JSCICB “Uzpromstroybank”
Financial Statements

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

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NOTES TO THE FINANCIAL STATEMENTS

ERNST & YOUNG

Ernst & Young MChJ
Inconel Business Center
Pushkin Street, 75
Tashkent, 100000
Republic of Uzbekistan
Tel.: 998 (71) 140-6482
Fax: 998 (71) 140-6483
www.ey.com/cis

ООО «Ernst & Young»
Республика Узбекистан
100000, Ташкент
ул. Пушкина, 75
Бизнес Центр «Инконель»
Тел.: 998 (71) 140-6482
Факс: 998 (71) 140-6483

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Joint-Stock Commercial and Industrial-Construction Bank "Uzpromstroybank" (the "Bank"), which comprise the balance sheet as at December 31, 2006, and the statement of income, statement of changes in equity and 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 financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Basis for Qualified Opinion

As discussed in Note 4 to the financial statements, in February 2006, the Bank acquired Uzbek International Bank for Privatization and Investment "Uzprivatbank" ("Uzprivatbank") and issued its own shares in consideration. IFRS 3, "Business Combinations", requires that cost of the combination be measured at fair value and that this cost be allocated to all identifiable assets, liabilities, and contingent liabilities. The Bank did not fair value its shares, and instead used the nominal value of newly issued shares. Furthermore, the Bank did not identify all assets, liabilities, and contingent liabilities acquired in the business combination, and did not allocate the cost of business combination to such identifiable assets, liabilities, and contingent liabilities, which should have been measured at fair value. As a result, the following accounts reflected in the financial statements as at December 31, 2006 and for the year then ended are being affected by this departure: property and equipment and intangible assets (carried at Uzprivatbank's cost less depreciation – carrying value of UZS 696,026 thousand and UZS 13,934 thousand, respectively), related depreciation and amortization expenses (UZS 120,825 thousand and UZS 14,520 thousand, respectively), resulting deferred income taxes, and a gain of UZS 440,701 thousand. The effects of this departure from International Financial Reporting Standards have not been determined.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matter described in the Basis of Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank 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

March 30, 2007

BALANCE SHEET

As of December 31, 2006

(Thousands of Uzbek Soums)

	Notes	2006	2005 (restated, Note 2)
Assets			
Cash and cash equivalents	7	160,584,860	102,822,839
Amounts due from credit institutions	8	54,476,442	72,350,822
Available-for-sale securities	10	12,612,689	4,372,957
Loans to customers	9	407,783,278	310,386,195
Property and equipment	11	24,968,113	22,106,954
Intangible assets	12	2,498,278	2,024,259
Current tax asset		2,648,808	2,410,444
Deferred tax asset	13	3,279,685	1,519,740
Other assets	15	7,132,578	3,579,944
Total assets		**675,984,731**	**521,574,154**
Liabilities			
Amounts due to the Central Bank and Government of Uzbekistan	16	68,389,992	75,007,916
Amounts due to credit institutions	17	119,531,456	101,329,802
Amounts due to customers	18	435,952,488	309,341,915
Other liabilities		5,816,594	1,432,417
Total liabilities		**629,690,530**	**487,112,050**
Equity	19		
Share capital		30,526,495	23,843,703
Reserves and accumulated deficit		15,767,706	10,618,401
Total equity		**46,294,201**	**34,462,104**
Total equity and liabilities		**675,984,731**	**521,574,154**
Financial commitments and contingencies	20	**89,632,137**	**78,673,822**

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

Kiyomiddin K. Rustamov — Chairman

Shukrullo G. Imomaliev — Acting Chief Accountant

March 30, 2007

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

STATEMENT OF INCOME

For the year ended December 31, 2006

(Thousands of Uzbek Soums)

	Notes	2006	2005 (restated, Note 2)
Interest income			
Loans to customers		38,681,793	26,666,485
Amounts due from credit institutions		3,463,540	3,619,846
Securities		515,086	1,016,958
		42,660,419	**31,303,289**
Interest expense			
Amounts due to customers		(15,830,932)	(13,224,363)
Amounts due to credit institutions		(9,872,923)	(6,634,793)
		(25,703,855)	**(19,859,156)**
Net interest income		**16,956,564**	**11,444,133**
Impairment of interest earning assets	14	(7,999,172)	(5,903,319)
Net interest income after impairment of interest earning assets		**8,957,392**	**5,540,814**
Fee and commission income		28,688,740	22,901,224
Fee and commission expense		(3,366,253)	(3,230,099)
Net fee and commission income	21	**25,322,487**	**19,671,125**
Losses on impairment of available-for-sale securities		(110,651)	(27,513)
Gains less losses from foreign currencies:			
- dealing		1,489,294	1,114,747
- translation differences		1,175,941	1,326,328
Dividend income		622,464	312,460
Other operating income		98,021	240,047
Other non interest income		**28,597,556**	**22,637,194**
Salaries and benefits	22	(11,237,425)	(8,727,179)
Other operating expenses	22	(14,984,941)	(11,948,970)
Depreciation and amortisation	11,12	(2,957,798)	(1,721,187)
(Charge) reversal of other provisions	14	(290,844)	310,814
Other non interest expense		**(29,471,008)**	**(22,086,522)**
Gain from acquisition	4	440,701	-
Loss on net monetary position		-	(2,463,303)
Profit before income tax expense		**8,524,641**	**3,628,183**
Income tax expense	13	(471,039)	(1,341,952)
Profit for the year		**8,053,602**	**2,286,231**

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2006

(Thousands of Uzbek Soums)

	Share capital	*Inflation adjustment to share capital*	*Accumulated deficit (restated, Note 2)*	*Revaluation reserve for available-for-sale securities*	*Reserves*	*Total equity*
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 (restated, Note 2)	-	-	2,286,231	-	-	2,286,231
Dividends paid	-	-	(2,165,677)	-	-	(2,165,677)
December 31, 2005 (restated, Note 2)	**11,317,208**	**12,526,495**	**(13,865,823)**	**-**	**24,484,224**	**34,462,104**
Shares issued and paid	6,682,792	-	-	-	-	6,682,792
Net change in available-for-sale securities, net of tax	-	-	-	209,441	-	209,441
Transfers	-	-	(4,110,128)	-	4,110,128	-
Profit for the year	-	-	8,053,602	-	-	8,053,602
Dividends paid	-	-	(3,113,738)	-	-	(3,113,738)
December 31, 2006	**18,000,000**	**12,526,495**	**(13,036,087)**	**209,441**	**28,594,352**	**46,294,201**

STATEMENT OF CASH FLOWS

For the year ended December 31, 2006

(Thousands of Uzbek Soums)

	Notes	2006	2005
Cash flows from operating activities			
Interest, fees and commissions received		72,214,180	56,062,508
Interest, fees and commissions paid		(33,221,635)	(26,980,681)
Realised gains less losses from dealing in foreign currencies		1,793,714	1,195,091
Other operating income received		1,712,681	1,916,864
Salaries and salary related expenses		(11,101,310)	(8,593,311)
Other administrative and operating expenses		(12,434,994)	(11,380,971)
Effect of inflation		-	(925,974)
Cash flows from operating activities before changes in operating assets and liabilities		**18,962,636**	**11,293,526**
Net (increase)/decrease in operating assets			
Obligatory reserve with the Central Bank of Uzbekistan		(6,862,876)	(14,605,553)
Available-for-sale securities		(6,164,345)	(745,874)
Amounts due from credit institutions		21,974,262	(28,901,381)
Loans to customers		(83,143,421)	(70,688,803)
Other assets		(1,679,455)	(312,639)
Net increase / (decrease) in operating liabilities			
Amounts due to the Central Bank and Government of Uzbekistan		(6,190,976)	(4,063,196)
Amounts due to credit institutions		455,297	20,358,979
Amounts due to customers		123,629,996	113,607,342
Other liabilities		(4,559,701)	(433,694)
Net cash flows from operating activities before income tax		**56,421,417**	**25,508,707**
Corporate income tax paid		(2,980,470)	(3,329,693)
Net cash from operating activities		**53,440,947**	**22,179,014**
Cash flows from investing activities			
Purchase of investment securities		(1,044,223)	(180,043)
Proceeds from sale of investment securities		732,088	8,443
Dividends received		622,464	312,460
Purchase of intangible assets		(893,551)	(1,218,339)
Purchase of property and equipment		(4,686,730)	(7,077,362)
Purchase of subsidiary, net of cash acquired	4	9,476,377	-
Effect of inflation		-	355,193
Net cash from (used in) investing activities		**4,206,425**	**(7,799,648)**
Cash flows from financing activities			
Proceeds from issue of share capital		2,984,250	1,163,851
Dividends paid		(3,113,738)	(2,165,677)
Effect of inflation		-	40,151
Net cash used in financing activities		**(129,488)**	**(961,675)**
Effect of exchange rates changes on cash and cash equivalents		244,137	251,637
Effect of inflation on cash and cash equivalents		-	(6,953,974)
Net increase in cash and cash equivalents		**57,762,021**	**6,715,354**
Cash and cash equivalents, beginning		**102,822,839**	**96,107,485**
Cash and cash equivalents, ending	7	**160,584,860**	**102,822,839**

(Thousands of Uzbek Soums)

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. 17 issued by the Central Bank of Uzbekistan ("CBU"), and license for foreign currency operations No. 1, granted on January 25, 2003 and January 29, 2005, 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 centralised 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 47 branches. The Bank's registered legal address is 3, Shakhrisabzskaya Street, Tashkent, Uzbekistan.

As of December 31, the following shareholders owned more than 5% of the outstanding shares.

Shareholder	***2006*** %	***2005*** %
NHC "Uzbekneftegaz"	24.2	51.0
Addison Ventures (UK) Ltd.	6.0	-
Brentwood and Co. (UK) Ltd.	5.7	-
Asset Management Trust MChJ	5.2	-
Other	58.9	49.0
Total	**100.0**	**100.0**

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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 except as disclosed in the accounting policies below. For example, available-for-sale investment securities have been measured at fair value.

These financial statements are presented in thousands of Uzbek Soums ("UZS"), 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.

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 recognised 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 recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 "Revenue".

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

(Thousands of Uzbek Soums)

2. 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:

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”; and
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 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 financial statements to evaluate the significance of the Bank’s financial instruments, the nature and extent of risks arising from those financial instruments, and the Bank’s objectives, policies and processes for managing capital.

Inflation accounting

The Uzbek economy was considered hyperinflationary until 31 December 2005. As such, the Bank applied IAS 29 “Financial Reporting in Hyperinflationary Economies”. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2005 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

Reconciliation of UAL and IFRS equity and profit for the year

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

	2006		*2005 (restated, Note 2)*	
	Equity	*Profit for the year*	*Equity*	*Profit for the year*
Uzbek Accounting Legislation (unaudited)	**61,779,005**	**11,416,420**	**47,691,446**	**8,920,749**
Inflation impact on:				
Non-monetary capital items	-	-	-	(3,125,217)
Other non-monetary items	4,543,500	-	4,543,500	2,150,301
Impairment of financial assets	(26,228,197)	(5,809,456)	(20,418,741)	(3,806,366)
Deferred taxation	3,279,685	1,759,945	1,519,740	225,177
Effect of accrued interest	2,415,893	1,930,983	484,910	(1,830,254)
Income tax	1,523,551	110,431	1,413,120	242,397
Other operating expenses	(799,778)	(333,382)	(466,396)	457,284
Bonus to employees	(435,521)	(136,115)	(299,406)	(155,511)
Unrealised gain on available-for-sale securities	209,441	-	-	-
Operating tax expenses	(59,765)	(16,536)	(43,229)	11,132
Income recorded to funds	-	(826,599)	-	(849,259)
Foreign exchange gain	(4,929)	(42,089)	37,160	37,160
Other	71,316	-	-	8,638
International Financial Reporting Standards	**46,294,201**	**8,053,602**	**34,462,104**	**2,286,231**

(Thousands of Uzbek Soums)

2. Basis of preparation (continued)

Restatements

In 2005 the Bank did not accrue commission expenses payable to Visa International in the amount of UZS 114,233. In addition, the Bank recognised the commission income from the client for arrangement of guarantee issued by Commerzbank and did not deduct the amount of commission expense of UZS 183,462 payable to Commerzbank for issuance of this guarantee. Accordingly, in these financial statements comparative figures for 2005 were restated. The results of these restatements are summarised below:

2005	*As previously reported*	*Adjustments*	*As reported herein*
Current tax asset	2,365,790	44,654	2,410,444
Other liabilities	1,134,722	297,695	1,432,417
Equity	34,715,145	(253,041)	34,462,104
Fees and commission income	23,098,996	(197,772)	22,901,224
Fees and commission expense	(3,106,956)	(123,143)	(3,230,099)
Loss on net monetary position	(2,483,040)	19,737	(2,463,303)
Income tax expense	(1,390,089)	48,137	(1,341,952)
Profit for the year	2,539,272	(253,041)	2,286,231

3. 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 upon initial recognition.

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.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale. 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 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.

(Thousands of Uzbek Soums)

3. Summary of accounting policies (continued)

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from 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.

Borrowings

Borrowings, which include amounts due to CBU and Government of Uzbekistan, amounts due to credit institutions, amounts due to customers and 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 the statement of income when the borrowings are derecognised as well as through the amortisation process.

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.

When an asset is uncollectible, it is written off against the related allowance for loan 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 in the statement of income.

(Thousands of Uzbek Soums)

3. Summary of accounting policies (continued)

Allowances for impairment of financial assets (continued)

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.

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.

(Thousands of Uzbek Soums)

3. Summary of accounting policies (continued)

Taxation (continued)

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 are 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 and fixtures	5-10

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 recognised as assets at restated cost and are amortised using the straight-line method over their useful lives, but not exceeding a period of five years.

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.

(Thousands of Uzbek Soums)

3. Summary of accounting policies (continued)

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 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.

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.

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 CBU 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, 2006 and 2005 were 1,240 UZS and 1,180 UZS to 1 USD respectively.

4. Business combination

On January 19 and 20, 2006 at the General Meetings of shareholders of Uzbek International Bank for Privatization and Investment Uzprivatbank (“Uzprivatbank”) and the Bank, shareholders of both banks approved Business Combination Agreement of the Bank with Uzprivatbank.

The Bank acquired 100% of voting shares of Uzprivatbank by exchanging them to 2,465,695 common shares of the Bank. On 21 February 2006 the CBU approved this business combination, and the acquisition was deemed to have been completed on that date.

(Thousands of Uzbek Soums)

4. Business combination (continued)

The Bank did not engage any professional independent appraiser to evaluate the fair value of assets and liabilities and contingent liabilities acquired as it is required by IFRS 3. Therefore, it was not practicable to determine the fair value of the acquired assets, liabilities, and contingent liabilities of Uzprivatbank in accordance with International Financial Reporting Standards at the acquisition date. However, as the majority of assets and liabilities of Uzprivatbank represent the monetary items, the management of the Bank is of the opinion that the carrying values of these assets and liabilities approximated their fair values at acquisition date.

Assets, liabilities and equity of Uzprivatbank as of February 21, 2006 were as follows:

	Carrying value
Cash and cash equivalents	9,476,377
Amounts due from credit institutions	1,932,989
Available-for-sale securities	1,532,918
Loans to customers	21,362,569
Tax assets	73,856
Property and equipment (Note 11)	789,358
Intangible assets	26,368
Other assets	731,256
	35,925,691
Amounts due to credit institutions	17,157,496
Amounts Due to Customers	7,522,368
Other liabilities	7,106,584
	31,786,448
Carrying value of net assets	**4,139,243**
Cost of Acquisition	**3,698,542**
Gain on acquisition	**440,701**

Net cash inflow from the business combination was UZS 9,476,377 thousand.

5. Liquidity

As of December 31, 2006, the Bank had an accumulated negative gap extending from less than one month up to one year amounting to UZS 80,431,220.

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 largest shareholder, NHC "Uzbekneftegaz" (cumulatively holding 24.2% of share capital), has undertaken to provide the Bank with cash, should the Bank require funding to manage its liquidity.

(Thousands of Uzbek Soums)

6. Significant accounting judgements and estimates

Judgements

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

Estimation uncertainty

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.

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 2006 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:

	2006	*2005*
Cash on hand	31,125,490	31,088,092
Current accounts with CBU	70,971,355	23,516,664
Current accounts with other credit institutions	58,488,015	48,206,627
Reverse repurchase agreements with credit institutions up to 90 days	-	11,456
Cash and cash equivalents	**160,584,860**	**102,822,839**

(Thousands of Uzbek Soums)

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2006	*2005*
Obligatory reserve with CBU	30,018,286	23,155,410
Time deposits for more than 90 days	24,458,156	49,195,412
Amounts due from credit institutions	**54,476,442**	**72,350,822**

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.

As of December 31, 2006 UZS 23,667,247 (2005 – UZS 39,257,353) was placed in inter-bank deposits with 11 internationally recognised OECD banks, who are the main counterparties of the Bank in performing international settlements. Out of these amounts, UZS 23,524,647 (2005 – UZS 36,525,653) were pledged to the counterparty banks as collateral for open commitments.

As of December 31, 2006, inter-bank time deposits and loans included UZS 790,909 (2005 – UZS 9,938,059) placed with three Uzbek banks, including interbank loan issued in USD to JSCB “Mikrokreditbank” (former OJSC “Tadbirkorbank”), in the amount of UZS 65,647.

9. Loans to customers

Loans to customers comprise:

	2006	*2005*
Loans to customers	430,054,534	328,680,917
Factoring	1,847,202	1,284,854
	431,901,736	**329,965,771**
Less – Allowance for loan impairment (Note 14)	(24,118,458)	(19,579,576)
Loans to customers	**407,783,278**	**310,386,195**

As of December 31, 2006, the Bank had a concentration of loans due from ten largest borrowers in the amount of UZS 226,627,722 or 52% of gross loan portfolio (2005 – UZS 196,405,506 or 60%). An allowance of UZS 15,127,441 (2005 – UZS 5,506,512) was made against these loans.

Loans have been extended to the following types of customers:

	2006	*2005*
Private companies	227,336,974	140,395,347
State companies	161,912,265	160,984,179
Individuals	42,652,497	28,586,245
	431,901,736	**329,965,771**

(Thousands of Uzbek Soums)

9. Loans to customers (continued)

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

	2006	2005
Machinery and other manufacturing	91,683,035	68,375,571
Chemicals	67,146,167	66,939,518
Oil & gas and energy	65,017,607	68,014,075
Construction and construction materials	59,005,266	25,470,610
Individuals	42,652,497	28,586,245
Textile	22,161,667	11,885,691
Trading companies	21,930,953	20,739,172
Telecommunication	17,802,921	11,587,766
Food	17,030,029	11,680,378
Agriculture	10,335,180	7,891,717
Transport	7,036,058	3,012,995
Other	10,100,356	5,782,033
	431,901,736	**329,965,771**

10. Available-for-sale securities

Available-for-sale securities owned comprise:

	2006	2005
Treasury bills of the Ministry of Finance and Bonds of CBU	8,630,168	2,590,039
Corporate shares	3,008,163	675,961
Corporate bonds	974,358	1,106,957
Available-for-sale securities	**12,612,689**	**4,372,957**

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

	2006		2005	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	6% - 13%	2007-2008	10% - 15%	2006
Corporate bonds	20%-29%	2007-2008	22% - 28%	2006 – 2008

(Thousands of Uzbek Soums)

11. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Furniture and fixtures	Assets under construction	Total
Cost				
December 31, 2005	**19,293,916**	**14,084,570**	**462,986**	**33,841,472**
Acquisition of Uzprivatbank (Note 4)	466,667	322,691	-	789,358
Additions	1,102,096	3,178,251	1,222,666	5,503,013
Disposals	(667,036)	(788,714)	(43,909)	(1,499,659)
Transfers	1,308,185	83,331	(1,391,516)	-
December 31, 2006	**21,503,828**	**16,880,129**	**250,227**	**38,634,184**
Accumulated depreciation				
December 31, 2005	**2,817,081**	**8,917,437**	**-**	**11,734,518**
Depreciation charge	744,797	1,767,101	-	2,511,898
Disposals	(105,632)	(474,713)	-	(580,345)
December 31, 2006	**3,456,246**	**10,209,825**	**-**	**13,666,071**
Net book value:				
December 31, 2005	**16,476,835**	**5,167,133**	**462,986**	**22,106,954**
December 31, 2006	**18,047,582**	**6,670,304**	**250,227**	**24,968,113**

	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**

12. Intangible assets

Intangible assets represent accounting, foreign currency exchange and other software, legislative database and electronic mail systems. As of December 31, 2006 the total cost amounted to UZS 3,516,273 (2005 – UZS 2,549,217) and accumulated amortization to UZS 1,017,995 (2005 – UZS 524,958). Amortization charge for 2006 was UZS 445,900 (2005 – UZS 276,720).

(Thousands of Uzbek Soums)

13. Taxation

The corporate income tax expense comprises:

	2006	*2005 (restated, Note2)*
Current tax charge	2,230,984	1,567,129
Deferred tax credit – origination and reversal of temporary differences	(1,759,945)	(225,177)
Income tax expense	**471,039**	**1,341,952**

Uzbek legal entities must file individual tax declarations. The income tax rate for banks was 12% for 2006 and 15% in 2005. 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 (restated, Note 2)*
Income before tax	**8,524,641**	**3,628,183**
Statutory tax rate	12%	15%
Theoretical income tax expense (benefit) at the statutory rate	**1,022,957**	**544,227**
Effect of change in tax rates	(1,669,676)	538,643
Salary related expenses	1,019,887	949,581
Benefit related to increase in customer deposits	(773,290)	(1,264,002)
Non tax deductible provisions for losses	498,015	(58,118)
Restatement of non-monetary items	140,522	375,026
Leasing	(120,374)	-
Operating taxes	120,001	125,049
Statutory revaluation of fixed assets	86,398	94,351
Investment in fixed assets	(54,300)	(134,995)
Charity	53,516	37,570
Expenses recorded to funds	23,140	35,929
State securities non-taxable income	(5,066)	(39,297)
Transportation	-	36,766
Other	129,309	101,222
Income tax expense	**471,039**	**1,341,952**

Deferred tax assets and liabilities as of December 31 comprise:

	2006	*2005*
Tax effect of deductible temporary differences:		
Allowance for loan impairment	3,761,433	2,075,588
Other accruals	97,892	255,348
Deferred tax asset	**3,859,325**	**2,330,936**
Tax effect of taxable temporary differences:		
Inflation restatement of non-monetary assets	-	(545,220)
Accrued interest income	(579,640)	(265,976)
Deferred tax liability	**(579,640)**	**(811,196)**
Deferred tax asset	**3,279,685**	**1,519,740**

(Thousands of Uzbek Soums)

14. Allowances for impairment and provisions

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

	Due from credit institutions	*Loans to customers*	*Other assets*	*Total*
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**
Charge (reversal)	-	7,999,172	290,844	8,290,016
Write-offs	-	(3,460,290)	(64,440)	(3,524,730)
December 31, 2006	**-**	**24,118,458**	**974,097**	**25,092,555**

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 Bank's Council and, in certain cases, with the respective decision of the Court.

15. Other assets

Other assets comprise:

	2006	*2005*
Collateral received	3,144,848	-
Trade debtors and prepayments	1,868,760	1,052,486
Accrued commission income	886,975	1,018,232
Prepayments for small operating equipment	662,937	788,950
Assets under litigation	334,633	351,494
Other assets	1,208,522	1,116,475
	8,106,675	**4,327,637**
Less – Allowance for impairment of other assets (Note 14)	(974,097)	(747,693)
Other assets	**7,132,578**	**3,579,944**

16. Amounts due to CBU and Government

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

	2006	*2005*
Amounts due to CBU	57,153,509	65,131,340
Amounts due to the Government	11,236,483	9,876,576
Amounts due to CBU and Government	**68,389,992**	**75,007,916**

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2006	*2005*
Time deposits and loans	118,728,539	100,995,094
Current accounts	802,917	334,708
Amounts due to credit institutions	**119,531,456**	**101,329,802**

(Thousands of Uzbek Soums)

17. Amounts due to credit institutions (continued)

As of December 31, 2006, the Bank had a credit line of EUR 29,559 thousand (UZS 48,059,828) from LandesBank Berlin (former Bankgeselschaft Berliner Bank) (2005 - EUR 29,559 thousand or UZS 41,559,089). This credit line was provided in accordance with inter-governmental cooperation agreement between Uzbekistan and Germany to JV "UzGlaszayden" (the Borrower), under the guarantee of the Government of Uzbekistan, to finance construction of a fiber-glass production plant. The Bank pays interest of EURIBOR+1.125% on the outstanding balance of the credit line semi-annually. As of December 31, 2006, the Bank refinanced the full amount of credit line to the Borrower. The credit line matures in January 2016.

As of December 31, 2006, the Bank had an interbank loan of USD 29,232 thousand (UZS 36,248,170) from Industrial Construction Bank of China (2005 – USD 29,232 thousand or UZS 34,494,226). This credit line was provided to General Direction of Kungrad Soda plant to finance construction of soda producing plant under the guarantee of the Government of Uzbekistan. The Bank pays interest of Libor+0.69% on the balance of the loan semi-annually. The credit line matures in March 2012.

As of December 31, 2006 the Bank had credit lines from Commerzbank in the total amount of EUR 8,403 thousand (UZS 13,662,333) (2005 – EUR 3,273 thousand or UZS 4,568,214 and USD 2,498 thousand or UZS 2,948,525). The loans were passed through to two borrowers as follows:

- Asrtex OOO in the amount of EUR 2,678 thousand (UZS 4,353,320) 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 paid semi-annually; and
- Four loans to JV "Fayz Textile Group" in the total amount of EUR 5,725 thousand (UZS 9,309,011) to purchase equipment with annual interest rate ranging from EURIBOR+0.08% to EURIBOR+0.95% on the outstanding balance of the credit line paid semi-annually.

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

Amounts due to credit institutions include loans totalling UZS 4,022,021 (2005 – UZS 5,869,140) from the European Bank for Reconstruction and Development ("EBRD"). In accordance with the contractual terms of the agreement between the Bank 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, 2006, 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, 2006.

18. Amounts due to customers

Amounts due to customers include the following:

	2006	*2005*
Current accounts	321,027,380	234,317,111
Time deposits	114,925,108	75,024,804
Amounts due to customers	**435,952,488**	**309,341,915**

At December 31, 2006, amounts due to customers of UZS 177,484,814 (40.7%) were due to the ten largest customers (2005 - 122,965,694 (39.8%)).

(Thousands of Uzbek Soums)

18. Amounts due to customers (continued)

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

	2006	*2005*
State and budgetary organisations	179,438,928	133,690,585
Private enterprises	150,987,802	95,821,155
Individuals	105,525,758	79,830,175
Amounts due to customers	**435,952,488**	**309,341,915**

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, 2006, authorised share capital consists of 12,000,000 common and preference shares (2005 - 7,544,805) with nominal value of UZS 1,5 per share. As of year-end 2006, 12,000,000 shares were issued, fully paid and registered (2005 – 7,544,805 shares).

Movement of shares authorised, fully paid and outstanding follows:

	Number of shares			*Nominal amount*		
	Preferred	*Ordinary*	*Total*	*Preferred*	*Ordinary*	*Total*
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**
Increase in share capital	-	4,455,195	4,455,195	-	6,682,792	6,682,792
December 31, 2006	**1,200,000**	**10,800,000**	**12,000,000**	**1,800,000**	**16,200,000**	**18,000,000**

On April 14, 2006 Council of the Bank had declared the issuance of 4,400,000 ordinary shares, of which 2,465,695 shares were exchanged for all voting shares of Uzprivatbank (please also see Note 4). As of December 31, 2006, the total cash consideration received from this emission was UZS 2,901,458. The rest of cash in the amount of UZS 82,792 received from issue of share capital was consideration received for prior year emission.

At the Shareholders’ Meeting in June 2006, the Bank declared dividends in respect of the year ended December 31, 2005, totalling UZS 2,393,738 on ordinary shares (270 UZS per share) and UZS 720,000 on preferred shares (600 UZS per share). 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).

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 UZS 18,316,473 which was free of any provisions and deductions as at 31 December 2006 (2005 - UZS 15,173,261).

(Thousands of Uzbek Soums)

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:

	2006	*2005*
Credit related commitments		
Letters of credit	132,041,408	106,458,387
Guarantees	15,350,910	39,370,221
Undrawn loan commitments	3,435,233	2,684,887
Less – Cash held as security against letters of credit	(61,195,414)	(69,839,673)
Financial commitments and contingencies	**89,632,137**	**78,673,822**

Guarantees include a guarantee of UZS 6,146,123 issued by the Bank for OOO "Roison Electronics" to purchase spare parts from LG Electronics (Korea) and a guarantee of UZS 4,626,053 issued by the Bank for OOO "Avtodom Plus" to purchase cars vehicles form Trading House "Russian Machines" (Russia). These guarantees accounted for 40% and 30% of total financial guarantees, respectively, and represented 13% and 10% of the Bank's total equity as of December 31, 2006, respectively.

The largest part of Letters of Credit is represented by a letter of credit to Sercel SA (France) for the purchase of equipment for JSC "Uztashqineftegaz" in the amount of UZS 9,950,387. This letter of credit accounted for 8% of total letters of credit.

As of December 31 2006, the Bank does not consider any provision against these commitments is necessary (2005 - nil).

Insurance

The Bank's property is insured for UZS 15,520,697. As of December 31, 2006 the Bank did not obtain insurance coverage related to liabilities arising from errors or omissions.

(Thousands of Uzbek Soums)

21. Net fee and commission income

Net fee and commission income comprises:

	2006	2005 (restated, Note 2)
Settlements operations	24,984,407	20,327,380
Foreign currency conversion operations	1,111,541	1,187,054
Other	2,592,792	1,386,790
Fee and commission income	**28,688,740**	**22,901,224**
Foreign currency conversion operations and purchase of foreign currencies	2,332,096	2,021,389
Settlements operations	978,955	1,030,383
Other	55,202	178,327
Fee and commission expense	**3,366,253**	**3,230,099**
Net fee and commission income	**25,322,487**	**19,671,125**

22. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

	2006	2005
Salaries and bonuses	8,233,799	6,173,570
Social security costs	2,941,939	2,508,991
Other employment taxes	61,687	44,618
Salaries and benefits	**11,237,425**	**8,727,179**
Operating taxes	5,039,442	4,439,639
Office supplies	2,930,962	2,126,789
Security services	1,572,152	1,196,652
Membership fees	1,242,894	1,166,170
Occupancy and rent	1,225,627	909,431
Communications	794,348	684,246
Charity	738,646	775,232
Business travel and related expenses	490,705	360,911
Professional fees	122,648	158,810
Other	827,517	131,090
Other operating expenses	**14,984,941**	**11,948,970**

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)

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:

	2006			*2005 (restated, Note 2)*		
	Non-OECD	***OECD***	***Total***	***Non-OECD***	***OECD***	***Total***
Assets:						
Cash and cash equivalents	126,775,061	33,809,799	**160,584,860**	70,337,111	32,485,728	**102,822,839**
Amounts due from credit institutions	30,809,195	23,667,247	**54,476,442**	33,093,469	39,257,353	**72,350,822**
Available-for-sale securities	9,604,526	-	**9,604,526**	4,372,957	-	**4,372,957**
Loans to customers	407,783,278		**407,783,278**	310,386,195	-	**310,386,195**
Other assets	9,347,165	-	**9,347,165**	6,377,945	-	**6,377,945**
	584,319,225	**57,477,046**	**641,796,271**	**424,567,677**	**71,743,081**	**496,310,758**
Liabilities:						
Due to CBU and Government	68,389,992	-	**68,389,992**	75,007,916	-	**75,007,916**
Due to credit institutions	8,685,197	110,846,259	**119,531,456**	11,165,026	90,164,776	**101,329,802**
Due to customers	435,952,488	-	**435,952,488**	309,341,915	-	**309,341,915**
Other liabilities	5,816,594	-	**5,816,594**	1,432,417	-	**1,432,417**
	518,844,271	**110,846,259**	**629,690,530**	**396,947,274**	**90,164,776**	**487,112,050**
Net balance sheet position	**65,474,954**	**(53,369,213)**	**12,105,741**	**27,620,403**	**(18,421,695)**	**9,198,708**
Net off-balance sheet position	**89,632,137**	**-**	**89,632,137**	**78,673,822**	**-**	**78,673,822**

As of December 31, 2006 and 2005, included in other assets are tax assets in the amount of UZS 5,928,493 and UZS 3,930,184, respectively.

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.

(Thousands of Uzbek Soums)

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:

	2006			*2005 (restated, Note 2)*		
	UZS	***Foreign currencies***	***Total***	***UZS***	***Foreign currencies***	***Total***
Assets:						
Cash and cash equivalents	90,318,814	70,266,046	**160,584,860**	50,530,682	52,292,157	**102,822,839**
Amounts due from credit institutions	30,743,548	23,732,894	**54,476,442**	23,955,410	48,395,412	**72,350,822**
Available-for-sale securities	9,604,526	-	**9,604,526**	4,372,957	-	**4,372,957**
Loans to customers	246,123,407	161,659,871	**407,783,278**	190,746,713	119,639,482	**310,386,195**
Other assets	9,347,165	-	**9,347,165**	6,377,945	-	**6,377,945**
	386,137,460	**255,658,811**	**641,796,271**	**275,983,707**	**220,327,051**	**496,310,758**
Liabilities:						
Due to CBU and Government	68,389,992	-	**68,389,992**	75,007,916	-	**75,007,916**
Due to credit institutions	7,965,553	111,565,903	**119,531,456**	10,383,056	90,946,746	**101,329,802**
Due to customers	298,073,090	137,879,398	**435,952,488**	190,826,938	118,514,977	**309,341,915**
Other liabilities	5,816,594	-	**5,816,594**	1,432,417	-	**1,432,417**
	380,245,229	**249,445,301**	**629,690,530**	**277,650,327**	**209,461,723**	**487,112,050**
Net balance sheet position	**5,892,231**	**6,213,510**	**12,105,741**	**(1,666,620)**	**10,865,328**	**9,198,708**
Net off balance sheet position	**4,950,997**	**84,681,140**	**89,632,137**	**3,376,155**	**75,297,667**	**78,673,822**

As of December 31, 2006 and 2005, included in other assets are tax assets in the amount of UZS 5,928,493 and UZS 3,930,184, respectively.

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)

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, 2006. 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.

	2006						
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets:							
Cash and cash equivalents	89,613,505	70,971,355	-	-	-	-	**160,584,860**
Amounts due from credit institutions	23,230,721	557,484	9,272,527	20,485,882	929,828	-	**54,476,442**
Available-for-sale securities	498,471	-	-	7,384,825	1,721,230	-	**9,604,526**
Loans to customers	16,034,550	79,761,894	72,414,988	95,209,235	127,592,205	16,770,406	**407,783,278**
Other assets	-	2,755,735	662,937	5,928,493	-	-	**9,347,165**
	129,377,247	**154,046,468**	**82,350,452**	**129,008,435**	**130,243,263**	**16,770,406**	**641,796,271**
Liabilities:							
Due to CBU and Government	17,337,840	331,028	693,534	10,850,216	27,138,536	12,038,838	**68,389,992**
Due to credit institutions	6,013,769	54,559,828	36,248,170	13,671,333	177,448	8,860,908	**119,531,456**
Due to customers	337,346,369	12,727,188	34,230,542	38,621,274	13,027,115	-	**435,952,488**
Other liabilities	1,512,300	3,078,715	690,988	534,591	-	-	**5,816,594**
	362,210,278	**70,696,759**	**71,863,234**	**63,677,414**	**40,343,099**	**20,899,746**	**629,690,530**
Total interest sensitivity gap	**(232,833,031)**	**83,349,709**	**10,487,218**	**65,331,021**	**89,900,164**	**(4,129,340)**	**12,105,741**

(Thousands of Uzbek Soums)

23. Financial risk management (continued)

Interest rate risk (continued)

	2005 (restated, Note 2)						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets:							
Cash and cash equivalents	79,306,175	23,516,664	-	-	-	-	**102,822,839**
Amounts due from credit institutions	74,279	16,689,274	6,120,042	40,832,055	8,635,172	-	**72,350,822**
Available-for-sale securities	809,297	-	-	3,213,660	350,000	-	**4,372,957**
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	4,054,597	53,155	-	**6,377,945**
	92,526,458	**85,408,849**	**57,500,865**	**117,895,008**	**125,284,044**	**17,695,534**	**496,310,758**
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	-	1,432,417	-	-	-	-	**1,432,417**
	186,491,832	**80,025,353**	**80,844,864**	**60,383,495**	**58,638,003**	**20,728,503**	**487,112,050**
Total interest sensitivity gap	**(93,965,374)**	**5,383,496**	**(23,343,999)**	**57,511,513**	**66,646,041**	**(3,032,969)**	**9,198,708**

As of December 31, 2006 and 2005, included in other assets are tax assets in the amount of UZS 5,928,493 and UZS 3,930,184, respectively.

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

	2006		2005	
	UZS	Foreign currencies	UZS	Foreign currencies
Due from credit institutions	17.9%	1.8%	18.0%	2.9%
Available-for-sale securities	15.0%	-	15.0%	-
Loans to customers	13.0%	11.0%	15.0%	6.0%
Due to CBU and Government	7.48%	-	7.9%	-
Due to credit institutions	7.64%	5.6%	14.1%	4.6%
Customer deposits	10.2%	4.0%	26.8%	5.9%
Debt securities issued	-	-	36.0%	-

(Thousands of Uzbek Soums)

23. Financial risk management (continued)

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.

	2006						
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Assets:							
Cash and cash equivalents	89,613,505	70,971,355	-	-	-	-	**160,584,860**
Amounts due from credit institutions	23,230,720	557,484	9,272,527	20,485,882	929,829	-	**54,476,442**
Available-for-sale securities	498,471	-	-	7,384,825	1,721,230	-	**9,604,526**
Loans to customers	12,101,476	31,036,814	32,400,196	93,169,774	186,156,064	52,918,954	**407,783,278**
Other assets	-	2,755,735	662,937	5,928,493	-	-	**9,347,165**
	125,444,172	**105,321,388**	**42,335,660**	**126,968,974**	**188,807,123**	**52,918,954**	**641,796,271**
Liabilities:							
Due to CBU and Government	17,337,840	331,028	693,534	10,850,216	27,138,536	12,038,838	**68,389,992**
Due to credit institutions	6,013,768	9,029,465	1,294,560	6,209,036	50,476,171	46,508,456	**119,531,456**
Due to customers	337,346,369	12,727,188	34,230,542	38,621,274	13,027,115	-	**435,952,488**
Other liabilities	1,512,300	3,078,715	690,988	534,591	-	-	**5,816,594**
	362,210,277	**25,166,396**	**36,909,624**	**56,215,117**	**90,641,822**	**58,547,294**	**629,690,530**
Net position	**(236,766,105)**	**80,154,992**	**5,426,036**	**70,753,857**	**98,165,301**	**(5,628,340)**	**12,105,741**
Accumulated gap	***(236,766,105)***	***(156,611,113)***	***(151,185,077)***	***(80,431,220)***	***17,734,081***	***12,105,741***	

(Thousands of Uzbek Soums)

23. Financial risk management (continued)

Liquidity Risk (continued)

	2005 (restated, Note 2)						
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets:							
Cash and cash equivalents	79,306,175	23,516,664	-	-	-	-	**102,822,839**
Amounts due from credit institutions	74,279	16,689,274	6,120,042	40,832,055	8,635,172	-	**72,350,822**
Available-for-sale securities	809,297	-	-	3,213,660	350,000	-	**4,372,957**
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	4,054,597	53,155	-	**6,377,945**
	92,526,458	**44,193,334**	**23,170,550**	**112,649,467**	**130,318,474**	**93,452,475**	**496,310,758**
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	-	1,432,417	-	-	-	-	**1,432,417**
	186,491,832	**38,762,638**	**46,350,638**	**55,815,281**	**58,638,003**	**101,053,658**	**487,112,050**
Net position	**(93,965,374)**	**5,430,696**	**(23,180,088)**	**56,834,186**	**71,680,471**	**(7,601,183)**	**9,198,708**
Accumulated gap	***(93,965,374)***	***(88,534,678)***	***(111,714,766)***	***(54,880,580)***	***16,799,891***	***9,198,708***	

As of December 31, 2006 and 2005, included in other assets are tax assets in the amount of UZS 5,928,493 and UZS 3,930,184, respectively.

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As it is presented above, there is a significant deficit in assets on-demand, resulting from significant concentration of customer funds on 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.

The Bank has received significant funds from Ministry of Finance and budget organizations (UZS 134,456,585) and NHC "Uzbekneftegaz"(UZS 100,862,599) which were included in current accounts. 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.

(Thousands of Uzbek Soums)

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.

	2006		***2005***	
	Carrying Amount	***Fair Value***	***Carrying Amount***	***Fair Value***
Financial assets				
Amounts due from credit institutions	54,476,442	54,476,442	72,350,822	73,897,945
Loans to customers	407,783,278	407,783,278	310,386,195	305,124,036
Financial liabilities				
Due to CBU and Government	68,389,992	54,513,368	75,007,916	58,004,352
Due to credit institutions	119,531,456	126,282,486	101,329,802	103,761,138
Due to customers	435,952,488	435,807,096	309,341,915	287,117,179

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 year, 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 year, 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)

25. Related party transactions (continued)

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

	Entities under common control and shareholders	
	2006	**2005**
Loans outstanding at January 1, gross	189,491,730	164,383,644
Loans outstanding at 31 December, gross	**177,620,948**	**189,491,730**
Less: allowance for impairment at 31 December	(9,415,388)	(9,042,505)
Loans outstanding at 31 December, net	**168,205,560**	**180,449,225**
Interest income on loans	14,305,966	14,601,843
(Provision for) release of impairment	(372,883)	2,624,435
Deposits at 1 January	200,968,933	146,085,436
Deposits at 31 December	**224,324,758**	**200,968,933**
Interest expense on deposits	1,707,343	693,354
Commitments and guarantees issued	643,042	37,926,506
Commitments and guarantees received	673,938,046	351,228,317
Fee and commission income	7,990,427	10,209,645

Compensation of key management personnel comprised the following:

	2006	**2005**
Salaries and other short-term benefits	38,122	33,142
Social security costs	8,415	8,525
Total key management compensation	**46,537**	**41,667**

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, 2006 and 2005, was 13.0% and 13.0%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

At December 31, 2006 the Bank was in breach with open currency position. According to CBU requirement 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 violation of the aforementioned requirement.

27. Subsequent events

On October 30, 2006 the Council of the Bank approved the 8th emission of 300,000 nominal preferred shares with nominal value of UZS 1.5 per share. The prospectus was approved by the Centre for Coordination and Control of Securities Market on March 1, 2007. The amount of preferred shares issued and fully paid was UZS 450,000 in March 2007.