

**JOINT-STOCK COMMERCIAL INDUSTRIAL-
CONSTRUCTION BANK “UZPROMSTROYBANK”**

**International Financial Reporting Standards
Financial Statements and
Independent Auditor’s Report**

31 December 2008

CONTENTS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Balance Sheet.....	1
Income Statement.....	2
Statement of Changes in Equity.....	3
Statement of Cash Flows.....	4

Notes to the Financial Statements

1	Introduction.....	5
2	Operating Environment of the Bank.....	6
3	Summary of Significant Accounting Policies.....	6
4	Critical Accounting Estimates, and Judgements in Applying Accounting Policies	12
5	Adoption of New or Revised Standards and Interpretations	13
6	New Accounting Pronouncements.....	13
7	Cash and Cash Equivalents	16
8	Due from Other Banks	17
9	Loans and Advances to Customers	19
10	Investment Securities Available for Sale.....	24
11	Premises, Equipment and Intangible Assets	26
12	Other Assets.....	27
13	Non-Current Assets Classified as Held for Sale	27
14	Due to Other Banks	28
15	Customer Accounts	28
16	Borrowings from government, state and international financial organisations	29
17	Other Liabilities.....	31
18	Share Capital.....	31
19	Interest Income and Expense	32
20	Fee and Commission Income and Expense	33
21	Other Operating Income	33
22	Administrative and Other Operating Expenses.....	33
23	Income Taxes	34
24	Earnings per Share.....	35
25	Dividends.....	35
26	Segment Analysis	36
27	Financial Risk Management	37
28	Management of Capital.....	46
29	Contingencies and Commitments	47
30	Fair Value of Financial Instruments	49
31	Presentation of Financial Instruments by Measurement Category	54
32	Related Party Transactions	54

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and Council of Joint-Stock Commercial Industrial-Construction Bank "UZPROMSTROYBANK":

We have audited the accompanying financial statements of Joint-Stock Commercial Industrial-Construction Bank "UZPROMSTROYBANK" (the "Bank"), which comprise the balance sheet as at 31 December 2008 and the income statement, 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.

Auditor's 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers Audit Subsidiary Company

Tashkent, Uzbekistan
25 March 2009



Subsidiary Company

JOINT-STOCK COMMERCIAL INDUSTRIAL-CONSTRUCTION BANK "UZPROMSTROYBANK"
Balance Sheet

In thousands of Uzbekistan Soums	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	317,709,088	258,178,861
Due from other banks	8	30,260,922	30,701,796
Loans and advances to customers	9	1,009,498,435	599,445,730
Investment securities available for sale	10	16,949,853	14,287,992
Deferred income tax asset	23	2,735,081	2,202,317
Premises and equipment	11	30,818,654	31,257,926
Intangible assets	11	2,367,058	2,458,006
Other assets	12	5,835,049	14,511,617
Non current assets held for sale	13	3,108,614	8,547,087
TOTAL ASSETS		1,419,282,754	961,591,332
LIABILITIES			
Due to other banks	14	113,573,739	63,167,577
Customer accounts	15	739,774,631	611,260,588
Borrowings from government, state and international financial organisations	16	409,766,298	206,518,625
Other liabilities	17	4,245,550	4,365,601
TOTAL LIABILITIES		1,267,360,218	885,312,391
EQUITY			
Share capital	18	112,709,618	47,822,616
Fair value reserve for investment securities available for sale		721,641	438,429
Retained earnings		38,491,277	28,017,896
TOTAL EQUITY		151,922,536	76,278,941
TOTAL LIABILITIES AND EQUITY		1,419,282,754	961,591,332

Approved for issue and signed on behalf of the Board of Management on 25 March 2009.

Ulugbek M. Mustafoev
Chairman of the Board



Saidkamol S. Khodjaev
Chief Accountant

JOINT-STOCK COMMERCIAL INDUSTRIAL-CONSTRUCTION BANK "UZPROMSTROYBANK"
Income Statement

In thousands of Uzbekistan Soums	Note	2008	2007
Interest income	19	84,582,052	65,590,481
Interest expense	19	(44,613,027)	(29,729,320)
Net interest income		39,969,025	35,861,161
Provision for impairment of loans and advances to customers and amounts due from other banks	8,9	(13,422,663)	(13,811,249)
Net interest income after provision for loan impairment		26,546,362	22,049,912
Fee and commission income	20	52,915,772	38,704,904
Fee and commission expense	20	(7,689,805)	(4,759,347)
Gains less losses from trading in foreign currencies		3,493,222	1,880,662
Foreign exchange translation gains less losses		1,997,881	1,251,872
Losses on initial recognition of assets at rates below market	9	(2,019,717)	(1,924,061)
Gain on disposal of investment securities available for sale	10	842,203	279,534
Gains less losses/(losses less gains) from disposals of investment securities available for sale		73,095	(252,774)
Other operating income	21	9,211,504	664,219
Dividend income		139,932	586,960
Administrative and other operating expenses	22	(67,892,474)	(43,978,001)
Profit before tax		17,617,975	14,503,880
Income tax expense	23	(2,511,132)	(2,789,059)
Profit for the year		15,106,843	11,714,821
Earnings per share, basic (expressed in UZS per share)	24	652	1,040

JOINT-STOCK COMMERCIAL INDUSTRIAL-CONSTRUCTION BANK "UZPROMSTROYBANK"
Statement of Changes in Equity

	Note	Share capital	Fair value reserve for investment securities available for sale	Retained earnings	Total equity
In thousands of Uzbekistan Soums					
Balance at 1 January 2007		30,526,495	209,440	23,233,075	53,969,010
Fair value gains arising on investment securities available for sale	10	-	263,462	-	263,462
Income tax recorded in equity	23	-	(34,473)	-	(34,473)
Net income recognised directly in equity		-	228,989	-	228,989
Profit for the year		-	-	11,714,821	11,714,821
Total recognised income for 2007		-	228,989	11,714,821	11,943,810
Shares issued and paid	18	11,146,121	-	-	11,146,121
Capitalisation of shares	18	6,150,000	-	(6,150,000)	-
Dividends declared	25	-	-	(780,000)	(780,000)
Balance at 31 December 2007		47,822,616	438,429	28,017,896	76,278,941
Fair value gains arising on investment securities available for sale	10	-	333,191	-	333,191
Income tax recorded in equity	23	-	(49,979)	-	(49,979)
Net income recognised directly in equity		-	283,212	-	283,212
Profit for the year		-	-	15,106,843	15,106,843
Total recognised income for 2008		-	283,212	15,106,843	15,390,055
Shares issued and paid	18	64,887,002	-	-	64,887,002
Dividends declared	25	-	-	(4,633,462)	(4,633,462)
Balance at 31 December 2008		112,709,618	721,641	38,491,277	151,922,536

JOINT-STOCK COMMERCIAL INDUSTRIAL-CONSTRUCTION BANK "UZPROMSTROYBANK"
Statement of Cash Flows

In thousands of Uzbekistan Soums	Note	2008	2007
Cash flows from operating activities			
Interest received		83,325,674	62,479,336
Interest paid		(44,898,621)	(29,433,740)
Fee and commission received		52,751,777	39,236,205
Fee and commission paid		(7,681,648)	(4,662,249)
Income received from trading in foreign currencies		3,493,222	1,880,662
Other operating income received		3,414,331	396,309
Staff costs paid		(37,580,031)	(19,665,392)
Administrative and other operating expenses paid		(24,211,938)	(18,149,234)
Income tax paid		(3,286,163)	(3,393,226)
Cash flows from operating activity before changes in operating assets and liabilities		25,326,603	28,688,671
Changes in operating assets and liabilities			
Net increase in due from other banks		(536,877)	(6,169,530)
Net increase in loans and advances to customers		(410,598,148)	(199,478,478)
Net decrease / (increase) in other assets		9,693,939	(9,994,976)
Net increase in due to other banks		50,794,161	55,515,101
Net increase in customer accounts		127,899,672	176,034,548
Net decrease in other liabilities		(873,046)	(2,017,806)
Net cash (used in) from operating activities		(198,293,696)	42,577,530
Cash flows from investing activities			
Acquisition of investment securities available for sale		(5,053,794)	(9,931,254)
Proceeds from disposal of investment securities available for sale		3,542,731	8,788,391
Acquisition of premises, equipment and intangible assets	11	(7,163,893)	(11,648,874)
Proceeds from disposal of premises, equipment and intangible assets		2,850,170	232,920
Dividends received		139,932	586,960
Net cash used in investing activities		(5,684,854)	(11,971,857)
Cash flows from financing activities			
Proceeds from issue of share capital		64,887,002	11,146,121
Dividends paid		(4,633,462)	(540,000)
Proceeds from borrowings from government, state and international financial organisations		246,984,606	78,868,241
Repayment of from borrowings from government, state and international financial organisations		(44,339,213)	(52,796,695)
Net cash from financing activities		262,898,933	36,677,667
Effect of exchange rate changes on cash and cash equivalents		609,844	292,375
Net increase in cash and cash equivalents		59,530,227	67,575,715
Cash and cash equivalents at the beginning of the year		258,178,861	190,603,146
Cash and cash equivalents at the end of the year	7	317,709,088	258,178,861
Non cash Transactions:			
- capitalisation of shares out of retained earnings	18	-	6,150,000
- non current assets held for sale transferred from loans and advances to customers	13	-	10,234,817

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2008 for Joint-Stock Commercial Industrial-Construction Bank "Uzpromstroybank" (the "Bank").

The Bank was incorporated in 1991 and is domiciled in the Republic of Uzbekistan. The Bank is an open joint stock company limited by shares and was set up in accordance with Uzbek regulations.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Uzbekistan, as well as foreign exchange dealing on international foreign currency markets. The Bank was granted its new banking licence #17 issued by the Central Bank of Uzbekistan ("CBU") on 25 January 2003 and license for foreign currency operations # 1 on 29 January 2005. The activities of the Bank are regulated by the Central Bank of Uzbekistan ("CBU").

The Bank participates in the state deposit insurance scheme, which was introduced by the Uzbek Law #360-II "Insurance of Individual Bank Deposit" dated 5 April 2002. In case of the withdrawal of a license of a bank, the State Deposit Insurance Fund guarantees repayment of 100% of individual deposits up to 100 minimum monthly wages set by legislation on the day of the withdrawal of a license of a bank and 90% in excess of 100 minimum monthly wages up to a limit of 250 minimum monthly wages set by legislation on the day of the withdrawal of a license of a bank. On 28 November 2008, the President of the Republic of Uzbekistan issued the Decree # УП-4057 stating that the State Deposit Insurance Fund guarantees repayment of 100% of individual deposits regardless of the deposit amount. Relevant amendments to the above Law are being considered by the Uzbek legislative bodies at present.

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 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 operates through its Head Office, registered and located in Tashkent, Republic of Uzbekistan, and 49 branches within Uzbekistan (2007: 48 branches). The number of the Bank's employees as at 31 December 2008 was 4,463 (2007: 4,227).

In 2008, the Bank issued additional ordinary shares for UZS 65.4 billion following the Uzbek Presidential Resolution #ПП-944 dated 13 August 2008 on "Increasing capitalization level of UZPROMSTROYBANK". In accordance with the Resolution, the newly issued shares have been allocated among the Ministry of Finance of Uzbekistan for the amount of UZS 35 billion, Uzbekistan Fund for Reconstruction and Development for the amount of UZS 26 billion and the other shareholders for the balance of UZS 4.4 billion. Following this issue, the shareholder structure of the Bank has changed as shown in the below table.

As of 31 December 2008, the following shareholders owned more than 1% of the outstanding shares.

	2008 %	2007 %
Ministry of Finance of Uzbekistan	35.2%	-
Uzbekistan Fund for Reconstruction and Development	26.1%	-
NHC "Uzbekneftegaz"	7.0%	17.2%
British Glass Group MChJ	6.0%	16.9%
Absolute Investments Trust MChJ	5.0%	14.5%
Shuhrat-Dang'ara MChJ	1.7%	4.8%
Asset Management Trust MChJ	1.6%	4.6%
Mirobid-Dang'ara MChJ	1.6%	4.6%
Addison Ventures (UK) Ltd.	1.4%	4.2%
Brentwood and Co (UK) Ltd.	1.4%	4.0%
Fortis Securities (ND) Ltd.	1.2%	3.4%
Navoi Mining Company	1.0%	2.8%
Other	10.8%	23.0%
Total	100.0%	100.0%

Total number of shareholders as at 31 December 2008 was 35,064 which include 3,562 legal entities and 31,502 individuals, respectively (2007: 35,826 which include 3,599 legal entities and 32,227 individuals).

Registered address. The Bank's registered address is: 3, Shahrisabz Str, Tashkent, 100000 Uzbekistan.

Presentation currency. These financial statements are presented in thousands of Uzbekistan Soums ("UZS thousands").

2 Operating Environment of the Bank

Republic of Uzbekistan. Whilst there have been improvements in recent years in the economic situation in the Republic of Uzbekistan, the economy of the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the Republic of Uzbekistan and a low level of liquidity in debt and equity markets.

Additionally, the banking sector in the Republic of Uzbekistan is particularly impacted by political, legislative, fiscal and regulatory developments in the Republic of Uzbekistan. The prospects for future economic stability in the Republic of Uzbekistan are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, regulatory and political developments, which are beyond the Bank's control.

The Bank's financial position and operating results will continue to be affected by future political and economic developments in the Republic of Uzbekistan including the application of existing and future legislation and tax regulations which significantly impact Uzbek financial markets and the economy overall. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Bank.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for securities, which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values where considered necessary.

Recent volatility in global and Uzbekistan financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Since September 2008 several large Uzbekistan banks have been acquired by the Ministry of Finance of the Republic of Uzbekistan as a supportive measure against the recent volatility. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The volume of international wholesale financing has significantly reduced since August 2007, which may affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Borrowers/debtors of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers/customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Uzbekistan for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

Management is unable to reliably determine the effects on the Bank's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of available-for-sale financial assets. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

3 Summary of Significant Accounting Policies (Continued)

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. The Bank's financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the CBU and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. 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 foreclosure is probable.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement.

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Uzbekistan Soums at 31 December 2005 for assets acquired prior to 1 January 2006, less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Buildings and premises	5% per annum;
Furniture and equipment	15-20% per annum;

3 Summary of Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable.

Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Non-current assets classified as held for sale. Non-current assets are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Both financial and non-financial assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's Management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

Held for sale premises and equipment as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Borrowings from government, state and international financial organisations. Borrowings from government, state and international financial organisations include borrowings from international financial institutions, government and non-government funds and state organisations. The borrowings from government, state and international financial organisations are carried at amortised cost.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Uzbekistan legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

3 Summary of Significant Accounting Policies (Continued)

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Bank. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Preference shares. Preference shares that are not redeemable and with discretionary dividends, are classified as equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Uzbekistan legislation identifies the basis of distribution as the current year net profit and retained earnings.

Income and expense recognition. Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become impaired, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Bank's presentation currency is the national currency of the Republic of Uzbekistan, Uzbekistan Soums ("UZS").

Monetary assets and liabilities are translated into the functional currency at the official exchange rate of the CBU at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates of the CBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = UZS 1,393.00 (2007: USD 1 = UZS 1,290.00). Exchange restrictions and controls exist relating to converting UZS into other currencies. At present, the UZS is not a convertible currency outside of the Republic of Uzbekistan.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the reporting year.

3 Summary of Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. The Republic of Uzbekistan has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of Uzbekistan indicated that hyperinflation had ceased effective from 1 January 2006. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2005 are the basis for the carrying amounts in these financial statements. The restatement was calculated using the conversion factors derived from the Uzbekistan Consumer Price Index ("CPI"), provided by the State Committee on Statistics of the Republic of Uzbekistan, and from indices obtained from other sources for years prior to 1994.

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Uzbekistan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Borrowings from government, state and international financial organisations. The Bank obtains long term financing from government, state and international financial institutions at interest rates at which such institutions ordinarily lend in emerging markets and which may be lower than rates at which the Bank could source the funds from local lenders. As a result of such financing, the Bank is able to advance funds to specific customers at advantageous rates. Management have considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgement management also considered that these instruments are a separate market segment.

Impairment of available-for-sale investment securities. The Bank determines that available-for-sale investments securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the volatility in security price. In addition, impairment may be appropriate when there is evidence of changes in technology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

This evidence may include 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that there would be a one month delay in collecting the top 5% of the loans and advances to customers, the provision would be approximately UZS 270,715 thousand (31 December 2007: UZS 295,800 thousand) higher. The top 5% of loans includes impaired loans. If such impaired loans were collected one month earlier than currently assumed, the provision would be UZS 265,484 thousand (31 December 2007: UZS 60,198 thousand) lower.

Tax legislation. Uzbekistan tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by Management and extrapolated results thereafter. The business plan is based on Management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are:

- increase of loan portfolio;
- increase of customer deposits; and
- increase of bank branches.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRS became effective for the Bank from 1 January 2008:

- **IFRIC 11, IFRS 2—Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007);
- **IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008); and
- **IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Bank's financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Bank has not elected to make any of the optional reclassifications during the period.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

6 New Accounting Pronouncements (Continued)

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).

The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Bank's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Bank does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank does not expect the amended standard to affect its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires excess losses to be allocated to the owners of the parent in most cases). The revised standard also specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Bank does not expect the amended standard to affect its financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Bank does not expect the amendment to affect its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

6 New Accounting Pronouncements (Continued)

The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Bank does not expect the amended standard to affect its financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. . The Bank does not expect the amendment to affect its financial statements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Bank does not expect the amendment to affect its financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. The Bank does not expect the amendment to affect its financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Bank's financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Bank does not expect the amendment to affect its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Bank does not expect the amendments to have any material effect on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The Bank does not expect the amendments to have any material effect on its financial statements.

IFRIC 18 Transfers of Assets from Customers is particularly relevant for the utility sector. It clarifies the requirements of International Financial Reporting Standards (IFRSs) for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer which must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). IFRIC 18 requires entities to apply the Interpretation prospectively to transfers of assets from customers received on or after 1 July 2009. Earlier application is permitted provided the valuations and other information needed to apply to the Interpretation to past transfers were obtained at the time those transfers were made.

IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Bank concluded that the revised standard does not have any effect on its financial statements.

IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009). The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. This is aimed at ensuring that the information disclosed enables users of an entity's financial statements to evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity manages that risk. The Bank concluded that the revised standard does not have material effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

7 Cash and Cash Equivalents

	31 December 2008	31 December 2007
In thousands of Uzbekistan Soums		
Cash on hand	31,083,402	30,575,732
Cash balances with the Cental Bank of Uzbekistan ("CBU") (other than mandatory reserve deposits)	124,442,131	36,250,078
Mandatory cash balances with CBU	83,307,639	62,301,254
Correspondent accounts and overnight placements with other banks:		
- Uzbekistan	1,830,880	31,726,917
- Other countries	77,045,036	97,324,880
Total cash and cash equivalents	317,709,088	258,178,861

Cash balances with the CBU include an overnight deposit of UZS 49,350,000 thousand (2007: UZS 28,300,000 thousand) bearing a fixed interest rate of 0.5% per annum (2007: 0.5% per annum).

Interest rate analysis of cash and cash equivalents is disclosed in Note 27.

The credit quality of cash and cash equivalents balances other than cash on hand may be summarised based on Fitch/Moody ratings as follows at 31 December 2008:

7 Cash and Cash Equivalents (Continued)

	Cash balances with the CBU, including mandatory reserves	Correspon- dent accounts and overnight placements	Total
In thousands of Uzbekistan Soums			
<i>Neither past due nor impaired</i>			
- Central Bank of Uzbekistan	207,749,770	-	207,749,770
- AA- to AA+ rated	-	31,359,277	31,359,277
- A- to A+ rated	-	42,370,376	42,370,376
- Lower than A- rated	-	4,109,754	4,109,754
- Unrated: Uzbek banks	-	1,036,509	1,036,509
Total cash and cash equivalents other than cash on hand	207,749,770	78,875,916	286,625,686

The credit quality of cash and cash equivalents balances other than cash on hand may be summarised based on Fitch/Moody ratings as follows at 31 December 2007:

	Cash balances with the CBU, including mandatory reserves	Correspon- dent accounts and overnight placements	Total
In thousands of Uzbekistan Soums			
<i>Neither past due nor impaired</i>			
- Central Bank of Uzbekistan	98,551,332	-	98,551,332
- AA- to AA+ rated	-	78,032,189	78,032,189
- A- to A+ rated	-	9,173,727	9,173,727
- Lower than A- rated	-	605,104	605,104
- Unrated: Uzbek banks	-	41,240,777	41,240,777
Total cash and cash equivalents other than cash on hand	98,551,332	129,051,797	227,603,129

8 Due from Other Banks

	31 December 2008	31 December 2007
In thousands of Uzbekistan Soums		
Restricted cash	19,564,364	21,529,647
Short term placements with other banks with original maturities of more than three months	11,855,373	9,172,149
Less: Provision for impairment	(1,158,815)	-
Total due from other banks	30,260,922	30,701,796

Restricted cash represents balances on correspondent accounts with foreign banks placed by the Bank in respect of Letters of Credit for UZS 18,867,864 thousand (2007: UZS 21,529,647). The Bank has received restricted deposits from these customers in the same amounts which are recorded in customer accounts. The balance of UZS 696,500 thousand (2007: Nil) represents collateral for the Letter of Guarantee issued by National Bank of Uzbekistan ("NBU") under borrowings from international financial institutions (Note 16). The Bank does not have the right to use these funds for the purposes of funding its own activities.

8 Due from Other Banks (Continued)

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks based on Fitch/Moody ratings outstanding at 31 December 2008 is as follows:

In thousands of Uzbekistan Soums	Restricted cash	Short term placements with other banks	Total
<i>Neither past due nor impaired</i>			
- AA- to AA+ rated	4,049,050	-	4,049,050
- A- to A+ rated	13,986,054	1,553,195	15,539,249
- Lower than A- rated	1,529,260	137,638	1,666,898
- Unrated: Uzbek banks	-	6,045,307	6,045,307
Total neither past due nor impaired	19,564,364	7,736,140	27,300,504
<i>Balances individually determined to be impaired (gross)</i>			
- 90 to 180 days overdue	-	4,119,233	4,119,233
Total individually impaired (gross)	-	4,119,233	4,119,233
Less provision for impairment	-	(1,158,815)	(1,158,815)
Total due from other banks	19,564,364	10,696,558	30,260,922

Analysis by credit quality of amounts due from other banks outstanding based on Fitch/Moody ratings at 31 December 2007 is as follows:

In thousands of Uzbekistan Soums	Restricted cash	Short term placements with other banks	Total
<i>Neither past due nor impaired</i>			
- AA- to AA+ rated	19,931,807	148,350	20,080,157
- A- to A+ rated	749,650	-	749,650
- Lower than A- rated	848,190	1,806,000	2,654,190
- Unrated: Uzbek banks	-	7,217,799	7,217,799
Total neither past due nor impaired	21,529,647	9,172,149	30,701,796
Total due from other banks	21,529,647	9,172,149	30,701,796

The primary factor that the Bank considers in determining whether a deposit is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of deposits that are individually determined to be impaired.

Movements in the provision for impairment of due from other banks are as follows:

In thousands of Uzbekistan Soum	2008 Placements with other banks	2007 Placements with other banks
Provision for impairment at 1 January	-	-
Provision for impairment during the year	1,158,815	-
Provision for impairment at 31 December	1,158,815	-

Refer to Note 30 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 27. Information on related party balances is disclosed in Note 32.

9 Loans and Advances to Customers

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
State and municipal organisations	519,355,933	245,499,078
Corporate loans	454,939,505	334,860,508
Loans to individuals - consumer loans	72,405,921	46,781,181
Loans to individuals - entrepreneurs	8,225,362	5,469,401
Less: Provision for loan impairment	(45,428,286)	(33,164,438)
Total loans and advances to customers	1,009,498,435	599,445,730

As at 31 December 2008 loans issued at interest rates below market through a fund for concessionary lending to small and medium size businesses (“SME”) established by the Bank from its internal resources in accordance with the Government decree on support of SME amounted to UZS 28,077,415 thousand (2007: UZS 22,876,433 thousand). During 2008 a loss on initial recognition of loans below market in amount of UZS 2,019,717 (2007: UZS 1,924,061 thousand) has been recorded in the income statement.

Loans and advances to customers include loans of UZS 409,766,298 thousand (2007: UZS 206,518,625 thousand) funded by borrowings from international and domestic financial institutions as stated in Note 16. Loans and advances to customers include interest of UZS 32,787,194 thousand (2007: 33,528,347 thousand) which is accrued using effective interest rate but not due as at the balance sheet date on project finance loans issued in accordance with the governmental decrees. These project finance loans provide a grace period on interest payments in instalments up to the year 2014.

Movements in the provision for loan impairment during 2008 are as follows:

In thousands of Uzbekistan Soums	Corporate loans	State and municipal organisations	Loans to individuals - consumer loans	Loans to individuals - entrepreneurs	Total
Provision for loan impairment at 1 January 2008	21,533,760	10,401,338	1,108,675	120,665	33,164,438
Provision for loan impairment during the year*	7,134,298	4,316,768	681,512	131,270	12,263,848
Provision for loan impairment at 31 December 2008	28,668,058	14,718,106	1,790,187	251,935	45,428,286

*The provision for impairment during 2008 differs from the amount presented in the income statement due to provision amount of UZS 1,158,815 thousand set for amounts due from other banks (Note 8).

Movements in the provision for loan impairment during 2007 are as follows:

In thousands of Uzbekistan Soums	Corporate loans	State and municipal organisations	Loans to individuals - consumer loans	Loans to individuals - entrepreneurs	Total
Provision for loan impairment at 1 January 2007	19,287,650	3,893,577	873,510	63,721	24,118,458
Provision for loan impairment during the year	6,851,423	6,667,717	235,165	56,944	13,811,249
Amounts written off during the year as uncollectible	(336,700)	(159,956)	-	-	(496,656)
Transfer to non-current assets held for sale	(4,268,613)	-	-	-	(4,268,613)
Provision for loan impairment at 31 December 2007	21,533,760	10,401,338	1,108,675	120,665	33,164,438

9 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of Uzbekistan Soums	31 December 2008		31 December 2007	
	amount	%	amount	%
Machinery and other manufacturing	543,741,184	52	305,633,426	48
Construction and construction materials	168,998,006	16	120,135,466	19
Trading and food companies	105,462,250	10	65,610,016	10
Transport	97,218,542	9	35,260,341	6
Individuals	72,405,921	7	46,781,181	7
Agriculture	31,199,287	2	25,538,469	4
Utilities	18,637,519	2	13,395,119	3
Other	17,264,012	2	20,256,150	3
Total loans and advances to customers before impairment	1,054,926,721	100	632,610,168	100

At 31 December 2008 the Bank had fourteen borrowers (2007: ten borrowers) with aggregate loan amounts above UZS 10,000,000 thousand. The total aggregate amount of these loans was UZS 494,166,167 thousand (2007: UZS 241,356,992 thousand) or 47% of the gross loan portfolio (2007: 38%).

Information about collateral at 31 December 2008 is as follows:

In thousands of Uzbekistan Soums	Corporate loans	State and municipal organisations	Loans to individuals - consumer loans	Loans to individuals - entrepreneurs	Total
Unsecured loans	576,420	300,000	1,400	-	877,820
Loans collateralised by:					
- letter of surety	226,251,935	368,963,615	31,666,355	1,886,251	628,768,156
- building	154,685,469	48,323,338	32,335,954	1,702,014	237,046,775
- equipment	14,216,072	68,485,553	-	372,422	83,074,047
- vehicle	28,984,831	1,256,213	6,364,218	4,010,745	40,616,007
- securities	5,369,253	-	-	-	5,369,253
- cash deposit	3,494,130	50,000	574,621	18,156	4,136,907
- shares	7,274,672	-	-	-	7,274,672
- others	14,086,723	31,977,214	1,463,373	235,774	47,763,084
Sub-total	454,363,085	519,055,933	72,404,521	8,225,362	1,054,048,901
Total loans and advances to customers before impairment provision	454,939,505	519,355,933	72,405,921	8,225,362	1,054,926,721

Information about collateral at 31 December 2007 is as follows:

In thousands of Uzbekistan Soums	Corporate loans	State and municipal organisations	Loans to individuals - consumer loans	Loans to individuals - entrepreneurs	Total
Unsecured loans	2,520,771	12,822	119,634	51,444	2,704,671
Loans collateralised by:					
- letter of surety	149,064,220	220,521,952	14,712,669	1,677,640	385,976,481
- building	89,955,134	5,462,037	10,123,903	1,835,819	107,376,893
- equipment	61,608,406	10,355,246	1,740,957	1,161,345	74,865,954
- vehicle	15,651,167	616,453	17,292,699	319,411	33,879,730
- securities	8,621,117	-	-	175,941	8,797,058
- cash deposit	297,552	-	725,421	-	1,022,973
- others	7,142,141	8,530,568	2,065,898	247,801	17,986,408
Sub-total	332,339,737	245,486,256	46,661,547	5,417,957	629,905,497
Total loans and advances to customers before impairment provision	334,860,508	245,499,078	46,781,181	5,469,401	632,610,168

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

In thousands of Uzbekistan Soums	Corporate loans	State and municipal organisations	Loans to individuals - consumer loans	Loans to individuals - entrepreneurs	Total
<i>Neither past due nor impaired</i>					
- good	350,133,111	462,487,493	72,404,036	7,744,032	892,768,672
- standard	3,346,858	44,980,293	1,885	456,818	48,785,854
- substandard	1,957,185	144,698	-	24,512	2,126,395
Total neither past due nor impaired	355,437,154	507,612,484	72,405,921	8,225,362	943,680,921
<i>Past due but not impaired</i>					
- less than 30 days overdue	1,452,515	710,002	-	-	2,162,517
- 30 to 90 days overdue	470,535	9,843,447	-	-	10,313,982
- Over 360 days overdue*	63,540,639	-	-	-	63,540,639
Total past due but not impaired	65,463,689	10,553,449	-	-	76,017,138
<i>Loans individually determined to be impaired (gross)</i>					
- 180 – 360 days overdue	34,038,662	1,190,000	-	-	35,228,662
Total individually impaired loans (gross)	34,038,662	1,190,000	-	-	35,228,662
Less impairment provisions	(28,668,058)	(14,718,106)	(1,790,187)	(251,935)	(45,428,286)
Total loans and advances to customers	426,271,447	504,637,827	70,615,734	7,973,427	1,009,498,435

* The amount as of 31 December 2008 includes the project finance loan in the amount of UZS 63,540,639 thousand (2007: UZS 57,820,069 thousand) showing signs of impairment and being overdue for over 360 days (2007: 180-360 days). The Bank Management believes that the presentation of the loan in the category “past due but not impaired loan” is appropriate due to ongoing support and negotiation with the Government of Uzbekistan for this project.

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In thousands of Uzbekistan Soums	Corporate loans	State and municipal organisations	Loans to individuals - consumer loans	Loans to individuals - entrepreneurs	Total
<i>Neither past due nor impaired</i>					
- good	234,485,823	231,095,017	46,674,291	4,983,051	517,238,182
- standard	7,459,275	3,855,243	10,486	436,025	11,761,029
- substandard	10,385,584	3,675,140	-	30,325	14,091,049
Total neither past due nor impaired	252,330,682	238,625,400	46,684,777	5,449,401	543,090,260
<i>Past due but not impaired</i>					
- less than 30 days overdue	-	591,966	-	20,000	611,966
- 30 to 90 days overdue	650,000	-	96,404	-	746,404
- 90 to 180 days overdue	-	5,344,657	-	-	5,344,657
- 180 to 360 days overdue	57,820,069	-	-	-	57,820,069
Total past due but not impaired	58,470,069	5,936,623	96,404	20,000	64,523,096
<i>Loans individually determined to be impaired (gross)</i>					
- less than 30 days overdue	609,500	-	-	-	609,500
- 30 to 90 days overdue	6,321,672	818,958	-	-	7,140,630
- 90 to 180 days overdue	13,615,585	118,097	-	-	13,733,682
- 180 – 360 days overdue	3,513,000	-	-	-	3,513,000
Total individually impaired loans (gross)	24,059,757	937,055	-	-	24,996,812
Less impairment provisions	(21,533,760)	(10,401,338)	(1,108,675)	(120,665)	(33,164,438)
Total loans and advances to customers	313,326,748	235,097,740	45,672,506	5,348,736	599,445,730

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology. The credit quality of the portfolio of loans and advances that were current not impaired can be assessed by reference to the internal rating system adopted by the Bank. Refer to Note 27.

The primary factors that the Bank considers whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

9 Loans and Advances to Customers (Continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

In thousands of Uzbekistan Soums	Corporate loans	State and municipal organisations	Total
<i>Fair value of collateral - loan past due but not impaired</i>			
- building	677,319	-	677,319
- letter of surety	63,540,639	10,895,296	74,435,935
- equipment	1,062,500	8,750,000	9,812,500
Total fair value of collateral - loans past due but not impaired	65,280,458	19,645,296	84,925,754
<i>Fair value of collateral - individually impaired loans</i>			
- building	8,403,953	-	8,403,953
- letter of surety	8,983,990	989,927	9,973,917
- equipment	9,066,639	-	9,066,639
Total fair value of collateral - individually impaired loans	26,454,582	989,927	27,444,509
Total	91,735,040	20,635,223	112,370,263

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

In thousands of Uzbekistan Soums	Corporate loans	State and municipal organisations	Loans to individuals - consumer loans	Loans to individuals - entrepreneurs	Total
<i>Fair value of collateral - loan past due but not impaired</i>					
- building	8,685,033	1,346,642	125,000	18,750	10,175,425
- letter of surety	58,673,830	5,732,758	-	-	64,406,588
- inventory	622,321	-	-	-	622,321
- equipment	558,911	-	-	2,000	560,911
Total fair value of collateral - loans past due but not impaired	68,540,095	7,079,400	125,000	20,750	75,765,245
<i>Fair value of collateral - individually impaired loans</i>					
- building	5,112,120	45,731	-	-	5,157,851
- shares	2,965,200	-	-	-	2,965,200
- letter of surety	691,664	-	-	-	691,664
- equipment	2,224,499	-	-	-	2,224,499
Total fair value of collateral - individually impaired loans	10,993,483	45,731	-	-	11,039,214
Total	79,533,578	7,125,131	125,000	20,750	86,804,459

9 Loans and Advances to Customers (Continued)

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Refer to Note 30 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 27. Information on related party balances is disclosed in Note 32.

10 Investment Securities Available for Sale

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
Uzbek government treasury bills	11,005,168	10,929,501
Corporate bonds	339	307,164
Total debt securities	11,005,507	11,236,665
Corporate shares	5,944,346	3,051,327
Total investment securities available for sale	16,949,853	14,287,992

Analysis by credit quality of debt securities outstanding at 31 December 2008 is as follows:

In thousands of Uzbekistan Soums	Treasury bills	Corporate bonds	Total
<i>Neither past due nor impaired</i>			
- Treasury bills of Ministry of Finance	11,005,168	-	11,005,168
- Large Uzbek corporate	-	339	339
Total neither past due nor impaired	11,005,168	339	11,005,507
Total debt securities available for sale	11,005,168	339	11,005,507

Analysis by credit quality of debt securities outstanding at 31 December 2007 is as follows:

In thousands of Uzbekistan Soums	Treasury bills	Corporate bonds	Total
<i>Neither past due nor impaired</i>			
- Treasury bills of Ministry of Finance	10,929,501	-	10,929,501
- Large Uzbek corporate	-	307,164	307,164
Total current and not impaired	10,929,501	307,164	11,236,665
<i>Debt securities individually determined to be impaired (gross)</i>			
- over 360 days overdue	-	50,000	50,000
Total individually impaired debt securities (gross)	-	50,000	50,000
Less impairment provision	-	(50,000)	(50,000)
Total debt securities available for sale	10,929,501	307,164	11,236,665

10 Investment Securities Available for Sale (Continued)

The primary factor that the Bank considers whether a debt security is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of debt securities that are individually determined to be impaired.

The debt securities are not collateralised.

The movements in investment securities available for sale are as follows:

In thousands of Uzbekistan Soums	2008	2007
Carrying amount at 1 January	14,287,992	12,655,586
Fair value gains less losses	333,191	263,462
Interest income accrued	623,420	595,825
Interest income received	(648,016)	(396,504)
Purchases	5,053,794	9,931,254
Disposals of investment securities available for sale	(2,700,528)	(8,761,631)
Carrying amount at 31 December	16,949,853	14,287,992

Interest rate analysis of investment securities available for sale is disclosed in Note 27. Information on related party debt investment securities available for sale is disclosed in Note 32.

At 31 December 2008 the principal equity investment securities available for sale are:

Name	Nature of business	Country of registration	Fair value	
			2008	2007
Mikrokreditbank	Banking	Uzbekistan	2,300,000	595,402
Qurilish Leasing	Leasing	Uzbekistan	1,260,001	1,579,393
Ishonch	Insurance	Uzbekistan	565,878	-
UzCEx	Currency Exchange	Uzbekistan	495,970	495,970
Chilonzor Buyum Bozori	Market	Uzbekistan	408,433	208,390
Visa International	Financing	USA	357,271	-
UzMED-Lizing	Leasing	Uzbekistan	250,000	-
Madad	Insurance	Uzbekistan	69,999	97,247
Others	Others	Uzbekistan	236,794	74,925
Total corporate shares			5,944,346	3,051,327

Investment securities available for sale include equity securities with a carrying value of UZS 3,287,075 thousand (2007: UZS 2,455,925 thousand) which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the investee's net asset value or the stream of dividend earnings received from the investee. For the other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on 31 December.

11 Premises, Equipment and Intangible Assets

In thousands of Uzbekistan Soums	Building and premises	Furniture and Equipment	Construction in progress	Total premises and equipment	Intangible Assets	Total premises, equipment and intangible assets
Cost at 1 January 2007	15,848,889	21,979,360	1,480,862	39,309,111	3,516,273	42,825,384
Accumulated depreciation/ amortisation	(2,277,338)	(12,063,660)	-	(14,340,998)	(1,017,995)	(15,358,993)
Carrying amount at 1 January 2007	13,571,551	9,915,700	1,480,862	24,968,113	2,498,278	27,466,391
Additions	2,519,773	1,025,916	7,405,654	10,951,343	697,531	11,648,874
Disposals	(287,609)	(29,284)	(165,990)	(482,883)	(41,731)	(524,614)
Net transfers	2,236,786	1,751,358	(3,988,144)	-	-	-
Depreciation/ amortisation charge (Note 22)	(757,477)	(3,421,170)	-	(4,178,647)	(696,072)	(4,874,719)
Carrying amount at 31 December 2007	17,283,024	9,242,520	4,732,382	31,257,926	2,458,006	33,715,932
Cost at 31 December 2007	20,390,609	23,910,696	4,732,382	49,033,687	4,158,469	53,192,156
Accumulated depreciation/ amortisation	(3,107,585)	(14,668,176)	-	(17,775,761)	(1,700,463)	(19,476,224)
Carrying amount at 31 December 2007	17,283,024	9,242,520	4,732,382	31,257,926	2,458,006	33,715,932
Additions	686,698	877,707	4,779,337	6,343,742	820,151	7,163,893
Disposals	(1,480,208)	(297,762)	(226,137)	(2,004,107)	-	(2,004,107)
Net transfers	1,859,103	2,048,294	(3,907,397)	-	-	-
Depreciation/ amortisation charge (Note 22)	(1,038,303)	(3,740,604)	-	(4,778,907)	(911,099)	(5,690,006)
Carrying amount at 31 December 2008	17,310,314	8,130,155	5,378,185	30,818,654	2,367,058	33,185,712

Construction in progress consists mainly of construction and refurbishment of branch premises and equipment. Upon completion, assets are transferred to premises and equipment.

JOINT-STOCK COMMERCIAL INDUSTRIAL-CONSTRUCTION BANK “UZPROMSTROYBANK”
Notes to the Financial Statements – 31 December 2008

12 Other Assets

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
Commission receivable from ordinary customers	505,562	341,567
Less: Provision for other financial assets	(99,818)	(104,767)
Total other financial assets	405,744	236,800
Prepaid expenses	2,482,788	573,161
Prepayments for equipment to be loaned to customers	2,111,250	13,354,765
Current income tax prepayment	451,031	258,743
Other	384,236	88,148
Total other non financial assets	5,429,305	14,274,817
Total other assets	5,835,049	14,511,617

Movements in the provision for impairment of other financial assets during 2008 and 2007 are as follows

In thousands of Uzbekistan Soums	Notes	2008	2007
Provision for impairment at 1 January		104,767	285,877
Recovery of impairment during the year	21,22	(4,949)	(181,110)
Provision for impairment at 31 December		99,818	104,767

Analysis by credit quality of commission receivable from ordinary customers outstanding at 31 December 2008 and 2007 is as follows:

In thousands of Uzbekistan Soums	2008	2007
<i>Past due but not impaired</i>		
- less than 30 days overdue	336,184	138,259
Total past due but not impaired	336,184	138,259
<i>Impaired</i>		
- 30 to 180 days overdue	34,122	98,543
- 180 to 360 days overdue	70,878	54,824
- over 360 days overdue	64,378	49,941
Total impaired	169,378	203,308
Less impairment provision	(99,818)	(104,767)
Total other financial assets	405,744	236,800

The primary factor that the Bank considers whether a receivable is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of receivables. Refer to Note 30 for the disclosure of the fair value of each class of other financial assets.

13 Non-Current Assets Classified as Held for Sale

Major classes of non-current assets classified as held for sale are as follows:

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
Equipment	2,605,561	7,948,000
Building	503,053	599,087
Total non-current assets held for sale	3,108,614	8,547,087

13 Non-Current Assets Classified as Held for Sale (Continued)

The movement in non-current assets held for sale:

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
Total non-current assets held for sale at 1 January	8,547,087	3,144,848
Transfer from loans and advances to customers - repossession of collateral	12,300	6,416,777
Disposal of non-current assets held for sale	(5,450,773)	(450,573)
Loss on non-current assets held for sale (Note 22)	-	(563,965)
Total non-current assets held for sale 31 December	3,108,614	8,547,087

The assets repossessed in 2008 were repossessed in respect of loans to customers. Management approved a plan to sell these assets by 2009, as these assets are not related to the Bank's primary activities. The Bank actively markets these assets and expects the sale to complete within one year.

14 Due to Other Banks

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
Current term placements of other banks	112,200,472	61,956,399
Correspondent accounts and overnight placements of other banks	1,373,267	1,211,178
Total due to other banks	113,573,739	63,167,577

At 31 December 2008 the Bank had current term placements of other banks - two domestic banks UZS 48,600,000 thousand (2007: UZS 32,000,000 thousand) or 44% (2007: 51%) of total due to other bank accounts.

Refer to Note 30 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 27. Information on related party balances is disclosed in Note 32.

15 Customer Accounts

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
State and public organisations		
- Current/settlement accounts	352,980,603	317,328,961
- Term deposits	84,885,533	59,280,859
Other legal entities		
- Current/settlement accounts	139,141,641	101,707,084
- Term deposits	10,440,788	10,917,812
Individuals		
- Current/settlement accounts	68,765,076	37,218,524
- Term deposits	83,560,990	84,807,348
Total customer accounts	739,774,631	611,260,588

State and public organisations include government owned profit oriented businesses. At 31 December 2008 the Bank had eleven customers (2007: nine customers) with balances above UZS 10,000,000 thousand. The aggregate balance of these customers was UZS 296,960,470 thousand (2007: UZS 246,373,196 thousand) or 40% (2007: 40%) of total customer accounts.

15 Customer Accounts (Continued)

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 cash and cash equivalents accounts.

At 31 December 2008 included in customer accounts are deposits of UZS 139,397,697 thousand (2007: UZS 86,762,376 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 29.

Refer to Note 30 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 27. Information on related party balances is disclosed in Note 32.

16 Borrowings from government, state and international financial organisations

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
Term borrowings from international financial institutions:		
- China Export-Import Bank	50,298,096	-
- Landes Bank Berliner AG	47,847,454	49,108,708
- Industrial and commercial Bank of China ("ICBC")	34,352,658	37,121,117
- China Development Bank ("CDB")	11,133,523	-
- Commerzbank AG	9,541,951	14,660,965
- Dresdner Bank AG	3,694,980	1,640,667
- Hypo und Vereinsbank ("HVB")	1,415,333	-
- Kreditanstalt für Wiederaufbau ("KfW")	1,100,389	8,697,459
- Banca Nazionale del Lavoro ("BNL")	920,609	1,071,918
- European Bank for Reconstruction and Development ("EBRD")	601,907	1,956,296
Borrowings from Uzbekistan Fund for Reconstruction and Development ("UFRD")	209,917,150	40,267,136
Borrowings from Central Bank of Uzbekistan ("CBU")	32,626,637	44,161,510
Borrowings from the Ministry of Finance of Republic of Uzbekistan	4,005,848	5,259,304
Term borrowings from non-budgetary funds	2,309,763	2,573,545
Borrowings from government, state and international financial organisations	409,766,298	206,518,625

As at 31 December 2008, borrowings from China Export-Import Bank constitute a USD denominated loan totalling USD 36,108 thousand, currency equivalent of UZS 50,298,096 thousand (2007: Nil), which was advanced to the Bank to finance construction of a potash fertilizers producing plant. The rate of interest on this borrowing is 2% per annum. There is a five-year grace period for repayment of the principal. Repayment of the principal is to be made semi-annually effective from 2013 until the final maturity of the loan facility scheduled for Aug 2028. There is no grace period for interest payment and the payment is to be made semi-annually. The obligations of the Bank under this loan, including full and punctual repayment of principal, interest and fees, are guaranteed by the Government of Uzbekistan.

As at 31 December 2008, borrowings from Landes Bank Berliner AG (former Bankgesellschaft Berliner Bank) constitute a EURO denominated loan facility totalling EURO 23,336 thousand, currency equivalent of UZS 47,847,454 thousand (2007: UZS 49,108,709 thousand). The rate of interest on this loan facility is EURIBOR+1.125% per annum. The Bank accepted this borrowing in accordance with an inter-governmental cooperation agreement between Uzbekistan and Germany to finance construction of a fiber-glass production plant. Repayment of the principal and payment of interest are to be made semi-annually, with the final maturity of the loan facility scheduled for July 2016. The obligations of the Bank under this loan, including full and punctual repayment of principal, interest and fees, are guaranteed by the Government of Uzbekistan.

As at 31 December 2008, borrowings from ICBC constitute a USD denominated loan totalling USD 24,661 thousand, currency equivalent of UZS 34,352,658 thousand (2007: UZS 37,121,117 thousand), which was advanced to the Bank to finance construction of a soda producing plant. The rate of interest on this loan is LIBOR+0.875% per annum. Repayment of the principal and payment of interest are to be made semi-annually, with the final maturity of the loan facility scheduled for March 2014. The obligations of the Bank under this loan, including full and punctual repayment of principal, interest and fees, are guaranteed by the Government of Uzbekistan.

16 Borrowings from government, state and international financial organisations (continued)

As at 31 December 2008, borrowings from CDB constitute a USD denominated loan totalling USD 7,992 thousand, currency equivalent of UZS 11,133,523 thousand (2007: Nil), which was advanced to the Bank to finance construction of an ammonium producing plant. The rate of interest on this loan is LIBOR+1.5% per annum. There is a two-year grace period for repayment of the principal. Repayment of the principal is to be made semi-annually effective from 2011 until the final maturity of the loan facility scheduled for Aug 2019. There is no grace period for interest payment and the payment is to be made semi-annually. The obligations of the Bank under this loan, including full and punctual repayment of principal is guaranteed by the National Bank of Uzbekistan. In accordance with contractual terms of the agreement between the Bank and CDB, the Bank is required to maintain certain financial covenants set by the CBU, particularly with regards to its capital adequacy and lending exposures. As at 31 December 2008, the Bank was not in technical breach of these restrictions.

As at 31 December 2008, borrowings from Commerzbank AG constitute a EURO denominated loan totalling EURO 4,654 thousand, currency equivalent of UZS 9,541,951 thousand (2007: UZS 14,660,965 thousand), which was advanced by the Bank to various manufacturing customers. The rate of interest on this loan is EURIBOR+0.95%- EURIBOR+1.125% per annum. Repayment of the principal and payment of interest are made semi-annually and is linked with repayments of the individual loans made by the Bank. The Bank bears full credit risk for repayment of this loan.

As at 31 December 2008, borrowings from Dresdner Bank AG constitute a USD denominated loan totalling USD 863 thousand, currency equivalent of UZS 1,201,793 thousand (2007: 1,435,048) and EURO denominated loan totalling EURO 1,216 thousand, currency equivalent of UZS 2,493,187 thousand (2007: 205,619), which was advanced by the Bank to various manufacturing customers. The rate of interest on this loan is LIBOR+0.95% and EURIBOR+0.9% per annum respectively. Repayment of the principal and payment of interest is made semi-annually and linked to repayments of the individual loans made by the Bank. The Bank bears full credit risk for repayment of this loan.

As at 31 December 2008, borrowings from HVB constitute a EURO denominated loan totalling EURO 690 thousand, currency equivalent of UZS 1,415,333 thousand (2007: Nil), which was advanced to the Bank to finance manufacturing consumer products. The rate of interest on this loan is EURIBOR+1.25% per annum. Repayment of the principal and payment of interest is made semi-annually and linked to repayments of the individual loans made by the Bank. The Bank bears full credit risk for repayment of this loan.

As at 31 December 2008, borrowings from KfW constitute a EURO denominated loan totalling EURO 537 thousand, currency equivalent of UZS 1,100,389 thousand (2007: UZS 8,697,459 thousand), which was, in turn, advanced by the Bank to various manufacturing customers. The rate of interest on this loan is 3% per annum. Repayment of the principal and payment of interest is made semi-annually and is linked with repayments of the individual loans made by the Bank. The Bank bears full credit risk for repayment of this loan.

As at 31 December 2008, borrowings from BNL constitute a EURO denominated loan totalling EURO 449 thousand, currency equivalent of UZS 920,609 thousand (2007: 1,071,918), which was, in turn, advanced by the Bank to various manufacturing customers. The rate of interest on this loan is EURIBOR+1.5% per annum. Repayment of the principal and payment of interest is made semi-annually and linked to repayments of the individual loans made by the Bank. The Bank bears full credit risk for repayment of this loan.

As at 31 December 2008, borrowings from EBRD constitute USD denominated loan facility totalling USD 432 thousand, currency equivalent of UZS 601,907 thousand (2007: UZS 1,956,296 thousand). The rate of interest on this loan facility is LIBOR+2% per annum. The Bank, in turn, advanced this loan to various manufacturing and trading customers. Repayment of the principal and payment of interest are to be made semi-annually, with the final maturity of the loan facility scheduled for September 2009. The obligations of the Bank under this loan, including full and punctual repayment of principal, interest and fees, are guaranteed by the Government of Uzbekistan pursuant to guarantee agreements between EBRD and the Ministry of Finance of the Republic of Uzbekistan. In accordance with contractual terms of the agreement between the Bank and EBRD, the Bank is required to maintain certain financial covenants, particularly with regards to its liquidity, capital adequacy and lending exposures. Moreover, in accordance with the 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 at 31 December 2008, the Bank was in technical breach of these restrictions (2007: same). These technical breaches have not resulted in any cross-accelerated or cross-default as at 31 December 2008 (2007: same).

16 Borrowings from government, state and international financial organisations (Continued)

Borrowings from the UFRD are used for project finance loans issued by the Bank to its customers in accordance with the governmental directives. The Bank earns a net interest margin of 0.5% - 1% on these borrowings. Maturity of the borrowings is linked with maturities of the individual loans made by the Bank.

Borrowings from the CBU are used for project finance loans issued by the Bank to its customers in accordance with the governmental directives. The Bank earns a net interest margin of 0.5% - 1% on these borrowings. Maturity of the borrowings is linked with maturities of the individual loans made by the Bank.

Borrowings from the Ministry of Finance of the Republic of Uzbekistan are used for project finance loans issued by the Bank to its customers in accordance with the governmental directives. The Bank earns a net interest margin of 0.5% - 1% on these borrowings. Maturity of the borrowings is linked with maturities of the individual loans made by the Bank.

As at 31 December 2008, term borrowings from non-budgetary funds constitute UZS 2,309,763 thousand (2007: UZS 2,573,545 thousand) of loans made by non-budgetary funds at concessionary rates (up to 42% of the CBU refinance rate), which are advanced by the Bank to small and medium size enterprises (SMEs) at Bank's fair interest margin. Such lending is made in accordance with the Government decree on lending to SMEs through the non-budgetary funds.

Refer to Note 30 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 27. Information on related party balances is disclosed in Note 31.

17 Other Liabilities

In thousands of Uzbekistan Soums	31 December 2008	31 December 2007
Settlements with customers	424,448	868,850
Total other financial liabilities	424,448	868,850
Accrued employee benefit costs	1,815,719	1,327,745
Taxes other than income tax payable	1,355,000	1,364,012
Deposits for share subscription	-	317,003
Other	650,383	487,991
Total other non financial liabilities	3,821,102	3,496,751
Total other liabilities	4,245,550	4,365,601

Refer to Note 30 for disclosure of the fair value of other financial liabilities.

18 Share Capital

In thousands of Uzbekistan Soums except for number of shares	Number of outstanding shares	Ordinary shares	Preference shares	Share premium	Total
At 1 January 2007	12,000,000	28,726,495	1,800,000	-	30,526,495
New shares issued	5,300,000	9,000,000	1,450,000	696,121	11,146,121
Capitalisation of shares out of retained earnings	-	5,400,000	750,000	-	6,150,000
At 31 December 2007	17,300,000	43,126,495	4,000,000	696,121	47,822,616
New shares issued	32,443,501	64,887,002	-	-	64,887,002
At 31 December 2008	49,743,501	108,013,497	4,000,000	696,121	112,709,618

18 Share Capital (Continued)

The nominal registered amount of the Bank's issued share capital prior to restatement of capital contributions made before 1 January 2006 to the purchasing power of the Uzbekistan Soums at 31 December 2008 is UZS 100,183,123 thousand (2007: UZS 35,296,121 thousand), including nominal value of ordinary shares of UZS 96,183,123 thousand (2007: UZS 31,296,121 thousand) and nominal value of preference shares of UZS 4,000,000 thousand (2007: UZS 4,000,000 thousand).

The nominal registered amount of the Bank's issued share capital corresponds to the amount reported in these financial statements as at 31 December 2008.

In thousands of Uzbekistan Soums	Nominal registered amount	Effect of hyperinflation adjustment	Inflation adjusted amount
Share Capital	100,183,123	12,526,495	112,709,618

During 2008 the Bank authorised the 11th issue of 32,700,000 ordinary shares for the nominal amount of UZS 65,400,000 thousand. The number of ordinary shares issued and paid under the 11th issue was 32,443,501.

The total authorised number of preference shares is 2,000,000 shares (2007: 2,000,000 shares) with a par value of UZS 2,000 per shares (2007: UZS 2,000 per share, which was increased from UZS 1,500 in 2007). All issued preference shares are fully paid. The preference shares are not redeemable and rank above ordinary shares in the event of the Bank's liquidation. Preference shares carry no voting rights. Preference share dividends are set at 24% p.a. (2007: 24% p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

Share premium represents the excess of contributions received over the nominal value of shares issued.

19 Interest Income and Expense

In thousands of Uzbekistan Soums	2008	2007
Interest income		
Loan and advances to customers	80,754,733	58,788,141
Due from other banks	2,357,290	4,041,737
Correspondent accounts with other banks	849,017	2,164,778
Debt investment securities available for sale	621,012	595,825
Total interest income	84,582,052	65,590,481
Interest expenses		
Term deposits of individuals	(16,528,562)	(10,302,678)
Borrowings from government, state and international financial organisations	(12,807,744)	(11,923,991)
Term placements of other banks	(5,895,761)	(1,742,327)
Current/settlement accounts	(4,703,739)	(2,480,812)
Term deposits of legal entities	(4,677,221)	(3,279,512)
Total interest expense	(44,613,027)	(29,729,320)
Net interest income	39,969,025	35,861,161

JOINT-STOCK COMMERCIAL INDUSTRIAL-CONSTRUCTION BANK “UZPROMSTROYBANK”
Notes to the Financial Statements – 31 December 2008

20 Fee and Commission Income and Expense

In thousands of Uzbekistan Soums	2008	2007
Fee and commission income from:		
- Settlement transactions	38,869,917	29,761,562
- International money transfers	6,135,388	4,730,373
- Foreign currency conversion services	6,253,694	2,350,190
- Letters of credit acceptances	1,317,774	1,412,668
- Other	338,999	450,111
Total fee and commission income	52,915,772	38,704,904
Fee and commission expense		
- Cash collection services	5,309,654	2,870,929
- Settlement transactions	1,748,742	1,318,522
- Plastic card transactions	548,048	480,595
- Other	83,361	89,301
Total fee and commission expense	7,689,805	4,759,347
Net fee and commission income	45,225,967	33,945,557

21 Other Operating Income

In thousands of Uzbekistan Soums	2008	2007
Recovery of assets previously written off as uncollectible	6,756,462	-
Gain on disposal of premises and equipment	1,176,871	79,529
Corporate shares received for no consideration	763,884	-
Fines and penalties	162,807	176,087
Release of provision for commission receivable from ordinary customers (Note 12)	4,949	181,110
Release of provision for other assets	-	86,800
Other	346,531	140,693
Total other operating income	9,211,504	664,219

22 Administrative and Other Operating Expenses

In thousands of Uzbekistan Soums	2008	2007
Staff costs	38,119,276	20,534,336
Taxes other than income tax	9,721,743	7,609,377
Depreciation and amortisation (Note 11)	5,690,006	4,874,719
Stationery and Supplies	3,270,075	3,083,813
Security services	3,083,567	2,035,685
State Deposit Insurance Fund membership fees	2,202,873	1,007,237
Rent and maintenance	1,514,359	1,162,638
Charity	1,418,681	1,110,943
Postage, Telephone and Fax	974,562	842,400
Business trip and travel expenses	423,191	398,869
Loss on disposal of fixed assets	330,808	291,694
Professional services	247,911	146,419
Membership fees to Banks Association	317,796	106,444
Loss on non-current assets held for sale (Note 13)	-	563,965
Other operating expenses	577,626	209,462
Total administrative and other operating expenses	67,892,474	43,978,001

Included in staff costs are statutory pension contributions (unified social tax) of UZS 7,355,106 thousand (2007: UZS 3,144,303 thousand).

23 Income Taxes

Income tax expense comprises the following:

In thousands of Uzbekistan Soums	2008	2007
Current tax charge	3,093,875	3,438,452
Deferred tax	(582,743)	(649,393)
Income tax expense for the year	2,511,132	2,789,059

The income tax rate applicable to the Bank's income is 15% (2007: 17%). Reconciliation between the expected and the actual taxation charge is provided as follows.

In thousands of Uzbekistan Soums	2008	2007
IFRS profit before tax	17,617,975	14,503,880
Theoretical tax charge at statutory rate (2008: 15%; 2007: 17%)	2,642,696	2,465,660
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income tax privileges from increase of term deposits of individuals	(2,449,179)	(2,212,122)
- Effect of the change in tax rate	-	259,108
- Dividend income taxed at source	(8,577)	(81,485)
- Non deductible expenses	1,611,847	1,512,503
- Over provision of current tax in prior years	714,345	568,506
- Unrecognised tax loss carry forwards	-	276,889
Income tax expense for the year	2,511,132	2,789,059

In accordance with current tax regulation the Bank receives certain tax privileges for the amount of increase in term deposits of individuals in arriving at the Bank's taxable profit. The amount of such incentive should not be in excess of current year taxable profit.

Differences between IFRS and Uzbekistan statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2007: 15%).

In thousands of Uzbekistan Soums	31 December 2007	Charged/(Credited) to profit or loss	Credited directly to equity	31 December 2008
Tax effect of deductible temporary differences				
Loan impairment provision	4,084,937	1,429,544	-	5,514,481
Accrued interest expense	2,759,027	(663,676)	-	2,095,351
Accrued expenses	989,721	(146,683)	-	843,038
Recognised deferred tax asset	7,833,685	619,185	-	8,452,870
Tax effect of taxable temporary differences				
Premises and equipment: inflation effect	240,048	(220,776)	-	19,272
Accrued interest income	5,070,429	(151,880)	-	4,918,549
Fair value adjustment of investments available for sale	77,370	-	49,979	127,349
Income accruals	243,521	409,098	-	652,619
Recognised deferred tax liability	5,631,368	36,442	49,979	5,717,789
Total net deferred tax asset	2,202,317	582,743	(49,979)	2,735,081

23 Income Taxes (Continued)

In thousands of Uzbekistan Soms	Restated 2006	Charged/(Credited) to profit or loss	Credited directly to equity	31 December 2007
Tax effect of deductible temporary differences				
Loan impairment provision	3,807,091	277,846	-	4,084,937
Accrued interest expense	3,290,872	(531,845)	-	2,759,027
Accrued expenses	999,199	(9,478)	-	989,721
Recognised deferred tax asset	8,097,162	(263,477)	-	7,833,685
Tax effect of taxable temporary differences				
Premises and equipment: inflation effect	478,889	(238,841)	-	240,048
Accrued interest income	5,606,024	(535,595)	-	5,070,429
Fair value adjustment of investments available for sale	42,897	-	34,473	77,370
Income accruals	381,955	(138,434)	-	243,521
Recognised deferred tax liability	6,509,765	(912,870)	34,473	5,631,368
Total net deferred tax asset	1,587,397	649,393	(34,473)	2,202,317

A deferred tax liability of UZS 49,979 thousand (2007: UZS 34,473 thousand) has been recorded directly in equity in respect of the investments securities available for sale.

24 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares held during the year.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

In thousands of Uzbekistan Soms	2008	2007
Profit for the year	15,106,843	11,714,821
Less dividends on preference shares	(961,462)	(780,000)
Net profit attributable to ordinary shareholders	14,145,381	10,934,821
Weighted average number of ordinary shares in issue	21,692,542	10,512,472
Basic earnings per ordinary share (expressed in UZS per share)	652	1,040

25 Dividends

In thousands of Uzbekistan Soms	2008		2007	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	-	240,000	-	-
Dividends declared during the year	3,672,000	961,462	-	780,000
Dividends paid during the year	(3,672,000)	(720,000)	-	(540,000)
Dividends payable at 31 December	-	481,462	-	240,000
Dividends per share declared during the year in UZS per share	240	480	-	480

25 Dividends (Continued)

In accordance with Uzbek legislation, the Bank distributes profits as dividends on the basis of financial statements prepared in accordance with Uzbek Accounting Rules. The Bank's profit under Uzbek Accounting Rules at 31 December 2008 is UZS 23,062,257 thousand (2007: UZS 18,051,116 thousand).

All dividends on ordinary and preference shares are declared and paid in Uzbek Soums.

26 Segment Analysis

The Bank's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Bank is organised on a basis of two main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding taxation.

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2008 and 2007 is set out below:

2008	Retail banking	Corporate banking	Other	Total
In thousands of Uzbekistan Soums				
Total revenues comprise:				
Interest income	9,631,612	74,950,440	-	84,582,052
Fee and commission income	-	52,915,772	-	52,915,772
Other operating income	-	8,800,858	1,392,781	10,193,639
Total revenues	9,631,612	136,667,070	1,392,781	147,691,463
Segment result	(26,175,401)	36,536,710	7,256,666	17,617,975
Profit before tax	-	-	-	17,617,975
Income tax expense	-	-	-	(2,511,132)
Profit	-	-	-	15,106,843
Segment assets	144,008,241	1,233,518,671	-	1,377,526,912
Unallocated assets	-	-	-	41,755,842
Total assets	144,008,241	1,233,518,671	-	1,419,282,754
Segment liabilities	(152,326,066)	(1,110,788,602)	-	(1,263,114,668)
Unallocated liabilities	-	-	-	(4,245,550)
Total liabilities	(152,326,066)	(1,110,788,602)	-	(1,267,360,218)
Other segment items:				
Capital expenditure	-	-	-	7,163,893
Impairment losses recorded during the year in the income statement	(812,782)	(12,609,881)	-	(13,422,663)
Depreciation of premises, equipment and intangible assets	-	-	-	(5,690,006)

Other segment result represents mainly gains less losses from trading in foreign currencies and foreign exchange translation gains less losses.

26 Segment Analysis (Continued)

2007	Retail banking	Corporate banking	Other	Total
In thousands of Uzbekistan Soums				
Total revenues comprise:				
Interest income	4,794,646	60,795,835	-	65,590,481
Fee and commission income	-	38,704,904	-	38,704,904
Other operating income	-	854,869	396,310	1,251,179
Total revenues	4,794,646	100,355,608	396,310	105,546,564
Segment result	(30,046,470)	40,994,748	3,555,602	14,503,880
Profit before tax	-	-	-	14,503,880
Income tax expense	-	-	-	(2,789,059)
Profit	-	-	-	11,714,821
Segment assets	102,333,686	808,827,780	-	911,161,466
Unallocated assets	-	-	-	50,429,866
Total assets	102,333,686	808,827,780	-	961,591,332
Segment liabilities	(122,025,872)	(758,920,918)	-	(880,946,790)
Unallocated liabilities	-	-	-	(4,365,601)
Total liabilities	(122,025,872)	(758,920,918)	-	(885,312,391)
Other segment items:				
Capital expenditure	-	-	-	11,648,874
Impairment losses recorded during the year in the income statement	(292,110)	(13,519,139)	-	(13,811,249)
Depreciation of premises, equipment and intangible assets	-	-	-	(4,874,719)

There is no basis for allocation of capital expenditures and depreciation of premises and equipment between primary segments as the same equipment is used for all segments.

Geographical segments. The Bank conducts its operations in Uzbekistan and operations of the bank with their foreign counterparts are disclosed in Note 27.

27 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

Credit risk measurement:

(a) **Loans and advances.** In measuring credit risk of loan and advances to customers at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

27 Financial Risk Management (Continued)

These credit risk measurements, which reflect expected loss (the ‘expected loss model’) are embedded in the Bank’s daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the ‘incurred loss model’) rather than expected losses.

(i) The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally based on CBU regulations and combine with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into five rating classes. The Bank’s rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Group’s internal ratings scale:

Good	1	Timely repayment of these loans is not in doubt. The borrower is a financially stable company, which has an adequate capital level, high level profitability and sufficient cash flow to meet its all existing obligations, including present debt. When estimating the reputation of the borrower such factors as the history of previous repayments, marketability of collateral (movable and immovable property guarantee) are taken into consideration.
Standard	2	“Standard” loans are those loans, which are secured with a reliable source of secondary repayment (guarantee or collateral). On the whole, the financial situation of borrower is stable, but some unfavourable circumstances or tendencies are on the present, which raise doubts on the ability of the borrower to repay the loan on time. “Good” loans with insufficient information in the credit file or missed information on collateral could be also classified as “standard” loans.
Substandard	3	Substandard loans have obvious deficiencies, which make for doubtful repayment of the loan on the conditions, envisaged by the initial agreement. As for “substandard” loans, the primary source of repayment is not sufficient and the Bank has to seek additional loan repayment sources, which in case of non-repayment is a sale of collateral.
Doubtful	4	Doubtful loans are those loans, which have all the weaknesses inherent in those classified as “substandard” with the added characteristic that the weakness make collection or liquidation in full, on the basis of currently existing facts, conditions and values highly questionable and improbable.
Loss	5	Loans classified as “loss” are considered to be uncollectible and have such little value that their continuance as bankable assets of the Bank is not warranted. This classification does not mean that the loans have absolutely no chance of recovery, but rather means that it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be effected in the future and the Bank should make efforts on liquidation such debts through selling collateral or should apply all forces for its repayment.

(ii) Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Bank’s expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

(b) *Debt securities and other bills.* For debt securities and other bills, an external rating such as Akhbor Rating’s rating or their equivalents are used by the Bank Treasury for managing credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

27 Financial Risk Management (Continued)

Risk limit control and mitigation policies. The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries.

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 geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Bank Council.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral. The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- letter of surety
- motor vehicle
- building
- insurance policy
- equipment
- inventory
- deposit
- residential

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Concentration of risks of financial assets with credit risk exposure. The Bank's management focuses on concentration risk:

- the maximum exposure per borrower – not more than 25 percent of the bank's tier 1 capital (based CBU regulation);
- the maximum exposure per borrower (unsecured loan) – not more than 5 percent of the bank's tier 1 capital (based CBU regulation);
- total loan amount to related party (based on CBU regulation) - not more than 25% of the bank's tier 1 capital;
- the maximum exposure to economic sector – not more than 25 percent of total loan portfolio;
- total exposure of significant loans – not more than 8 times own capital; and
- the maximum exposure to “Uzbekengilsanoat” group companies – not more than 40 percent of total loan portfolio.

Impairment and provisioning policies. The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration in the value of collateral.

27 Financial Risk Management (Continued)

The Bank's policy requires the review of individual financial assets that are above certain materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available empirical data, experienced judgment and statistical techniques.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 29.

The Bank reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Notes 8, 9, 10 and 12.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

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 Board of Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

In thousands of Uzbekistan Soums	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
2008			
UZS	757,834,121	(635,512,795)	122,321,326
US Dollars	463,203,405	(483,080,630)	(19,877,225)
Euros	142,515,456	(141,096,553)	1,418,903
Other	5,326,714	(3,849,138)	1,477,576
Total	1,368,879,696	(1,263,539,116)	105,340,580
2007			
UZS	489,189,426	(543,027,744)	(53,838,318)
US Dollars	300,521,547	(236,870,714)	63,650,833
Euros	106,643,956	(99,674,939)	6,969,017
Other	3,444,923	(2,242,243)	1,202,680
Total	899,799,852	(881,815,640)	17,984,212

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

27 Financial Risk Management (Continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

In thousands of Uzbekistan Soums	2008	2007
	Impact on profit or loss	Impact on profit or loss
US Dollars strengthening by 5%	(1,384,449)	4,105,478
US Dollars weakening by 5%	1,384,449	(4,105,478)
Euro strengthening by 12%	349,112	1,552,834
Euro weakening by 12%	(349,112)	(1,552,834)
Other strengthening by 5%	29,933	42,284
Other weakening by 5%	(29,933)	(42,284)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a monthly basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Uzbekistan Soums	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2008						
Total financial assets	394,629,138	164,960,027	173,595,630	641,639,247	44,458,712	1,419,282,754
Total financial liabilities	(500,387,034)	(217,761,351)	(115,044,795)	(430,345,936)	(3,821,102)	(1,267,360,218)
Net interest sensitivity	(105,757,896)	(52,801,324)	58,550,835	211,293,311	40,637,610	151,922,536
31 December 2007						
Total financial assets	309,655,191	124,443,295	140,620,352	328,132,341	58,740,153	961,591,332
Total financial liabilities	(386,291,155)	(177,758,530)	(117,496,827)	(200,269,128)	(3,496,751)	(885,312,391)
Net interest sensitivity	(76,635,964)	(53,315,235)	23,123,525	127,863,213	55,243,402	76,278,941

At 31 December 2008, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit before tax for the year would have been lower by UZS 399,960 thousand (2007: UZS 363,199 thousand), mainly as a result of lower interest income on variable interest assets.

If interest rates had been 100 basis points higher, with all other variables held constant, profit before tax would have been higher by UZS 399,960 thousand (2007: UZS 363,199 thousand), mainly as a result of higher interest income on variable interest assets.

27 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel as at 31 December 2008 and 2007:

In % p.a.	2008			
	UZS	USD	Euro	Other
Assets				
Cash and cash equivalents	0.5%	-	-	-
Due from other banks	10.5%	1.2%	2.4%	1.9%
Loans and advances to customers	14.4%	6.0%	7.4%	-
Investment securities available for sale	6.0%	-	-	-
Liabilities				
Due to other banks	8.9%	4.5%	-	-
Customer accounts	13.7%	2.4%	2.3%	-
Borrowings from government, state and international financial organisations	7.4%	3.2%	5.8%	-
2007				
In % p.a.	2007			
	UZS	USD	Euro	Other
Assets				
Cash and cash equivalents	0.5%	-	-	-
Due from other banks	12.7%	2.8%	1.4%	1.8%
Loans and advances to customers	14.9%	8.8%	7.7%	-
Investment securities available for sale	6.4%	-	-	-
Liabilities				
Due to other banks	9.0%	7.6%	8.6%	-
Customer accounts	14.0%	4.7%	5.0%	-
Borrowings from government, state and international financial organisations	7.8%	6.5%	4.9%	-

The sign “-” in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

Other price risk. The Bank has no material exposure to equity price risk.

The Bank is exposed to prepayment risk through providing fixed loans, including mortgages, which give the borrower the right to early repay the loans. The Bank’s current year profit or loss and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

27 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Bank's assets and liabilities at 31 December 2008 is set out below:

In thousands of Uzbekistan Soums	Uzbekistan	Europe	USA	Other	Total
Assets					
Cash and cash equivalents	240,664,052	65,756,116	7,981,252	3,307,668	317,709,088
Due from other banks	9,839,863	19,553,407	208,727	658,925	30,260,922
Loans and advances to customers	1,009,498,435	-	-	-	1,009,498,435
Investment securities available for sale	16,949,853	-	-	-	16,949,853
Other financial assets	405,744	-	-	-	405,744
Total financial assets	1,277,357,947	85,309,523	8,189,979	3,966,593	1,374,824,042
Liabilities					
Due to other banks	109,589,534	3,709,197	-	275,008	113,573,739
Customer accounts	739,774,631	-	-	-	739,774,631
Borrowings from government, state and international financial organisations	248,859,398	65,122,622	-	95,784,278	409,766,298
Other financial liabilities	424,448	-	-	-	424,448
Total financial liabilities	1,098,648,011	68,831,819	-	96,059,286	1,263,539,116
Net balance sheet position as 31 December 2008	178,709,936	16,477,704	8,189,979	(92,092,693)	111,284,926
Credit related commitments (Note 29)	153,573,342	139,397,697	-	-	292,971,039

The geographical concentration of the Bank's assets and liabilities at 31 December 2007 is set out below:

In thousands of Uzbekistan Soums	Uzbekistan	Europe	USA	Other	Total
Assets					
Cash and cash equivalents	167,091,183	53,504,657	33,710,409	3,872,612	258,178,861
Due from other banks	7,217,802	23,355,359	74,872	53,763	30,701,796
Loans and advances to customers	599,445,730	-	-	-	599,445,730
Investment securities available for sale	14,287,992	-	-	-	14,287,992
Other financial assets	236,800	-	-	-	236,800
Total financial assets	788,279,507	76,860,016	33,785,281	3,926,375	902,851,179
Liabilities					
Due to other banks	58,152,680	4,367,039	-	647,858	63,167,577
Customer accounts	611,260,588	-	-	-	611,260,588
Borrowings from government, state and international financial organisations	92,261,492	77,136,016	-	37,121,117	206,518,625
Other financial liabilities	868,850	-	-	-	868,850
Total financial liabilities	762,543,610	81,503,055	-	37,768,975	881,815,640
Net balance sheet position as 31 December 2007	25,735,897	(4,643,039)	33,785,281	(33,842,600)	21,035,539
Credit related commitments (Note 29)	80,587,971	22,907,653	-	-	103,495,624

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held. Other includes Asian countries (Note 16).

27 Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Liquidity Committee of the Bank.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates the liquidity ratio on a monthly basis in accordance with the requirement of the Central Bank of Uzbekistan. This ratio is:

- Current liquidity ratio (H4), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; the ratio was 71% at 31 December 2008 (2007: 66%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial liabilities at 31 December 2008 is as follows:

In thousands of Uzbekistan Soums	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Liabilities					
Due to other banks	34,361,579	56,443,127	19,615,345	5,014,447	115,434,498
Customer accounts	468,003,825	162,973,644	97,423,840	24,217,458	752,618,767
Borrowings from government, state and international financial organisations	2,291,240	11,709,842	9,413,990	536,073,965	559,489,037
Total potential future payments for financial obligations	504,656,644	231,126,613	126,453,175	565,305,870	1,427,542,302

27 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

In thousands of Uzbekistan Soums	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Liabilities					
Due to other banks	11,573,890	47,291,462	6,192,890	-	65,058,242
Customer accounts	461,682,191	84,081,882	65,190,015	14,940,070	625,894,158
Borrowings from government, state and international financial organisations	16,478,895	7,797,505	4,483,664	240,715,369	269,475,433
Total potential future payments for financial obligations	489,734,976	139,170,849	75,866,569	255,655,439	960,427,833

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Uzbekistan Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2008:

In thousands of Uzbekistan Soums	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	317,709,088	-	-	-	317,709,088
Due from other banks	5,432,167	19,002,197	5,826,558	-	30,260,922
Loans and advances to customers	64,980,430	144,540,709	161,843,910	638,133,386	1,009,498,435
Investment securities available for sale	6,101,709	1,417,121	5,925,162	3,505,861	16,949,853
Other financial assets	405,744	-	-	-	405,744
Total financial assets	394,629,138	164,960,027	173,595,630	641,639,247	1,374,824,042
Liabilities					
Due to other banks	34,033,430	55,331,112	19,209,197	5,000,000	113,573,739
Customer accounts	465,092,075	157,742,277	94,751,267	22,189,012	739,774,631
Borrowings from government, state and international financial organisations	837,081	4,687,962	1,084,331	403,156,924	409,766,298
Other financial liabilities	424,448	-	-	-	424,448
Total financial liabilities	500,387,034	217,761,351	115,044,795	430,345,936	1,263,539,116
Net liquidity gap	(105,757,896)	(52,801,324)	58,550,835	211,293,311	111,284,926
Cumulative liquidity gap at 31 December 2008	(105,757,896)	(158,559,220)	(100,008,385)	111,284,926	

27 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2007:

In thousands of Uzbekistan Soums	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	258,178,861	-	-	-	258,178,861
Due from other banks	6,250,823	22,496,623	1,954,350	-	30,701,796
Loans and advances to customers	41,402,318	100,846,573	137,307,746	319,889,093	599,445,730
Investment securities available	3,586,389	1,100,099	1,358,256	8,243,248	14,287,992
Other financial assets	236,800	-	-	-	236,800
Total financial assets	309,655,191	124,443,295	140,620,352	328,132,341	902,851,179
Liabilities					
Due to other banks	11,232,013	45,931,361	6,004,203	-	63,167,577
Customer accounts	358,564,586	127,845,643	111,492,624	13,357,735	611,260,588
Borrowings from government, state and international financial organisations	15,625,706	3,981,526	-	186,911,393	206,518,625
Other financial liabilities	868,850	-	-	-	868,850
Total financial liabilities	386,291,155	177,758,530	117,496,827	200,269,128	881,815,640
Net liquidity gap	(76,635,964)	(53,315,235)	23,123,525	127,863,213	21,035,539
Cumulative liquidity gap at 31 December 2007	(76,635,964)	(129,951,199)	(106,827,674)	21,035,539	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

28 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the CBU, and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the CBU is monitored monthly with reports outlining their calculation reviewed and signed by the Chairman and Chief Accountant. Under the current capital requirements set by the CBU, banks have to maintain ratios of:

Ratio of regulatory capital to risk weighted assets ("Regulatory capital ratio") above a prescribed minimum level of 10 percent (2007: 10 percent);

Ratio of Bank's tier 1 capital to risk weighted assets ("Capital adequacy ratio") above a prescribed minimum level of 5 percent (2007: 5 percent); and

Ratio of Bank's tier 1 capital to total assets less intangibles ("Leverage ratio") above a prescribed minimum level of 6 percent (2007: 6 percent).

28 Management of Capital (Continued)

Tier 1 capital is based on the Bank's reports prepared under Uzbek accounting standards and comprises:

In thousands of Uzbekistan Soums	2008	2007
Net assets under Uzbek GAAP	144,747,129	72,419,174
Less intangible assets	(2,243,091)	(2,157,981)
Total regulatory capital	142,504,038	70,261,193

The Bank has complied with all capital requirements imposed by Central Bank of Uzbekistan throughout 2008 and 2007.

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements (Note 29), including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. Bank management targets to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%, calculated on IFRS figures.

As at 31 December 2008, the Bank's capital adequacy ratio based on the Basel Accord was 16.9% (2007: 13.8%).

The Bank has complied with all externally imposed capital requirements throughout 2008 and 2007.

At 31 December 2008 and 2007 the Bank was not in compliance with the CBU's requirement regarding open currency position. According to CBU requirement open currency position for each currency individually should not exceed 10% (2007: 10%) and the aggregate of all foreign currency should not exceed 20% (2007: 20%) of the Bank's tier 1 capital. This technical breach has not resulted in any significant corrective measures taken by CBU.

29 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Uzbekistan tax and customs 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 authorities.

The Uzbekistan tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2008 no provision for potential tax liabilities had been recorded (2007: no provision). The Bank estimates that it has no potential obligations from exposure to other than remote tax risks (2007: no obligations).

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. The Bank has financial covenants with foreign financial institutions.

The Bank engaged in loan agreements dated 1st December 1999 with European Bank for Reconstruction and Development ("EBRD") and dated 23rd June 2008 with China Development Bank ("CDB"). In accordance with the agreement with EBRD, the Bank is obligated to comply with relevant financial covenants based on the financial statements prepared in accordance with International Financial Reporting Standards. As regards the agreement with CBD, the Bank is obligated to comply with relevant financial covenants based on the financial statements prepared in accordance with Statutory Reporting Standards.

29 Contingencies and Commitments (Continued)

The Bank agreed to maintain following financial covenants as contained in the corresponding loan agreements:

Financial covenants as per Loan agreement dated 1 December 1999 with EBRD

- Asset Liquidity Ratio not less than 25%
- Capital Adequacy Ratio not less than 12%
- Non-interest expense to gross banking income ratio not more than 60%
- Total loans to total deposits ratio not more than 80%
- Private sector loans in arrears for more than 30 days - not more than 10% of all private sector loans
- Loans in arrears for more than 30 days - not more than 5% of all loans
- Loans in favor of any single obligor, or any group of obligors, excluding government guaranteed loans - not exceeding 15% of Paid-in Capital
- Total assets less of Direct Loans not exceeding 12 times of Capital
- Interbank loans not exceeding 15% of total liabilities less of Centralised Funds
- Interbank loans not exceeding 25% of total non-bank deposits of the Borrower
- Total amount extended from the Bank to the Borrower not exceeding 50% of Capital

The Bank is not in compliance with some of the above financial covenants; the loan agreement does not specify early repayment in case of non compliance with the financial covenants. This borrowing is also guaranteed by the Government of Republic of Uzbekistan.

Financial covenants as per Loan agreement dated 23 June with CDB

- Risk Weighted Capital Adequacy Ratio not less than 10%
- A single client exposure of not more than 20% of the Bank's Tier I Capital
- A single client group exposure of not more than 25% of the Bank's Tier I Capital
- A related party exposure of not more than 25% of the Bank's Tier I Capital

The Bank is in compliance with all of the above financial covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Uzbekistan Soums	Note	2008	2007
Undrawn credit lines		111,605,497	66,159,062
Import letter of credit	23	139,397,697	89,475,665
Guarantees		41,967,845	14,428,909
Total credit related commitments		292,971,039	170,063,636

The total outstanding contractual amount of undrawn credit lines, import letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. As at 31 December 2008 the estimated fair value of credit related commitments was UZS 6,142,934 thousand (2007: UZS 4,674,102 thousand).

29 Contingencies and Commitments (Continued)

Credit related commitments are denominated in currencies as follows:

In thousands of Uzbekistan Soums	2008	2007
Uzbekistan Soums	33,759,472	11,096,898
US Dollars	182,813,889	130,043,834
Euros	72,394,033	27,517,409
Other	4,003,645	1,405,495
Total credit related commitments	292,971,039	170,063,636

As at 31 December 2008, the Bank does not consider it necessary to have any provision against these commitments (2007: nil).

Assets pledged and restricted. At 31 December 2008 the Bank had restricted cash of UZS 696,500 thousand pledged with NBU as collateral related to borrowings from government, state and international financial organizations (2007: the Uzbek government treasury bills for the amount of UZS 10,929,501 thousand pledged as collateral related to current term placements of other banks).

30 Fair Value of Financial Instruments

Fair values of financial instruments are as follows at 31 December 2008:

	Fair value by measurement method:			Total fair value	Carrying value
	Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non- observable inputs		
In thousands of Uzbekistan Soums					
FINANCIAL ASSETS					
Cash and cash equivalents					
- Cash on hand	-	31,083,402	-	31,083,402	31,083,402
- Cash balances with the CBU (other than mandatory reserve deposits)	-	124,442,131	-	124,442,131	124,442,131
- Mandatory cash balances with CBU	-	83,307,639	-	83,307,639	83,307,639
- Correspondent accounts and overnight placements with other banks	-	78,875,916	-	78,875,916	78,875,916
Due from other banks					
- Restricted cash	-	19,564,364	-	19,564,364	19,564,364
- Short term placements with other banks with original maturities of more than three months	-	10,696,558	-	10,696,558	10,696,558
Loans and advances to customers					
- State and municipal organisations	-	-	495,372,525	495,372,525	504,637,827
- Corporate loans	-	-	418,444,975	418,444,975	426,271,447
- Loans to individuals - consumer loans	-	-	69,319,208	69,319,208	70,615,734
- Loans to individuals - entrepreneurs	-	-	7,827,032	7,827,032	7,973,427
Investment securities available for sale					
- Uzbek government treasury bills	11,005,168	-	-	11,005,168	11,005,168
- Corporate bonds	-	-	339	339	339
- Corporate shares	2,657,271	-	3,287,075	5,944,346	5,944,346
Other financial assets					
- Commission receivable from ordinary customers	-	-	405,744	405,744	405,744
TOTAL FINANCIAL ASSETS	13,662,439	347,970,010	994,656,899	1,356,289,348	1,374,824,042

30 Fair Value of Financial Instruments (Continued)

	Fair value by measurement		Total fair value	Carrying value
	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs		
31 December 2008				
In thousands of Uzbekistan Soums				
FINANCIAL LIABILITIES				
Due to other banks				
- Current term placements of other banks	112,200,472	-	112,200,472	112,200,472
- Correspondent accounts and overnight placements of other banks	1,373,267	-	1,373,267	1,373,267
Customer accounts				
- Current/settlement accounts of state and local governments	-	339,976,054	339,976,054	352,980,603
- Term deposits of state and local governments	-	84,885,533	84,885,533	84,885,533
- Current/settlement accounts of other legal entities	-	134,015,370	134,015,370	139,141,641
- Term deposits of other legal entities	-	10,440,788	10,440,788	10,440,788
- Current/settlement accounts of individuals	-	66,231,626	66,231,626	68,765,076
- Term deposits of individuals	-	83,560,990	83,560,990	83,560,990
and international financial organisations				
- China Export-Import Bank	-	50,298,096	50,298,096	50,298,096
- Landes Bank Berliner AG	-	47,847,454	47,847,454	47,847,454
- Industrial and commercial Bank of China ("ICBC")	-	34,352,658	34,352,658	34,352,658
- China Development Bank ("CDB")	-	11,133,523	11,133,523	11,133,523
- Commerzbank AG	-	9,541,951	9,541,951	9,541,951
- Dresdner Bank AG	-	3,694,980	3,694,980	3,694,980
- Hypo und Vereinsbank ("HVB")	-	1,415,333	1,415,333	1,415,333
- Kreditanstalt für Wiederaufbau ("KfW")	-	1,100,389	1,100,389	1,100,389
- Banca Nazionale del Lavoro ("BNL")	-	920,609	920,609	920,609
- European Bank for Reconstruction and Development ("EBRD")	-	601,907	601,907	601,907
Borrowings from Uzbekistan Fund for Reconstruction and Development ("UFRD")	-	209,917,150	209,917,150	209,917,150
Borrowings from Central Bank of Uzbekistan ("CBU")	-	32,626,637	32,626,637	32,626,637
Borrowings from the Ministry of Finance of Republic of Uzbekistan	-	4,005,848	4,005,848	4,005,848
Term borrowings from non-budgetary funds	-	2,309,763	2,309,763	2,309,763
Other liabilities				
- Settlements with customers	-	424,448	424,448	424,448
TOTAL FINANCIAL LIABILITIES	113,573,739	1,129,301,107	1,242,874,846	1,263,539,116

30 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows at 31 December 2007:

	Fair value by measurement method:			Total fair value	Carrying value
	Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non- observable inputs		
In thousands of Uzbekistan Soums					
FINANCIAL ASSETS					
Cash and cash equivalents					
- Cash on hand	-	30,575,732	-	30,575,732	30,575,732
- Cash balances with the CBU (other than mandatory reserve deposits)	-	36,250,078	-	36,250,078	36,250,078
- Mandatory cash balances with CBU	-	62,301,254	-	62,301,254	62,301,254
- Correspondent accounts and overnight placements with other banks	-	129,051,797	-	129,051,797	129,051,797
Due from other banks					
- Restricted cash	-	21,529,647	-	21,529,647	21,529,647
- Short term placements with other banks with original maturities of more than three months	-	9,172,149	-	9,172,149	9,172,149
Loans and advances to customers					
- State and municipal organisations	-	-	229,780,881	229,780,881	235,097,740
- Corporate loans	-	-	306,240,699	306,240,699	313,326,748
- Loans to individuals - consumer loans	-	-	44,639,598	44,639,598	45,672,506
- Loans to individuals - entrepreneurs	-	-	5,227,772	5,227,772	5,348,736
Investment securities available for sale					
- Uzbek government treasury bills	10,929,501	-	-	10,929,501	10,929,501
- Corporate bonds	-	-	307,164	307,164	307,164
- Corporate shares	-	-	3,051,327	3,051,327	3,051,327
Other financial assets					
- Commission receivable from ordinary customers	-	-	236,800	236,800	236,800
TOTAL FINANCIAL ASSETS	10,929,501	288,880,657	589,484,240	889,294,398	902,851,179

30 Fair Value of Financial Instruments (Continued)

	Fair value by measurement		Total fair value	Carrying value
	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs		
31 December 2007				
In thousands of Uzbekistan Soums				
FINANCIAL LIABILITIES				
Due to other banks				
- Current term placements of other banks	61,956,399	-	61,956,399	61,956,399
- Correspondent accounts and overnight placements of other banks	1,211,178	-	1,211,178	1,211,178
Customer accounts				
- Current/settlement accounts of state and local governments	-	305,637,894	305,637,894	317,328,961
- Term deposits of state and local governr	-	59,280,859	59,280,859	59,280,859
- Current/settlement accounts of other legal entities	-	97,959,981	97,959,981	101,707,084
- Term deposits of other legal entities	-	10,917,812	10,917,812	10,917,812
- Current/settlement accounts of individuals	-	35,847,315	35,847,315	37,218,524
- Term deposits of individuals	-	84,807,348	84,807,348	84,807,348
and international financial organisations				
- Landes Bank Berliner AG	-	49,108,708	49,108,708	49,108,708
- Industrial and commercial Bank of China ("ICBC")	-	37,121,117	37,121,117	37,121,117
- Commerzbank AG	-	14,660,965	14,660,965	14,660,965
- Dresdner Bank AG	-	1,640,667	1,640,667	1,640,667
- Kreditanstalt fur Wiederaufbau ("KfW")	-	8,697,459	8,697,459	8,697,459
- Banca Nazionale del Lavoro ("BNL")	-	1,071,918	1,071,918	1,071,918
- European Bank for Reconstruction and Development ("EBRD")	-	1,956,296	1,956,296	1,956,296
Borrowings from Uzbekistan Fund for Reconstruction and Development ("UFRD")	-	40,267,136	40,267,136	40,267,136
Borrowings from Central Bank of Uzbekistan ("CBU")	-	44,161,510	44,161,510	44,161,510
Borrowings from the Ministry of Finance of Republic of Uzbekistan	-	5,259,304	5,259,304	5,259,304
Term borrowings from non-budgetary funds	-	2,573,545	2,573,545	2,573,545
Other liabilities				
- Settlements with customers	-	868,850	868,850	868,850
TOTAL FINANCIAL LIABILITIES	63,167,577	801,838,684	865,006,261	881,815,640

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30 Fair Value of Financial Instruments (Continued)

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In %	2008	2007
Cash and cash equivalents		
- Cash on hand	-	-
- Cash balances with the CBU (other than mandatory reserve deposits)	0.5%	0.5%
- Mandatory cash balances with CBU	-	-
- Correspondent accounts and overnight placements with other banks		
Due from other banks		
- Restricted cash	1% to 3.8% p.a.	1% to 2.5% p.a.
- Short term placements with other banks with original maturities of more than three months	7% to 16% p.a.	5% to 16% p.a.
Loans and advances to customers		
- Corporate loans	1% to 30% p.a.	3% to 30% p.a.
- State and municipal organisations	2% to 36% p.a.	5% to 30% p.a.
- Loans to individuals - consumer loans	4% to 35% p.a.	4% to 24% p.a.
- Loans to individuals - entrepreneurs	3% to 24% p.a.	3% to 26% p.a.
Investment securities available for sale		
- Uzbek government treasury bills	6.0%	6.4%
- Corporate bonds	20% to 24% p.a.	20% to 24% p.a.
Other financial assets		
- Commission receivable from ordinary customers	-	-
Due to other banks		
- Current term placements of other banks	6% to 12% p.a.	7% to 13% p.a.
- Correspondent accounts and overnight placements of other banks	-	-
Customer accounts		
- Current/settlement accounts of state and local governments	0% to 1% p.a.	0% to 1% p.a.
- Term deposits of state and local governments	2% to 10% p.a.	2% to 11% p.a.
- Current/settlement accounts of other legal entities	0% to 2% p.a.	0% to 2% p.a.
- Term deposits of other legal entities	1% to 7% p.a.	1% to 8% p.a.
- Current/settlement accounts of individuals	2% to 16% p.a.	2% to 16% p.a.
- Term deposits of individuals	2% to 30% p.a.	2% to 30% p.a.
Borrowings from government, state and international financial organisations		
- China Export-Import Bank	2%	-
- Landes Bank Berliner AG	EURIBOR+1.125%	EURIBOR+1.125%
- Industrial and commercial Bank of China ("ICBC")	LIBOR+0.875%	LIBOR+0.875%
- China Development Bank ("CDB")	Libor + 1,5%	-
- Commerzbank AG	EURIBOR+0.95%	EURIBOR+0.95%
- Dresdner Bank AG	LIBOR+0.95%	LIBOR+0.95%
- Hypo und Vereinsbank ("HVB")	EURIBOR+1.25%	EURIBOR+1.25%
- Kreditanstalt für Wiederaufbau ("KfW")	3%	3%
- Banca Nazionale del Lavoro ("BNL")	EURIBOR+1.5%	EURIBOR+1.5%
- European Bank for Reconstruction and Development ("EBRD")	LIBOR+2%	LIBOR+2%
Borrowings from Uzbekistan Fund for Reconstruction and Development ("UFRD")	2% to 7% p.a.	2% to 7% p.a.
Borrowings from Central Bank of Uzbekistan ("CBU")	7% to 8% p.a.	7% to 8% p.a.
Borrowings from the Ministry of Finance of Republic of Uzbekistan	7% to 8% p.a.	7% to 8% p.a.
Term borrowings from non-budgetary funds	3% to 6% p.a.	3% to 6% p.a.
Other liabilities		
- Settlements with customers	-	-

31 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2008.

In thousands of Uzbekistan Soums	Loans and receivables	Available-for-sale assets	Other	Total
Assets				
Cash and cash equivalents	317,709,088	-	-	317,709,088
Due from other banks				
- Restricted cash	19,564,364	-	-	19,564,364
- Short term placements with other banks with original maturities of more than three months	11,855,373	-	-	11,855,373
Loans and advances to customers				
- Corporate loans	426,271,447	-	-	426,271,447
- State and municipal organisations	504,637,827	-	-	504,637,827
- Loans to individuals - consumer loans	70,615,734	-	-	70,615,734
- Loans to individuals - entrepreneurs	7,973,427	-	-	7,973,427
Investment securities available for sale	-	16,949,853	-	16,949,853
Other financial assets	405,744	-	-	405,744
TOTAL FINANCIAL ASSETS	1,359,033,004	16,949,853	-	1,375,982,857
NON FINANCIAL ASSETS	-	-	43,299,897	43,299,897
TOTAL ASSETS	1,359,033,004	16,949,853	43,299,897	1,419,282,754

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007.

In thousands of Uzbekistan Soums	Loans and receivables	Available-for-sale assets	Other	Total
Assets				
Cash and cash equivalents	258,178,861	-	-	258,178,861
Due from other banks				
- Restricted cash	21,529,647	-	-	21,529,647
- Short term placements with other banks with original maturities of more than three months	9,172,149	-	-	9,172,149
Loans and advances to customers				
- Corporate loans	313,326,748	-	-	313,326,748
- State and municipal organisations	235,097,740	-	-	235,097,740
- Loans to individuals - consumer loans	45,672,506	-	-	45,672,506
- Loans to individuals - entrepreneurs	5,348,736	-	-	5,348,736
Investment securities available for sale	-	14,287,992	-	14,287,992
Other financial assets	236,800	-	-	236,800
TOTAL FINANCIAL ASSETS	888,563,187	14,287,992	-	902,851,179
NON FINANCIAL ASSETS	-	-	58,740,153	58,740,153
TOTAL ASSETS	888,563,187	14,287,992	58,740,153	961,591,332

All of the Bank's financial liabilities are carried at amortised cost.

32 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can 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.

32 Related Party Transactions (Continued)

At 31 December 2008, the outstanding balances with related parties were as follows:

In thousands of Uzbekistan Soums	Significant shareholders	Entities under common control
Cash and cash equivalent	-	209,496,667
Due from other banks (contractual interest rate: 0% - 2.3 %)	-	846,274
Gross loans and advances to customers (contractual interest rate: 2% - 36%)	99,796,791	422,922,592
Impairment provisions for loans and advances to customers at 31 December	3,042,332	11,675,774
Investment securities available for sale		
- Treasury bills (contractual interest rate: 5.7% - 6.5 %)	11,005,168	-
- Shares of Microcreditbank (1.3% holding)	-	2,300,000
- Shares of UzCEX (11.4% holding)	-	495,970
Due to other banks (contractual interest rate: 1% - 12.5 %)	-	50,610,011
Customer accounts (contractual interest rate: 7% - 8%)	25,366,445	412,499,691
Borrowings from government, state and international financial organisations (contractual interest rate: 2% - 12%)	213,922,998	34,936,400

The income and expense items with related parties for 2008 were as follows:

In thousands of Uzbekistan Soums	Significant shareholders	Entities under common control
Interest income	5,238,825	25,159,444
Interest expenses	(5,807,253)	(4,210,983)
Release of provision/(provision) for loan impairment	2,088,060	(3,352,291)
Fee and commission income	1,837,954	29,613,584
Fee and commission expense	(209,558)	(4,303,494)

At 31 December 2008, other rights and obligations with related parties were as follows:

In thousands of Uzbekistan Soums	Significant shareholders	Entities under common control
Guarantees issued by the Bank at the year end	-	7,561,297
Guarantees received by the Bank at the year end	178,660,163	257,733,255

Aggregate amounts lent to and repaid by related parties during 2008 were as follow:

In thousands of Uzbekistan Soums	Significant shareholders	Entities under common control
Amount lent to related parties during the period	61,013,400	294,665,530
Amount repaid to related parties during the period	(49,674,115)	(42,506,489)

32 Related Party Transactions (Continued)

At 31 December 2007, the outstanding balances with related parties were as follows:

In thousands of Uzbekistan Soums	Significant shareholders
Gross loans and advances to customers (contractual interest rate: 2% - 30%)	88,457,506
Impairment provisions for loans and advances to customers at 31 December	5,130,392
Customer accounts (contractual interest rate: 7% - 8%)	196,422,744

The income and expense items with related parties for 2007 were as follows:

In thousands of Uzbekistan Soums	Significant shareholders
Interest income	10,224,163
Interest expenses	(50,880)
Provision for loan impairment	(923,335)
Fee and commission income	11,004,229
Fee and commission expense	(1,545,021)

At 31 December 2007, other rights and obligations with related parties were as follows:

In thousands of Uzbekistan Soums	Significant shareholders
Guarantees issued by the Bank at the year end	376,703
Guarantees received by the Bank at the year end	107,032,467

Aggregate amounts lent to and repaid by related parties during 2007 were as follow:

In thousands of Uzbekistan Soums	Significant shareholders
Amount lent to related parties during the period	53,356,965
Amount repaid to related parties during the period	(142,520,407)

Key management compensation is presented below:

In thousands of Uzbekistan Soums	2008	2007
Short-term benefit:		
- Salaries	57,495	36,040
- Bonuses	71,647	47,035

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.