note 14)	(747,693)	(948,561)
Other assets	3,579,944	3,122,875

16. Amounts due to Central Bank and Government

Amounts due to Central Bank and Government consist of the following:

	<i>2005</i>	<i>2004</i>
Amounts due to the Central Bank of Uzbekistan	65,131,340	77,302,411
Amounts due to the Government	9,876,576	10,569,445
Amounts due to Central Bank and Government	75,007,916	87,871,856

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>2005</i>	<i>2004</i>
Time deposits and loans	100,995,094	87,723,726
Current accounts	334,708	249,922
Amounts due to credit institutions	101,329,802	87,973,648

As of December 31, 2005, the Bank has a credit line of EUR 29,559 thousand (UZS 41,559,089) from Bankgesellschaft Berliner Bank (2004 - EUR 29,686 thousand or UZS 42,507,383). This credit line was provided in accordance with inter-governmental cooperation agreement between Uzbekistan and Germany to JV UzGlaszayden to finance construction of a fiber-glass production plant ("fiber-glass loan"). The Bank pays interest of EURIBOR+1.125% on the outstanding balance of the credit line semiannually. As of December 31, 2005, the Bank used EUR 29,559 thousand from the received credit line. The credit line matures in April 2014. The Bank bears full credit risk for the repayment of fiber-glass loan.

As of December 31, 2005, the Bank had received interbank loans of USD 29,232 thousand (UZS 34,494,226) from Industrial Construction Bank of China. This credit line was provided to General Direction of Kungrad Soda plant to finance construction of soda producing plant ("soda plant loan"). The Bank pays interest of Libor+0.69% on the balance of the loan semiannually. The credit line matures in April 2012. The Bank bears full credit risk for the repayment of soda plant loan.

As of December 31, 2005 the Bank has a credit line of EUR 3,273 thousand (UZS 4,568,214) and USD 2,498 thousand (UZS 2,948,525) from Commerzbank (2004 - EUR 395 thousand or UZS 565,601 and USD 2,000 thousand or UZS 2,116,000). The loans were passed through to three borrowers ("borrowers") as follows:

- Asrtex LLC in the amount of EUR 3,273 thousand (UZS 4,568,214) to purchase equipment for production of cotton yarn. The Bank pays interest rate of EURIBOR+1.125% on the outstanding balance of the credit line semiannually;
- OJSC Jarkurganfteftqaytaishlash in the amount of USD 2,000 thousand (UZS 2,360,000) to purchase oil-refining equipment. The Bank pays interest rate of 4.17% on the outstanding balance of the credit line semiannually;
- JV Sardor-Impeks in the amount of USD 498 thousand (UZS 588,525) to purchase equipment with annual interest rate of Libor+0.1% on the outstanding balance of the credit line semiannually.

The Bank bears full credit risk for the repayment of above three loans.

Due to Credit Institutions include loans totalling UZS 5,869,140 (2004 – 6,607,631) from the European Bank for Reconstruction and Development. In accordance with the contractual terms of the loans from OECD based banks and EBRD, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Moreover, in accordance with terms of loan agreement, the Bank is restricted to declare or pay dividends of more than fifty percent of net income earned in the preceding year. As of December 31, 2005, the Bank was in technical breach of these restrictions which has resulted in the liability to EBRD being classified as "on-demand" in the liquidity analysis in Note 23. These technical breaches have not resulted in any cross-accelerated or cross-default as of December 31, 2005.

18. Amounts due to customers

Amounts due to customers include the following:

	<i>2005</i>	<i>2004</i>
Current accounts	234,317,111	170,612,716
Time deposits	75,024,804	46,984,888
Amounts due to customers	309,341,915	217,597,604

At December 31, 2005, amounts due to customers of UZS 122,965,694 (39.3%) were due to the ten largest customers (2004 - UZS 78,352,939 (36.0%)).

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

18. Amounts due to customers (continued)

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

	2005	2004
State and budgetary organisations	133,690,585	97,808,985
Private enterprises	95,821,155	72,760,551
Individuals	79,830,175	47,028,068
Amounts due to customers	309,341,915	217,597,604

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 liquidate its cash equivalents and inter-bank assets to enable repayment. In order to meet the immediate requirements of clients, the Bank keeps permanent balances on Nostro and cash accounts.

19. Equity

As of December 31, 2005, authorized share capital consists of 7,544,805 common and preference shares (2004 - 6,800,000) with nominal value of 1,500 UZS per share. As of year-end 2005, 7,544,805 shares were issued, fully paid and registered (2004 – 6,800,000 shares).

Movement of shares authorised, fully paid and outstanding follows:

	Number of shares			Nominal amount		
	Preferred	Ordinary	Total	Preferred	Ordinary	Total
December 31, 2003	1,200,000	5,349,088	6,549,088	1,800,000	8,023,632	9,823,632
Increase in share capital	-	250,912	250,912	-	376,368	376,368
December 31, 2004	1,200,000	5,600,000	6,800,000	1,800,000	8,400,000	10,200,000
Increase in share capital	-	744,805	744,805	-	1,117,208	1,117,208
December 31, 2005	1,200,000	6,344,805	7,544,805	1,800,000	9,517,208	11,317,208

Preference share gives the holder the right to participate in general shareholders' meeting without voting rights except for instances where decisions are made in relation to reorganization and liquidation of the Bank, and where changes and amendments to the Bank's charter, which restrict the rights of preference shareholders, are proposed. When dividends are declared, the owner of the preference share has a right to receive 10% more dividends compared to holders of ordinary shares, and not less than 20% of the nominal price of the share irrespective of Bank's net profit, and in case of bankruptcy of the Bank, to receive reimbursement of funds invested in shares in the first place. If the Bank fails to pay dividends, or has no profits in any year, the preference shareholders have the right to vote in the general shareholders' meeting.

On October 17, 2005 Board of Directors of the Bank had declared the issuance of 1,200,000 ordinary shares; as of December 31, 2005, 744,805 shares were fully paid and the total consideration received by the Bank amounted to UZS 1,117,208.

At the Shareholders' Meeting in April 2005, the Bank declared dividends in respect of the year ended December 31, 2004, totalling UZS 1,400,112 on ordinary shares (250 UZS per share) and UZS 765,565 on preferred shares (638 UZS per share). At the Shareholders' Meeting in April 2004, the Bank declared dividends in respect of the year ended December 31, 2003, totalling UZS 1,741,518 on ordinary shares (326 UZS per share) and UZS 1,051,785 on preferred shares (876 UZS per share).

In accordance with Uzbek legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with UAL. The Bank had approximately UZS 15,173,261 of undistributed and unreserved earnings as at 31 December 2005 (2004 - UZS 12,728,431).

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

20. Commitments and contingencies

Taxation framework

Uzbekistan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes, and social taxes, together with others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the State Tax Committee and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Uzbekistan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

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.

Financial commitments and contingencies

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

	<i>2005</i>	<i>2004</i>
Credit related commitments		
Letters of credit	106,458,387	83,036,051
Guarantees	39,370,221	38,475,843
Undrawn loan commitments	2,684,887	14,655,879
	148,513,495	136,167,773
Less – Cash held as security against letters of credit	(69,839,673)	(47,678,089)
Financial commitments and contingencies	78,673,822	88,489,684

Guarantees include guarantee of UZS 23,600,000 issued by the Bank for Fergana Oil Refinery Plant to purchase oil-refining equipment and guarantee of UZS 12,667,406 issued by the Bank for JSC "Uzburneftegaz" to purchase drilling equipment from a Chinese counterpart CPTDC. These guarantees accounted for 60% and 32% of total financial guarantees respectively and represented 68% and 37% of the Bank's total shareholders' equity at that date, respectively.

The largest part of Letters of Credit represents a letter of credit to Citic International Co. for the purchase of equipment for Kungrad Soda Plant in the amount of UZS 22,557,010. This letter of credit accounted for 62% of total Letters of Credit.

As of December 31, 2005, the Bank does not consider any provision is required against these commitments (2004 - nil).

Insurance

The Bank's property is insured for UZS 10,570,169. The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Uzbekistan at present.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

21. Net fee and commission income

Net fee and commission income comprises:

	2005	2004
Settlements operations	21,471,444	17,445,465
Other	1,627,552	1,919,869
Fee and commission income	23,098,996	19,365,334
Fees for conversion operations and purchase of foreign currencies	2,021,389	1,759,312
Settlements operations	1,030,383	669,496
Other	55,184	39,714
Fee and commission expense	3,106,956	2,468,522
Net fee and commission income	19,992,040	16,896,812

22. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

	2005	2004
Salaries and bonuses	6,173,570	4,964,557
Social security costs	2,508,991	2,121,697
Other employment taxes	44,618	38,396
Salaries and benefits	8,727,179	7,124,650
Operating taxes	4,439,639	2,561,466
Office supplies	2,126,789	1,012,246
Occupancy and rent	2,106,083	1,833,867
Membership fees	1,166,170	1,185,556
Charity	775,232	782,878
Communications	684,246	645,973
Business travel and related expenses	360,911	268,814
Professional fees	158,810	328,195
Other	131,090	106,332
Other operating expenses	11,948,970	8,725,327

23. Financial risk management

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 and equity prices. 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 and geographical segments. Limits on the level of credit risk by borrower and product by industry sector, by region are approved monthly by the Management Board. 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.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

23. Financial risk management (continued)

Credit risk (continued)

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 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.

Geographical concentration

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2005			2004		
	<i>Non-OECD</i>	<i>OECD</i>	<i>Total</i>	<i>Non-OECD</i>	<i>OECD</i>	<i>Total</i>
Assets:						
Cash and cash equivalents	70,337,111	32,485,728	102,822,839	55,884,708	40,222,777	96,107,485
Available-for-sale securities	4,372,957	-	4,372,957	3,710,919	-	3,710,919
Amounts due from credit institutions	33,093,469	39,257,353	72,350,822	15,211,378	20,230,823	35,442,201
Loans to customers	310,386,195	-	310,386,195	268,749,380	-	268,749,380
Other assets	6,333,291	-	6,333,291	6,012,098	-	6,012,098
	424,523,023	71,743,081	496,266,104	349,568,483	60,453,600	410,022,083
Liabilities:						
Due to CBU and Government	75,007,916	-	75,007,916	87,871,856	-	87,871,856
Due to credit institutions	11,165,026	90,164,776	101,329,802	3,592,335	84,381,313	87,973,648
Due to customers	309,341,915	-	309,341,915	217,597,604	-	217,597,604
Other liabilities	1,134,722	-	1,134,722	1,060,233	-	1,060,233
	396,649,579	90,164,776	486,814,355	310,122,028	84,381,313	394,503,341
Net balance sheet position	27,873,444	(18,421,695)	9,451,749	39,446,455	(23,927,713)	15,518,742
Net off-balance sheet position	78,673,822	-	78,673,822	88,489,684	-	88,489,684

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity 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.

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.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

23. Financial risk management (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 Management Board sets limits on the level of exposure by currencies (primarily US dollar), by branches and in total. The Bank's exposure to foreign currency exchange rate risk is as follows:

	2005			2004		
	UZS	Foreign currencies	Total	UZS	Foreign currencies	Total
Assets:						
Cash and cash equivalents	50,530,682	52,292,157	102,822,839	21,843,215	74,264,270	96,107,485
Available-for-sale securities	4,372,957	-	4,372,957	3,710,919	-	3,710,919
Amounts due from credit institutions	23,955,410	48,395,412	72,350,822	11,184,094	24,258,107	35,442,201
Loans to customers	190,746,713	119,639,482	310,386,195	166,894,491	101,854,889	268,749,380
Other assets	6,333,291	-	6,333,291	5,446,575	565,523	6,012,098
	275,939,053	220,327,051	496,266,104	209,079,294	200,942,789	410,022,083
Liabilities:						
Due to CBU and Government	75,007,916	-	75,007,916	87,871,856	-	87,871,856
Due to credit institutions	10,383,056	90,946,746	101,329,802	2,520,425	85,453,223	87,973,648
Due to customers	190,826,938	118,514,977	309,341,915	114,998,224	102,599,380	217,597,604
Other liabilities	1,134,722	-	1,134,722	484,094	576,139	1,060,233
	277,352,632	209,461,723	486,814,355	205,874,599	188,628,742	394,503,341
Net balance sheet position	(1,413,579)	10,865,328	9,451,749	3,204,695	12,314,047	15,518,742
Net off balance sheet position	3,376,155	75,297,667	78,673,822	3,664,187	84,825,497	88,489,684

The Bank has extended loans and advances denominated in foreign currencies. Although these loans are generally funded by the same currencies, their appreciation against the Uzbek Soum can adversely affect the borrowers' repayment ability and, therefore, increases the likelihood of future loan losses.

The Bank's principal cash flows (revenues, operating expenses) are largely generated in Uzbek Soums. As a result, future movements in the exchange rate between the Uzbek Soums and USD will affect the carrying value of the Bank's USD denominated monetary assets and liabilities.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

23. Financial risk management (continued)

Interest rate risk

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

The table below summarises the Bank's exposure to interest rate risk as at December 31, 2005. Included in the table are the Bank's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or maturity dates.

	2005						Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Assets:							
Cash and cash equivalents	79,306,175	23,516,664	-	-	-	-	102,822,839
Available-for-sale securities	809,297	-	-	3,213,660	350,000	-	4,372,957
Amounts due from credit institutions	74,279	16,689,274	6,120,042	40,832,055	8,635,172	-	72,350,822
Loans to customers	11,155,526	44,585,724	50,908,998	69,794,696	116,245,717	17,695,534	310,386,195
Other assets	1,181,181	617,187	471,825	4,009,943	53,155	-	6,333,291
	92,526,458	85,408,849	57,500,865	117,850,354	125,284,044	17,695,534	496,266,104
Liabilities:							
Due to CBU and Government	296,270	16,660	33,320	7,530,204	46,850,221	20,281,241	75,007,916
Due to credit institutions	6,480,630	48,622,715	38,279,084	7,500,111	-	447,262	101,329,802
Due to customers	179,714,932	29,953,561	42,532,460	45,353,180	11,787,782	-	309,341,915
Other liabilities	-	1,134,722	-	-	-	-	1,134,722
	186,491,832	79,727,658	80,844,864	60,383,495	58,638,003	20,728,503	486,814,355
Total interest sensitivity gap	(93,965,374)	5,681,191	(23,343,999)	57,466,859	66,646,041	(3,032,969)	9,451,749
	2004						Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Assets:							
Cash and cash equivalents	54,808,032	41,299,453	-	-	-	-	96,107,485
Available-for-sale securities	986,513	-	1,091,780	1,632,626	-	-	3,710,919
Amounts due from credit institutions	737,887	8,761,760	9,453,934	15,415,601	1,073,019	-	35,442,201
Loans to customers	29,996,972	49,870,864	52,670,951	32,289,248	57,339,771	46,581,574	268,749,380
Other assets	-	2,239,290	883,585	2,889,223	-	-	6,012,098
	86,529,404	102,171,367	64,100,250	52,226,698	58,412,790	46,581,574	410,022,083
Liabilities:							
Due to CBU and Government	24,592,838	-	-	-	-	63,279,018	87,871,856
Due to credit institutions	1,327,922	46,125,570	30,166,322	10,084,334	269,500	-	87,973,648
Due to customers	130,081,753	11,576,403	43,587,268	28,469,355	3,882,825	-	217,597,604
Other liabilities	-	1,060,233	-	-	-	-	1,060,233
	156,002,513	58,762,206	73,753,590	38,553,689	4,152,325	63,279,018	394,503,341
Total interest sensitivity gap	(69,473,109)	43,409,161	(9,653,340)	13,673,009	54,260,465	(16,697,444)	15,518,742

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

23. Financial risk management (continued)

Interest rate risk (continued)

As at December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	2005		2004	
	UZS	Foreign currencies	UZS	Foreign currencies
Due from credit institutions	18.0%	2.9%	18.0%	1.7%
Available-for-sale securities	15.0%	-	12.0%	-
Loans to customers	15.0%	6.0%	18.0%	9.0%
Due to CBU and Government	7.9%	-	7.0%	-
Due to credit institutions	14.1%	4.6%	20.0%	3.8%
Customer deposits	26.8%	5.9%	10.4%	5.0%
Debt securities issued	36.0%	-	36.0%	-

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 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 monetary assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2005						Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Assets:							
Cash and cash equivalents	79,306,175	23,516,664	-	-	-	-	102,822,839
Available-for-sale securities	809,297	-	-	3,213,660	350,000	-	4,372,957
Amounts due from credit institutions	74,279	16,689,274	6,120,042	40,832,055	8,635,172	-	72,350,822
Loans to customers	11,155,526	3,370,209	16,578,683	64,549,155	121,280,147	93,452,475	310,386,195
Other assets	1,181,181	617,187	471,825	4,009,943	53,155	-	6,333,291
	92,526,458	44,193,334	23,170,550	112,604,813	130,318,474	93,452,475	496,266,104
Liabilities:							
Due to CBU and Government	296,270	16,660	33,320	7,530,204	46,850,221	20,281,241	75,007,916
Due to credit institutions	6,480,630	7,360,000	3,784,858	2,931,897	-	80,772,417	101,329,802
Due to customers	179,714,932	29,953,561	42,532,460	45,353,180	11,787,782	-	309,341,915
Other liabilities	-	1,134,722	-	-	-	-	1,134,722
	186,491,832	38,464,943	46,350,638	55,815,281	58,638,003	101,053,658	486,814,355
Net position	(93,965,374)	5,728,391	(23,180,088)	56,789,532	71,680,471	(7,601,183)	9,451,749
Accumulated gap	(93,965,374)	(88,236,983)	(111,417,071)	(54,627,539)	17,052,932	9,451,749	

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

23. Financial risk management (continued)

Liquidity Risk (continued)

	2004						Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Assets:							
Cash and cash equivalents	54,808,032	41,299,453	-	-	-	-	96,107,485
Available-for-sale securities	986,513	-	1,091,780	1,632,626	-	-	3,710,919
Amounts due from credit institutions	737,887	8,761,760	9,453,934	15,415,601	1,073,019	-	35,442,201
Loans to customers	29,996,972	2,984,664	23,148,982	26,178,947	64,230,048	122,209,767	268,749,380
Other assets	-	2,239,290	883,585	2,889,223	-	-	6,012,098
	86,529,404	55,285,167	34,578,281	46,116,397	65,303,067	122,209,767	410,022,083
Liabilities:							
Due to CBU and Government	24,592,838	-	-	-	-	63,279,018	87,871,856
Due to credit institutions	8,169,824	498,509	20,653	4,049,241	896,715	74,338,706	87,973,648
Due to customers	130,081,753	11,576,403	43,587,268	28,469,355	3,882,825	-	217,597,604
Other liabilities	-	1,060,233	-	-	-	-	1,060,233
	162,844,415	13,135,145	43,607,921	32,518,596	4,779,540	137,617,724	394,503,341
Net position	(76,315,011)	42,150,022	(9,029,640)	13,597,801	60,523,527	(15,407,957)	15,518,742
Accumulated gap	(76,315,011)	(34,164,989)	(43,194,629)	(29,596,828)	30,926,699	15,518,742	

As it is presented above, there is a significant deficit in assets on-demand, resulting from significant concentration of customer funds on current accounts. As of December 31, 2005, funds of OJSC Uztashqineftegaz (UZS 44,310,462), NHC Uzbekneftegaz (UZS 31,067,945), JSC O'zgeoburg'neftgazqazibchigarish (UZS 19,084,452), JSC Uztransgaz (UZS 6,769,648), and Bukhara Oil-refining plant (UZS 6,249,268) were included in current accounts.

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

24. 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 estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank’s balance sheet at fair value.

	2005		2004	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
<i>Financial assets</i>				
Amounts due from credit institutions	72,350,822	73,897,945	35,442,201	35,442,201
Loans to customers	310,386,195	305,124,036	268,749,380	248,673,451
<i>Financial liabilities</i>				
Due to CBU and Government	75,007,916	58,004,352	87,871,856	71,294,731
Due to credit institutions	101,329,802	103,761,138	87,973,648	87,973,648
Due to customers	309,341,915	287,117,179	217,597,604	217,061,456

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.

25. 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.

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

25. Related party transactions (continued)

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

	<i>Entities under common control and shareholders</i>		<i>Percentage of total corresponding Balance Sheet and Income Statement items</i>
	<i>2005</i>	<i>2004</i>	
Loans outstanding at January 1, gross	169,383,644	145,746,026	59.5%
Loans issued during the year	181,352,883	195,118,289	
Loan repayments during the year	(170,357,357)	(175,091,046)	
Effect of exchange rate	9,112,560	3,610,375	
Loans outstanding at 31 December, gross	189,491,730	169,383,644	57.4%
Less: allowance for impairment at 31 December	(9,042,505)	(11,666,940)	46.2%
Loans outstanding at 31 December, net	180,449,225	157,716,704	58.1%
Interest income on loans	14,601,843	11,567,736	54.8%
Release (provision for) impairment	2,624,435	(3,402,651)	(44.5%)
Deposits at 1 January	146,085,436	85,540,577	67.1%
Deposits received during the year	134,130,332	134,812,729	
Deposits repaid during the year	(79,246,835)	(74,267,870)	
Deposits at 31 December	200,968,933	146,085,436	65.0%
Interest expense on deposits	693,354	762,643	5.2%
Commitments and guarantees issued	37,926,506	41,234,191	
Commitments and guarantees received	351,228,317	339,881,930	
Fee and commission income	10,209,645	10,719,073	44.2%

Compensation of key management personnel comprised the following:

	<i>2005</i>	<i>2004</i>
Salaries and other short-term benefits	6,672	2,889
Social security costs	2,998	1,423
Total key management compensation	9,670	4,312

(Thousands of Uzbek Soums – purchasing power as of December 31, 2005)

26. Capital adequacy and compliance with CBU regulations

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of December 31, 2005 and 2004, was 13.0% and 10.2%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

At December 31, 2005 the Bank was in breach of the following CBU requirements:

- According to CBU requirements, bank's maximum risk exposure to one borrower or a group of borrowers should not exceed 25% of Tier 1 capital.
- According to CBU requirements, the maximum amount of loans or guarantees issued to related parties should not exceed 100% of bank's Tier 1 capital.
- In accordance with Resolution #24 of the Cabinet of Ministers of the Republic of Uzbekistan dated January 1, 2002 the share of one shareholder should not exceed 25% of the total amount of commercial banks' share capital.
- According to CBU requirements open currency position for each currency individually should not exceed 10% and the aggregate of all foreign currencies should not exceed 20%.

The Bank is exposed to a potential penalty of 0.1% of minimum level of share capital for each violation of the aforementioned requirement.

Management believes that the transactions that caused the Bank to breach CBU ratios were initiated, approved, and funded by the government and the Bank considers the risk of adverse effect on the Bank's business and operations to be remote.

27. Subsequent events

At the Bank's special general meeting held on January 20, 2006 the shareholders approved acquisition of CJSC Uzbek International Bank "Uzprivatbank" (Uzprivatbank) by the Bank. The Bank's charter documents were approved to be changed accordingly.

The Bank intends to acquire 100% of voting shares of Uzprivatbank by exchanging them to 2,465,695 common shares of the Bank. On February 21, 2006 the CBU approved this acquisition, and thus it is deemed to have been completed on that date.

The Bank has no intentions to dispose of any operations as a result of the acquisition.

It was not practicable to estimate, and thus disclose, because of time limitations, the fair values and carrying amounts of acquired assets, liabilities and contingent liabilities determined in accordance with IFRS immediately before the acquisition, fair values of equity instruments issued for the purpose of combination, the cost of acquisition, description of factors that contributed to the cost, the amount, if any, of excess of cost over the fair value of net assets acquired recognised in profit and loss and amount, if any, of goodwill recognised as well as factors that led to its recognition.