

ANNUAL REPORT 2003

ANNUAL REPORT OF THE NATION BANK OF UZBEKISTAN 2003 YEAR

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CHAIRMAN'S FOREWORD

Dear ladies and gentlemen!

Let me present the Annual Report of National bank for 2003.

Government policy of integration in the global economic system and liberalization of economy with simultaneous realization of rigid fiscal-credit and budget-tax policies, have allowed Uzbekistan to undertake obligations under the Article VIII of the Articles of the IMF Agreement. The complex of the specified measures promoted increase of industrial and investment activities of the enterprises and growth of foreign trade turnover.

Further deepening of structural transformations, modernization and updating of manufacturing facilities, establishment of joint ventures, development of SME sector, import-substituting and export-oriented goods production became main issues of general economic policy.

For the bank the year 2003 passed in conditions of increasing competition in all segments of the banking market, and increased demand from customers for modern products, which is explained by the general trends of economic development and growth of clients' business.

Competitive environment requires high level of professionalism and efficiency from the Bank. Only this way it is possible to maintain market position and move ahead. This principle has been a cornerstone for the Bank's strategy in all key areas and a leitmotif of the primary managerial decisions in 2003.

One of such decisions with respect to the organizational restructuring of Bank was the division of the Bank into 4 independent business groups: Corporate Banking Department, Retail Banking Department, Investment Banking Department and Department of Corporate Management and Development.

The course toward implementation of international best practice and successful realization of business development strategy have allowed the Bank to increase its market share and restore positive dynamics of the basic financial parameters. At the same time, the achieving the new level of efficiency and quality of services, in line with expectations of customers, was of greater importance to us. The Bank has considerably increased the size of its corporate and retail customer base, which is one of the best measures of the Bank's activities.

I would like to thank all of our customers. Their support and trust allowed the Bank to become a universal financial institution firmly top position in the banking market in Uzbekistan.

Caring for its impeccable business reputation, the Bank will further aspire to live up to the customers' expectations.

Constructive dialogue with partners, attention to their problems, facilitated decision-making and information transparency became key principles for the Bank. We are constantly in the process of seeking new forms of cooperation with our clients and listen to your opinion.

Let me express my firm confidence that our combined efforts will promote speedy implementation of market reforms, aimed at improving well-being and prosperity, for the nation as a whole, and for all of its citizens.

Chairman of the Board

Z. Mirkhodjaev

ECONOMY OF UZBEKISTAN: MAIN RESULTS AND DEVELOPMENT TENDENCIES

For Uzbekistan's economy and financial system the year 2003 has become the next step on the path of further deepening structural economic reforms. The country has experienced steady and dynamic development, strengthening macro economic and financial stability, in line with the priorities of economic development, outlined by President Islam Karimov in the session of the Cabinet of Ministers, devoted to the results of social and economic development in 2002, and basic directions of deepening of economic reforms in 2003.

In October 2003 Uzbekistan declared national currency convertibility on all current transaction. That was one of the most significant economic events of the year 2003. All remaining restrictions, related to FX operations of both legal entities and individuals in carrying out export-import transactions, were abolished. The exchange rate regimes have been unified.

Further liberalization and reformation of economy was consistently realized in Uzbekistan in 2003. Macro economic stability and steady economic growth rates were achieved. National GDP has grown by 4,4 %; total industrial output –by 6,2%, production of consumer goods – by 8,4%. Improvement of the investment climate in the country promoted investments growth by 4,5%. State budget deficit reached 0,4% of GDP.

The course on liberalization of budget and tax policies was consistently implemented. Social security collections were reduced from 37,3 % to 35 %, the income tax rate - from 24 % to 20 %, certain kinds of the taxes were dropped altogether. The level of fiscal withdrawals has decreased in comparison with 2002 from 33,2 % to 32,5 % of GDP.

Measures on strengthening of the monetary and credit policy, reduction of non-banking money circulation, as well as optimization of the volumes of currency supply were fulfilled. As the result, average annual monetary base was reduced to 10,9 % of GDP.

Inflation rate was sharply reduced from 21,6 in 2002 to 3,8 % in 2003. Real earnings of population have increased by 12,3 %, deposits in commercial banks - by 44 %, while credits extended to SME have doubled.

Foreign trade activities was extended, volume of a foreign trade turnover has increased by 17,3 %, volume of export - by 24,6 %. Foreign trade surplus exceeded USD 760 million.

A well thought-out investment policy has been realized. In 2003 about UZS 2 trillion were invested into the national economy, which exceeded the level of 2002 by 4,5 %. The share of non-centralized investments in the structure of capital investments has increased from 57 % up to 63 % in 2003.

Specific steps on transition from formal privatization to the real one, perfection of its mechanism, were made. 2015 enterprises and share holdings were sold in 2003, which represented a 1,6 times increase from the 2002 numbers. On the basis of a state property more than 980 private enterprises and about 400 enterprises of other forms of non-state ownership were created. Volume of foreign investments increased by 3,4 times.

The SME sector has been developing dynamically. The share of small business in the GDP has reached 35,5 %.

Corporate bonds market continued to grow at fast pace in performed in 2003. Its capitalization exceeded UZS 21 billion. In 2002 stock market's trading floor corporate bond operations were made only for five issuers, whereas in 2003 the number of issuers doubled. Overall, in 2002 securities transactions volume was UZS 915.5 million. And by December 15, 2003 this figure amounted to UZS 3.6 billion. It should be noted that yields on corporate bonds in the market fall between 18 and 36 %. National Bank has played a considerable role in development of the corporate bond market.

At the moment, about 3 thousand enterprises with foreign investments from 90 countries of the world function within the country. Over 20 % of such enterprises have 100% of foreign capital.

Cooperation of Uzbekistan with international financial organizations intensified in 2003. Moreover, the relations with Islamic Development Bank have broadened. In November under the aegis of this bank the Second ministerial conference on economic cooperation in Central Asia was held in Tashkent. Such international financial organizations, as International Bank of Reconstruction and Development, Asian Development bank, and the International Finance Corporation have become the most active foreign investors in Uzbekistan. Their share of actual investments exceed 22% of total volume of investments.

The result of the considered and consecutive economic policy, realized by the government of the country, is the growth of well-being of the population, totaling 25,8 million at year end.

The nominal monetary earnings of the population in 2003 have increased in comparison with 2002 by 23,9 % and reached UZS 6438,3 billion, monetary expenditures and savings- by 17,4 % to UZS 6160,7 billion. The surplus of population earnings over expenditures reached UZS 277,6 billion against a negative parameter in 2002 of UZS 51,4 billion.

An average quantity of labor resources has increased in comparison to 2002 by 3,2 % and has reached 13597 thousand, economically active population - by 2,7 % to 9621 thousand people.

Main directions of development in 2004:

- Further liberalization of economy, step-by-step movement by the way of strengthening national currency, decrease of tax burden for the subjects of economy;
- Achieving a new dynamics of privatization process, expansion of volumes and share of private sector in economy;
- Further deepening of market reforms in agriculture, directed on development on a farmer movement, strengthening of contractual discipline, improvement of organization of intermediation system for agricultural production of farmers and dekhkans:
 - Realization of administrative reform, directed to sharp reduction and restriction of state presence in economy, radical change of structure and control system, liquidation of unnecessary control links;
 - Liquidation of the old command centralized distribution system, transition to market mechanisms of material resources realization through the stock exchange, auctions and tenders;
 - Accelerated development of services sphere, especially in the country;
 - Further development and strengthening of the network of comprehensive schools, system of general secondary education;
 - Realization of organizational, social and economic, as well as spiritually- enlightening measures on realization of the complex Program "The Year of kindness and mercy".

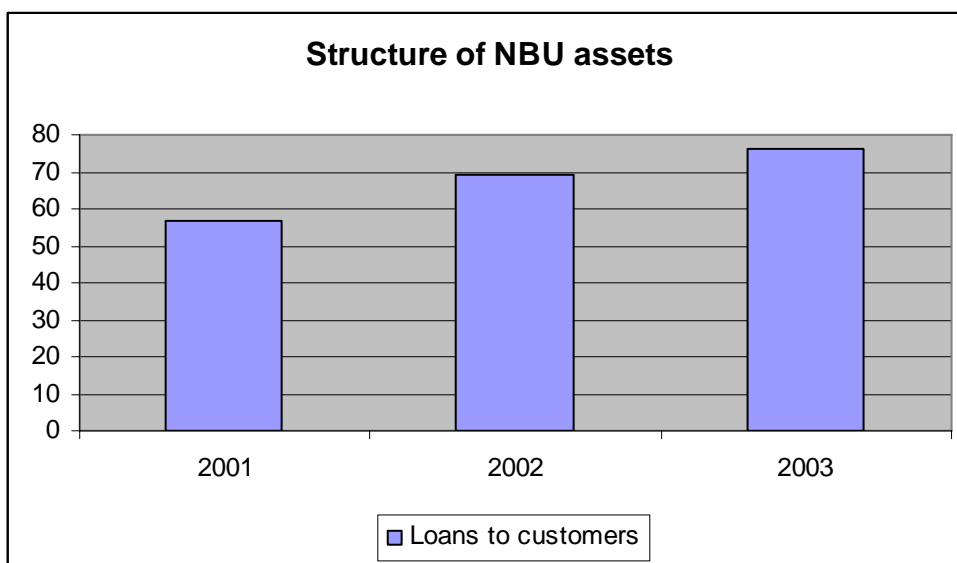
MAJOR RESULTS OF THE ACTIVITIES IN 2003

The Bank's activity reflects and is closely correlated with the processes and changes in the Uzbek economy.

Priority has been and continues to be given to the attraction of foreign investments into the country aimed at support of export-oriented and import substituting productions, as well as to the supply of wide range of high quality banking services.

Investment projects, financially supported by the Bank, contribute to the process of deep restructuring in various sectors of the national economy, such as metals and energy resources' mining and processing, agriculture, textile and chemical industry, transport infrastructure, telecommunications, tourism, small and private enterprise development, that, in turn, made a great contribution to the development of the economy of independent Uzbekistan.

Therefore, lending remains to be the main business direction of the Bank and basic component of the balance sheet.



Great attention of the Uzbek government to the small business has been encouraged the growth of private entrepreneurship. It resulted in the increase of national income and strengthening of confidence in the banking sector.

This trend has been reflected not only in the structure of the Banks' loan portfolio, but also in the structure of the Bank's funding sources, where the share of deposits made by private enterprises and individuals has drastically increased.

New banking products and services offered by the Bank in 2003 are designed to satisfy the banking needs of private entrepreneurs and population whose assets are being channeled into the banking turnover.

Driven by the needs and expectations of both large corporate and individual clients, new kinds of bank services and approaches have been introduced by the Bank. As a result, the customer base of the Bank has been increased from 356,000 in 2002 to 427,000 in 2003. The growth of confidence

among the customers can be explained mainly by the sustainable development of the bank as a universal financial institution striving to offer high-level services to its clients by arranging the cooperation and communication with the Bank in the most effective and comfortable way. National bank has been traditionally customer-oriented by offering customized approach to the clients to satisfy their needs and justify expectations as much as possible.

Further intensification of the structural reforms aimed at the liberalization of economic policy has also shaped the consolidated financial indicators of the Bank.

Transfer of the state currency reserves of the Republic of Uzbekistan to the Central Bank has changed the indicators only from a quantitative point of view due to the conservative and separate treatment of the state commercial operations and the state reserves management.

Exchange rate adjustments and unification of the exchange rate for all types of operations had their implications on the qualitative changes in the Bank's assets with consideration of the fact that the National bank combines the functions of the development bank and commercial banking institutions. In that context, there have been changes made to the risk management policy, including tightening measures and new instrumental approaches aimed to prevent and minimize the possible losses based on the various forecast models of macro-economic development, markets and financial state of specific borrowers.

Bank has been continuously tightening its risk management policy since 2001 that resulted in the significant revaluation of the loan portfolio in 2002, including loans with sovereign guarantee, and increase in provisions for loan losses. Simulation of the balance sheet according to the recommendations of the new Basel Accord (Basel II) has also showed the sufficient financial reliability of the Bank due to the solid capital base. At the current BIS ratio of 31.3% the capital adequacy ratio in various scenarios ranges from 11% to 15.8%. The new risk management program based on the requirements of Basel II, diversification of business and consolidation of the funding resources has been developed.

Analysis of the changes in the main financial indicators points out the positive trend related to the declining implications of the external factors, including the transfer of management of the gold and currency reserves of the Republic of Uzbekistan to the Central Bank. Among other factors favorable to this trend are the strengthening of the national currency, stabilization of the economy and growth of business activity, stabilization of the financial discipline, reduction of the non-bank cash circulation and the gain of confidence in the banking sector.

Highlights of the balance sheet of the National bank of Uzbekistan

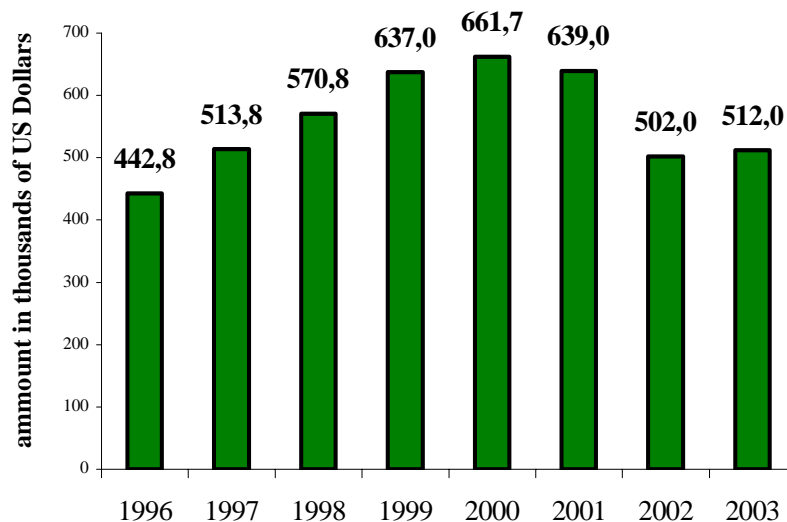
Years	Assets		Capital	
	In UZS billions	In USD thousands	In UZS millions	In USD thousands
2000	1 339	3 913 019	156 643	661 707
2001	2 717	3 799 000	297 096	639 000
2002	3 265	3 102 000	408 885	502 000
2003	3 275	3 065 000	435 715	512 000

The volume of operations in the national currency in balance sheet of the Bank has grown by 20% compared to previous year and amounted to UZS 385 billion

Substantial growth of operations and deposits in the national currency was observed in 2003, which reflected the growth of business activity in the domestic market and restoration of the working capital and financial performance of enterprises.

Bank completed the year 2003 with profit and capital growth.

Consolidated capital of Bank



There was no change in the volume of the commercial assets of the Bank in terms of foreign currency. Translation of the balance sheet into US dollars is carried out because over 80% assets are denominated in foreign currency.

Forthcoming privatization of the Bank is one of the important factors determining the capital management policy of the Bank. In order to increase investment attractiveness for a potential investor the Bank has to determine the optimum size of the authorized capital and volumes of reserves.

CORPORATE BANK

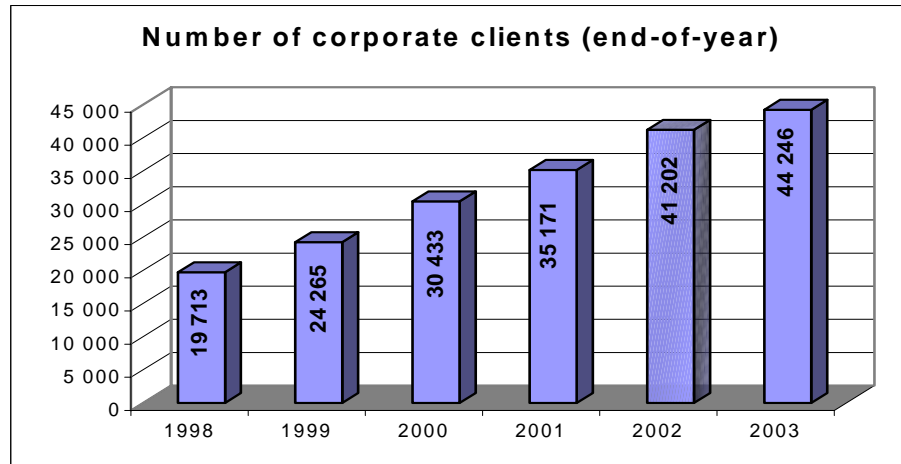
National Bank of Uzbekistan is a leading corporate bank in the country. According to the State Department of Statistics, more than 250,000 enterprises and organizations have active business in the country. 44,200 entities of them (18%) are customers of National Bank of Uzbekistan.

In recent years the Bank has moved on a new stage of developing relations with corporate clients, the principles of which are based on individual approach and offering structured banking products. As a result, the number of corporate clients has been constantly increasing and grew by over 7% in 2003.

Largest corporate clients of the Bank include enterprises in such industries as follow:

- ferrous metallurgy;
- non-ferrous metallurgy;
- mining;
- electricity and power;
- construction;
- oil production and refining;
- transportation;
- textiles, food industry, retail trade.

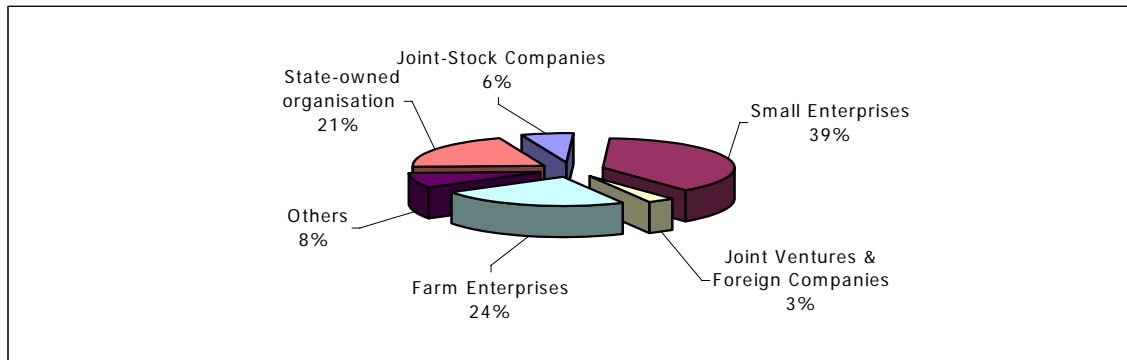
Dynamics of clientele base



National Bank of Uzbekistan attracts enterprises through solid reputation, quality of customer services and wide range of banking products such as "Bank-client" remote service system, financing of working and fixed capital, FX-services, investment banking products, credit lines, trade finance, etc.

A clear trend towards the increase of the share of small enterprises (39%) in the structure of newly-attracted clients was observed in 2003. This sector of the economy attracts labor resources and provides a source of income to a considerable part of Uzbekistan's population. Allowing individuals to become property-owners, small business and individual entrepreneurship create a base for medium class – a social group, which provides for stability and development of society.

Corporate clientele base structure



The significant share of farm enterprises in the structure of the clientele is the result of realisation of the Action Programme of Farm Enterprise Development Concept and Programme of Development of Production and Market Infrastructure in the Countryside.

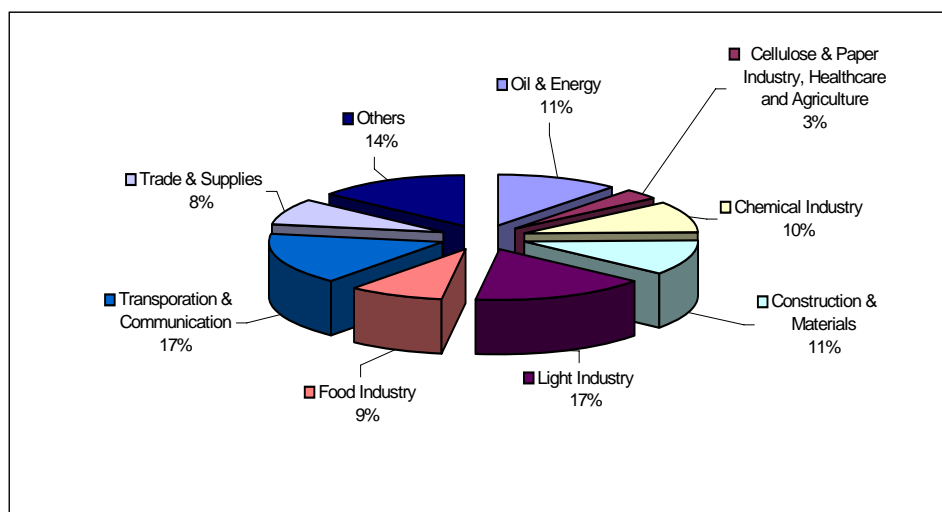
In the beginning of 2003 the Council for Corporate Client Relationship Development was established within the Bank. The work of the Council is oriented towards individual approach to strategically important corporate customers, increasing efficiency and quality of banking products

and services, timely solution of problems and issues related to various aspects of co-operation between the Bank and customers.

LENDING ACTIVITY

The lending policy of the Bank is directed towards all possible assistance to the development of priority sectors of the economy of Uzbekistan.

Structure of loan portfolio by sector in 2003



The volume of the loan portfolio increased by UZS 93.2 billion in 2003 and reached UZS 2,312.3 billion (USD 2.4 billion) as of January 1, 2004. Major part of the loan portfolio includes mid- to long-term loans, which make up 84,5% of the portfolio (compared to 84,3% on January 1, 2003).

The sources of funds for lending in foreign currency were generated by refinanced funds of foreign banks (86.1%) and Bank's own funds (13.9%), in domestic currency – by Bank's own funds (68.0%) and resources attracted from various funds (32.0%).

In 2003 the Bank took significant measures to strengthen the loan portfolio monitoring system. In this respect, it is worth noting the flexibility of the Bank's credit policy, which takes into account the influence of the factors of transition period in the development of the economy on the economic entities, and is directed towards achievement of the major objective – repayment of loans not at any price, but through optimizing production management and financial flows of the borrowers. The Bank also periodically revises the profit deduction rate for loan loss reserves.

All these measures contributed to achieving positive dynamics in the quality of loans and fulfillment of liabilities of the borrowers in 2003.

PROJECT FINANCE

Project finance is one of the most complicated areas of banking activity. National Bank of Uzbekistan possesses vast experience of work and acts as an organiser of financing for most of both

investment and small enterprise projects. Financing of the projects supports the restructuring of the economy and is based on economic viability and recovery principles.

During the period 1993-2003 National Bank of Uzbekistan in the framework of foreign credit lines, centralised and own resources financed 169 large investment projects with the total loan amount of 4.7 billion in USD equivalent.

#	Sector	No. of Projects	Total cost of Projects	Loan amounts	% to the total amount of issued loans
Total		169	6 817,0	4 763,5	100,00
Of which by sectors:					
1.	Fuel and Energy Complex	6	1 343,7	597,0	12,61
2.	Mining industry	6	288,6	96,9	1,41
3.	Chemical industry and Production of Mineral Fertilisers	10	391,4	341,7	7,22
4.	Metallurgical Complex	11	200,0	116,7	2,47
5.	Light and Textile Industries	17	620,5	412,7	8,72
6.	Agriculture	22	636,9	584,4	12,35
7.	Construction Materials	7	113,7	99,0	2,09
8.	Transport Infrastructure	18	1 325,7	1 144,4	24,18
9.	Services and Tourism	15	559,3	397,5	8,40
10.	Pharmaceuticals	10	102,7	81,7	1,73
11.	Communications and electronics	16	555,0	446,7	9,44
12.	Cellulose and Paper Industry	10	72,6	46,6	0,98
13.	Food Industry	13	206,2	131,4	2,78
14.	Machine-Building Complex	5	283,4	156,0	3,30
15.	Other industries	3	117,1	110,6	2,34

In 2003 Bank maintained 161 credit lines for 103 investment projects for the total amount of 3.77 billion in USD equivalent.

Structure of foreign loan portfolio by currency type reflects the geography of activities.

Furthermore, National Bank of Uzbekistan signed a number of loan agreements with foreign banks to finance projects directed towards development of municipal economy, transportation, mining industry, agriculture and textile production.

Financing source	Currency	%%
USA, UK, Germany, South Korea, Finland, Norway, Israel, Czech Rep., Turkey	USD	55,61

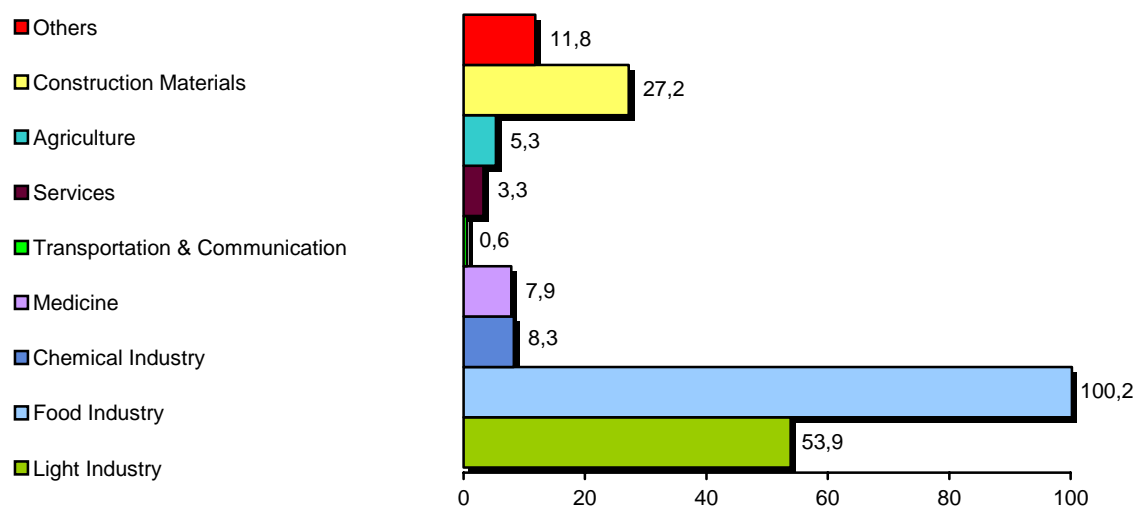
European Union	Euro	26,41
Japan	Yen	9,66
	Others	8,32

SMALL BUSINESS AND PRIVATE ENTERPRISE SUPPORT

Small enterprise support has always been a priority in the activity of the NBU. To provide entrepreneurs with access to foreign currency resources the NBU is involved in project financing since 1993 by utilising credit lines of well-known international financial institutions such as EBRD, ADB, IFC, KfW, OPEC Fund. Currently, discussions on the terms of the agreement with Islamic Development Bank are being held. 140 projects for the total cost of USD 394.4 million were approved for financing within the framework of foreign credit lines. The loans under these projects amounted to a total of USD 219 million.

In 2003, 9 projects were approved for financing for a total loan amount of USD 13.2 million. Initial loan disbursements were made under 18 projects, financed by loans amounting to a total of USD 29 million.

Lending by sectors (USD million)



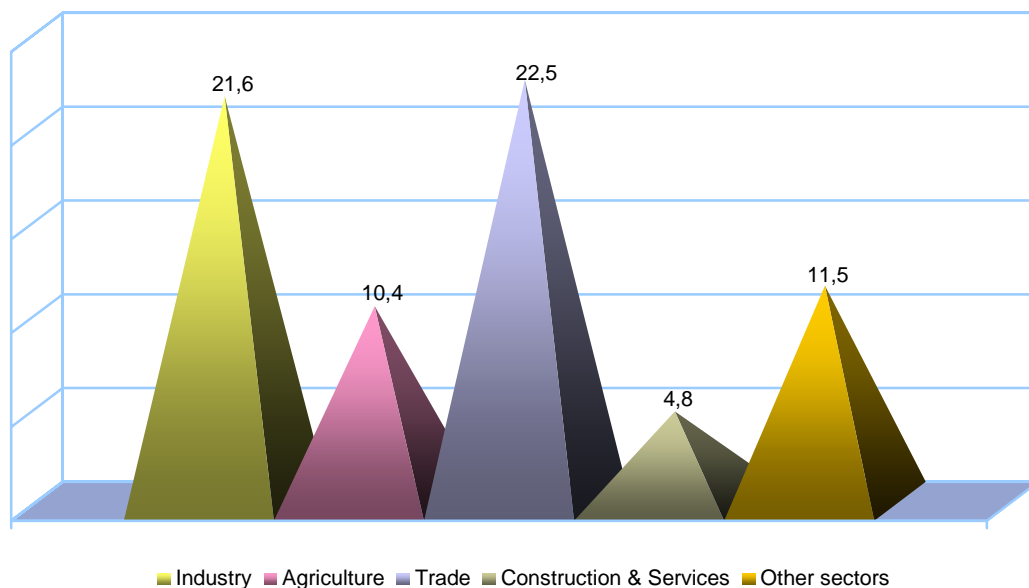
Besides financing purchases of modern technologies and equipment, the activities of the Bank directed towards entrepreneur support include a number of various financial instruments:

- providing loans through Special Fund for Preferential Lending;
- micro-lending;
- loans for building-up the initial capital of newly established micro-firms and small enterprises;

- lending to family enterprises.

The Bank extended loans to private enterprises out of own and attracted resources amounting to a total volume of UZS 70.8 billion, which enabled to create over 8400 additional workplaces.

Lending to small enterprises in national currency (UZS billion)



LENDING TO FARM ENTERPRISES

In the framework of the Government Programme on Development of Agricultural Sector of Economy, the NBU provides direct soft lending to farm enterprises out of resources attracted from designated state fund to finance cost of production of raw cotton and grain.

In 2003 more than 1300 farm enterprises were granted preferential loans for a total amount of UZS 1.6 billion.

BEST BUSINESS PROJECT

A contest for Best Business Project was organised among small enterprises in the country on the threshold of XII EBRD Annual Governors' Meeting.

Out of 140 projects presented on the contest, the "Nonash" LLC Project, presented by the NBU, was named the best.

ADFIAP AWARD 2003

During XXVI ADFIAP Annual Meeting, which was held in Ulan-Bator (Mongolia) in September 2003, the National Bank of Uzbekistan was awarded ADFIAP Award 2003 for Small Enterprise Development & Support Project.

COOPERATION WITH FINANCIAL INSTITUTIONS

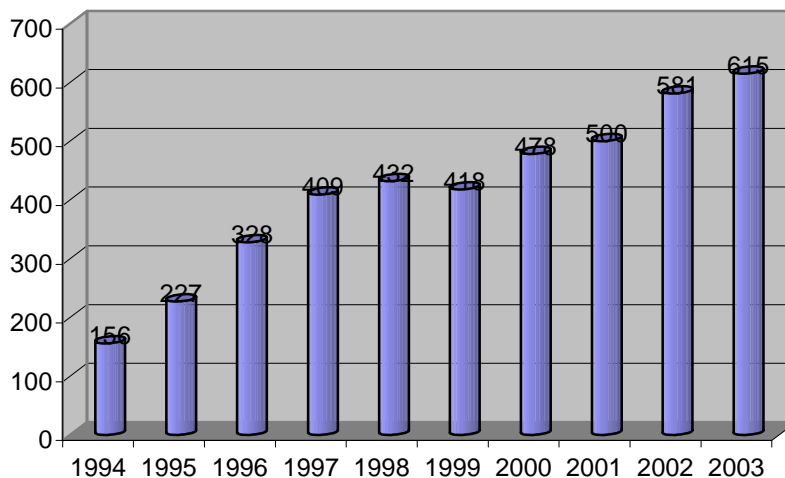
The effective activity of the National Bank based on reasonable conservatism, classic standards of banking and new technologies is recognised all around the world. Having the reputation of a professional and reliable partner, Bank enjoys the role of the main financial institution of Uzbekistan in the world financial markets.

The evidence is the fact that the Bank has been recognised as the best crediting institution of the country several times on different bank products by such authoritative journals and periodicals as “Global Finance”, “The Banker”, “Euromoney” as well as by financial organisations– Asian Banker's Association, Association of Development Financing Institutions in Asia and the Pacific and others.

National Bank realises a wide range of different activities, covering almost all the spheres of internal banking operations, and develops modern banking technologies, allowing provision of banking services in compliance with international standards.

The broad network of correspondent banks allows the Bank to expand geography of operations and process settlements of enterprises and organisations of Uzbekistan with their partners abroad: this network comprises over 600 leading international banks. In establishing correspondent relations with foreign banks, the National Bank follows three basic principles such as reliability and stability of correspondent banks; compliance of the correspondent banks system with clients’ long-term business interests as well as the possibility of settlements’ performance in shortest terms with minimum expenses.

Network of NBU Correspondent banks



Correspondent Nostro accounts provide National Bank and its clients with an optimal sequence of countries and currencies for payment operations. Constantly increasing account turnovers are the evidence of confidence in the bank given by the clients while international payments.

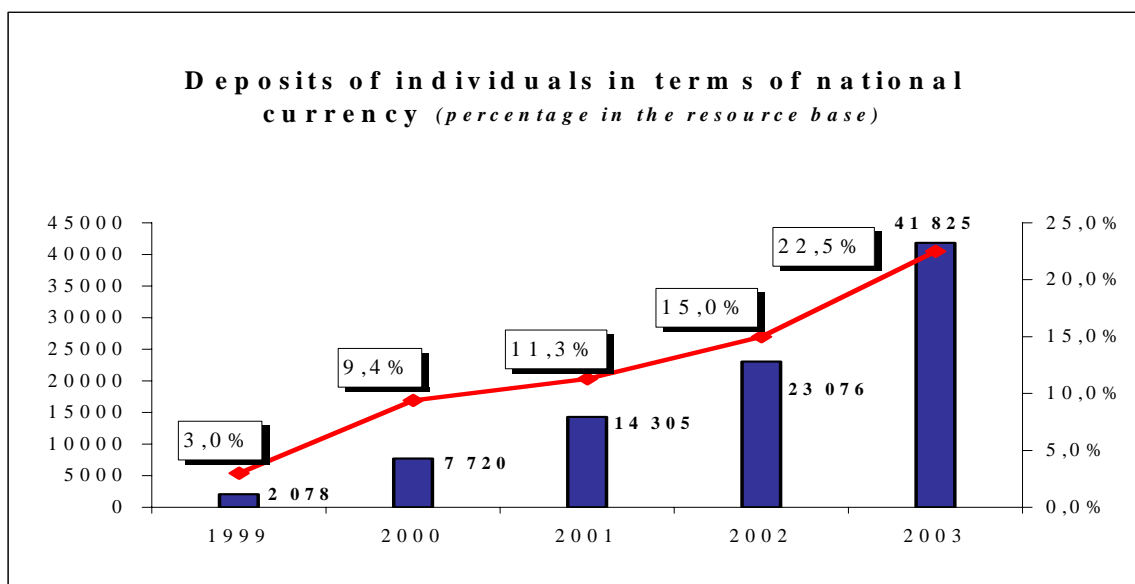
National Bank is actively developing the cooperation with Uzbek banking and financial institutions. Today NBU is working with 32 Uzbek correspondent banks.

Along with settlement services, such spheres of cooperation as project financing (refinancing of foreign banks' and international financial institutions' credit lines), trade financing, deposit and conversion operations, operations with securities, staff training (conduct of joint seminars and training programs) are being developed by the Bank in collaboration with international financial institutions.

RETAIL BANK

DEPOSIT OPERATIONS

The growth of population's earnings led to an increase in customer demand and retail trade turnover. Improvement of confidence in banking system has stimulated the rise in organized savings. These factors stipulated the Bank's interest to the development of retail business and repeatedly proved the correctness of the strategy direction, oriented on the retail services market.

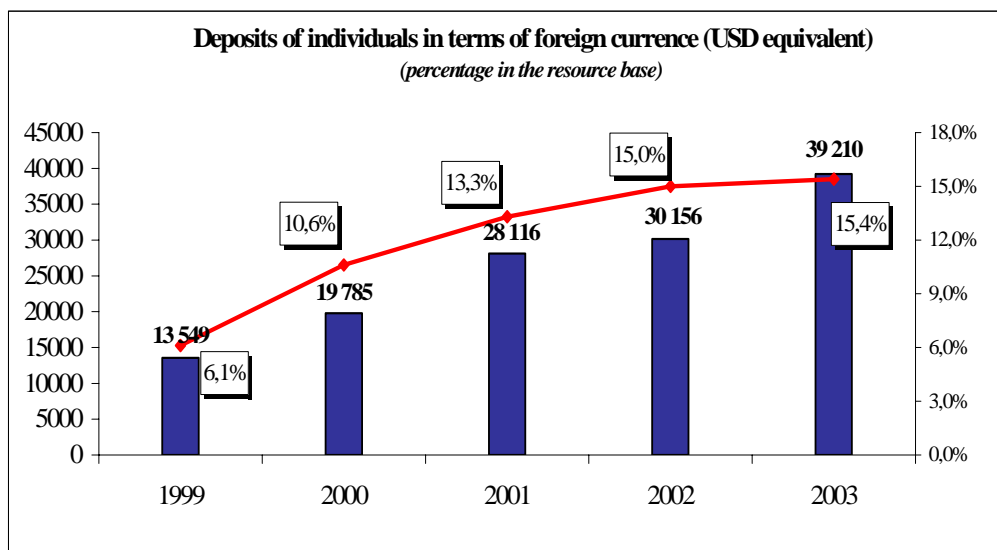


The work with retail clientele has turned from perspective strategic task to the current commercial business of the Bank, providing 20% of debt funding base. At present, National Bank provides over 70 retail products.

The volume of populations' deposits in national currency equivalent in the reported year has constituted UZS 80,2 billion, representing 32,7 % of population's deposits in the entire banking system.

Over the 5 years (1998-2003) of work with retail clientele the volume of funds accumulated on deposit accounts in national currency has risen from UZS 0,1 billion to UZS 41,8 billion.

Bank conducts the work on the attraction of foreign exchange funds. Along this path, USD 39,21 million in funding were added to the deposit accounts.



The number of the depositors both in national and foreign currencies has increased during 1998-2003 almost 14 times. In 2003 alone, this number has risen by over 30 % and by January 1, 2004 reached about 430 thousand customers.

Bank is constantly working on expanding the range of services to individuals. In 2003 the Bank institutions have been actively realising the operations on client payments for public utility service, the volume of which increased 6 times as compared to 2002 and constituted UZS 2,0 billion.

In 2003 the Bank started extending the loans for the purchase of UzDaewooAuto automobiles. As a consequence, the volume of such loans reached UZS 6,6 billion. At the same time, the amount of funding attracted for “Niyat” pledge deposits granting car loans, reached about UZS 2,6 billion.

National Bank, first among the banks of the Republic, started providing its clients with the services on operations with “American Express” traveller’s cheques. In the end of 2003 NBU institutions started the distribution of the new type traveller’s cheques - «American Express» savings cheques, in accordance with the signed agreement between American Express and National Bank.

National Bank has started implementing money orders system with “Western Union” in 2002. The number of Bank branches, which had been connected to this system by the end of 2003 reached 40. 58 thousand clients have been served through the Bank centres.

CARD BUSINESS

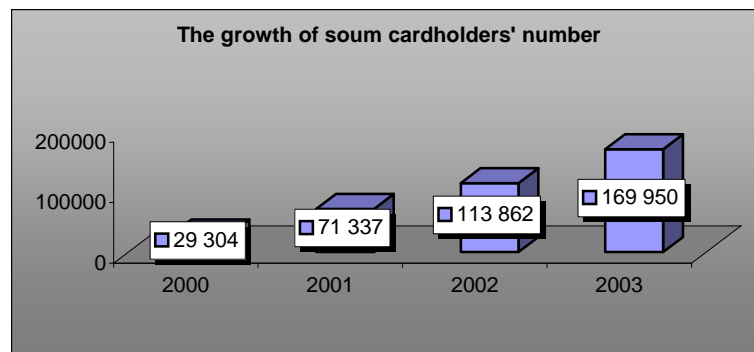
National Bank, having used the most advanced and up-to-date technologies, was a pioneer and innovator in implementation of this new service in Uzbekistan. Expanding network of trade-service enterprises, accepting payment through Soum cards raised their popularity among the population.

NBU cards are accepted as an instrument of payment in 518 trade-service enterprises of the country, in which 559 trade terminals are installed and their turnover is 5,7 times as much as that for the similar period of 2002. The number of ATM's allowing operations on Soum-denominated cards has approached 100.

National Bank initiates implementation of employee compensation projects through plastic cards. The total number of these projects implemented by the Bank amounted to 204, 56 of which have been realised in 2003.

Today the Bank is implementing a number of regional programs, presuming the mass transition to cashless retail payments. We can cite as an example the Navoi region, where the largest gold-mining industry "Navoi mining and smelting plant" is located. Last year the National Bank branches started serving Soum plastic cards for public service payments.

The Interbank system of electronic retail settlements is functioning in Uzbekistan at present. The system includes 7 banks: National Bank, Halq Bank, Asaka Bank, Uzprivatbank, Uzjilsberbank, Paxtabank and Aloqa Bank. It's planned to create the National retail settlements system on the basis of mentioned banks in 2004.



Since October 2003 Uzbekistan Banking Association through the initiative of National Bank, has started issuing monthly reference list of trade-service enterprises, bank institutions and ATMs, serving Soum plastic cardholders. This list is distributed to all participant banks and the latter inform their clients.

In the fourth quarter of 2003 the work on implementation of new generation Soum plastic cards with broad functionality corresponding to EMV specifications has begun. These cards' capacity will let the Bank to considerably renew and diversify the range of its retail products on their basis, thereby strengthening its position in the market of plastic cards in Uzbekistan.

As of January 2004 the Bank has issued more than 5000 international Visa Classic and Visa Electron cards, and also provided services to holders of cards issued by foreign banks, through trade, cash-desk terminals and imprinters as well as through ATM network.

In May 2003 National Bank was the first bank in republic having realized the project of serving international Visa cards through Bank ATMs, providing cash in national currency. 9 ATMs are installed in all the largest hotels of Tashkent city and “Halqaro Hamkorlik Markazi” Business Center.

In 2003 bank increased the number of locations allowing cash withdrawals through Mastercards. At the same time, within the framework of the agreement with American Express the work on attraction of local service enterprises to serve the cards of this international company continued.

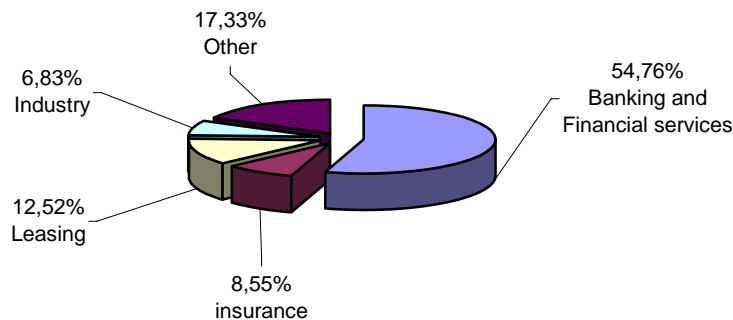
INVESTMENT BANKING

National bank is a first-ranked Investment Bank in the country. The developed infrastructure of this bank promotes development of financial and industrial sector, actively supporting economic reforms in Uzbekistan. Investment banking activity covers various type of enterprises, like aircraft construction, textile industry, food industry, construction, agricultural production, transport, tourism and financial sector.

Investment portfolio, including investment of trade capital, capital of financial credit organizations, capital of insurance company, science and research organization capital and many other organizations, increased by 2 % in 2003 and reached USD15,8 million and UZS 7535,8 million.

Total amount of investments of National Bank into 25 organization structures composed UZS 22 652 921 as on 1 April 2004; foreign investments – USD 15 810 000, domestic investments – UZS 7 158 697. The size of investment holding composed UZS 24 172 654 as on 01.01.04, and the size of stand-by investments for the same period composed UZS 14 554 000. Thus, total amount of funds to be invested in the investment portfolio composed UZS 1 519 732 as on 01.01.04.

The structure of investment portfolio



In the framework of investment policy, National Bank was the founder of the “UZBEK LEASING INTERNATIONAL A.G.”, joint-stock company, “QURILISH LEASING” leasing company; participates actively in development of insurance services (UNIC “UZBEKINVEST”, JE “UZ AIG”); in a various segment of financial and banking market (Closed joint-stock companies “UZ RVB”, “Uzinvestproekt”, banks “ABN AMRO NB Uzbekistan”, “UzDAEWOOBank”, “Asia Invest Bank, Moscow); NBU is a minority shareholder of organizations, stipulating the development of SME’s (“MADAD”); participates in the capital of real sector of economy (“Tapoich”, “Uzmetkombinat”).

In order to develop the cooperation in the leasing sector of the economy for financing SME’s, National Bank along with EBRD, Maybank (Malaysia), IFC became a co-founder of the joint “UZBEK LEASING INTERNATIONAL A.G.”leasing company, which from the moment of creation realized 46 projects for the total amount of USD 9,5 million and UZS 1338,1 million in various sectors of economy.

As a result of leasing activity 35 SME’s began to produce import-substituting products and consumer goods, new workplaces were created in various regions of the country.

Many bank analysts estimate that NBU’s affiliated bank in Moscow – “Asia-Invest Bank” - possesses a unique status and working experience in the Russian market of banking services. This is a result of “Asia-Invest Bank” being not only a financial institution, but also an informational and consulting center for the participants of foreign trade activities of two countries.

Being an authorized bank on accounts in Uzbek Soum, “Asia-Invest Bank” is not limited only to providing services in sphere of accounts and settlements. The correspondent banks can always receive a qualified advice on legal questions, as well as information on the current conditions and tendencies of the financial markets of Uzbekistan.

Actively participating in realization of the intergovernmental and national programs in such areas, as delivery of cotton fiber, car manufacturing, airplane manufacturing, metallurgical and chemical industry, mechanical engineering, the Bank acts as a reliable partner of state structures of Russia and Uzbekistan, as well as for commercial organizations of two countries.

At the moment, a question of extending a credit line to finance export of finished production from Uzbekistan to Russia is being considered. Credit line provides the financing as follows:

- Delivery of UzDAEWOO automobiles
- Agricultural production

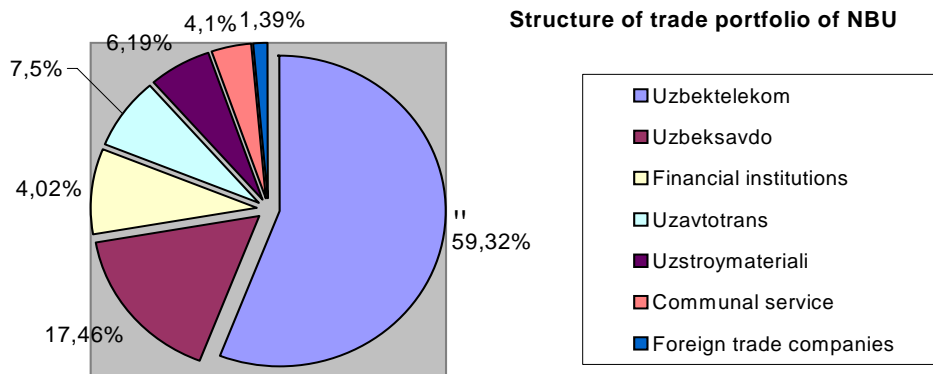
- Equipment
- Foodstuffs

The financial support of NBU will promote lending activity of “Asia-Invest Bank”, which will further promote expansion of export from the manufacturers in Uzbekistan.

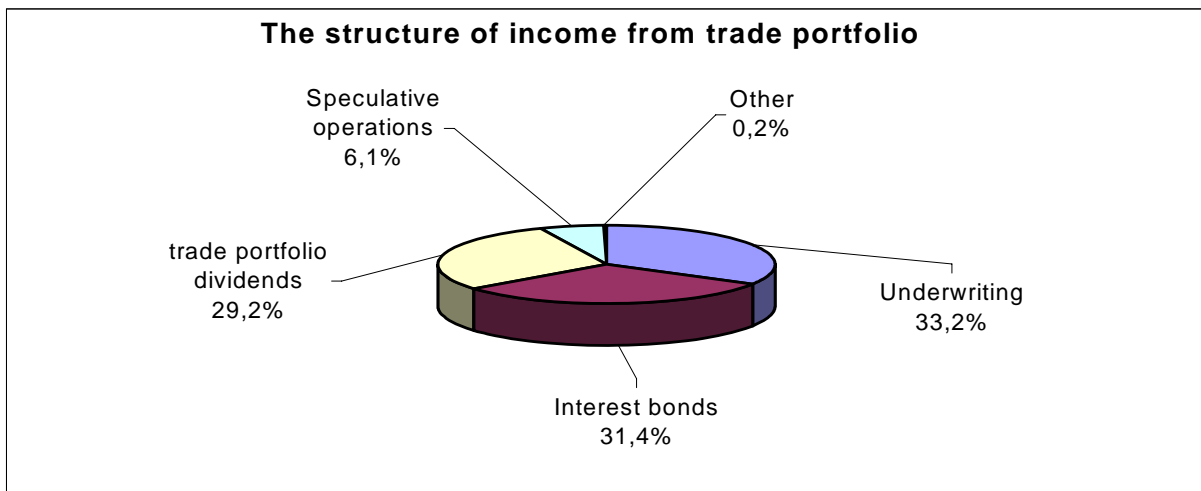
National Bank’s investments in its subsidiaries compose 13,9% from the total investment portfolio of the bank or equal to UZS 3 148 715. Total sum of dividends, paid out from subsidiary companies composed UZS 774 184 thousand, representing dividend returns of 24,6%.

As a result of active investment banking policy, total sum of dividends received by National Bank increased 2,7 times and composed UZS 2,005 billions in 2003.

Bank also forms short-term trade portfolio.



To improve financial economic activity of Joint-Stock companies, and introduce corporate management principles, the Bank, as a shareholder, participates in Joint-Stock companies activity.



One of the directions of State program on economic reforms in 2003 is the realization of complex measures in the further development of Stock market of the country. Through attracting

broad circle of investors, including medium and small companies, bank developed new banking product “Zamonaviy Mulkdor” – electronic system of securities trade.

This system covers all regions of the country and stimulates growth in money flow and in circulation of general population and small investors in the stock market, who are given a chance of making additional earnings by investing in profitable and liquid securities. The customers of NBU get an opportunity to use modern forms of investment via purchasing shares and other securities. New type of banking services gives an opportunity to purchase and sale securities, and also obtains information of security investment on the stock market.

In 2003 National Bank implemented new kind of banking services – underwriting corporate bond issues. In this respect several projects were realized in issuing and subsequent underwriting of corporate bonds of OJSC “EL” (Samarkand region) for the amount of UZS 200 million, Foreign Company “Demir” for the amount UZS 1 350 million and JV “Qohiz” for the amount of UZS 200 million. The underwriting debut of the Bank has been highly acclaimed by the participants of Uzbek Stock Exchange, as a result of which National bank was awarded “The best underwriting company” award for 2003.

In 2003 the bank started rendering new kind of services such as financial consulting, including privatisation and restructurisation. Within this business area a Cooperation Agreement was signed with State Property Committee, in addition to a financial advisory Agreement in privatization of Almalyk Mining Plant.

To provide customers and partners of NBU with regular analytical information on local and foreign markets, from February 2003 research department of the Bank began preparing regular analytical overviews of stock, and FX markets, as well as commodity markets. Informational-analytical products are regularly published in a special “Market perspectives” column of the weekly newspaper “Novosti Uzbekistana” (“News of Uzbekistan”, as well as in the NBU website, in the journal “Securities’ market”. This publications are also made available to internal and external subscribers.

ORGANIZATIONAL DEVELOPMENT, PREPARATION FOR PRIVATISATION AND CORPORATIZATION

According to the Decrees of the Government of Uzbekistan different measures are being undertaken in the reorganization and privatization of National bank.

Privatization of the Bank is expected in 2004. To attract strategic investor the Government decided to increase the share offered to foreign investors from 40% to 49%.

Taking into account the program of privatization of commercial banks in the country, the new revised “Timetable of Privatization Initiatives” was approved.

According to the Timetable, in 2003 different measures were undertaken to improve investment attractiveness of the Bank. This measures were directed, first of all, to change the organizational form of the Bank and, secondly, to the institutional development with optimization of the functions of the bank.

1. Reorganization.

One of the main phases prior to the privatization of the Bank is corporatizing and formal issuance of shares. As it is envisaged in the Timetable, a respective draft Cabinet Ministers' decree has been prepared and submitted for approval to the Government. The draft includes also new

Charter of the Bank. This Charter was developed with the participation of the international auditor of the bank – “Ernst and Young” and conforms to the international principles of corporate governance.

2. Restructurization.

The bank is undertaking measures for the organizational restructuring on the basis of diagnostics, carried out in 2001 by Deutsche Bank. The diagnostics covered 12 directions in the activity of the bank, and received recommendations are currently under implementation by the officers of the bank. In the framework of restructuring and preparation to privatization, according to the recommendation of the international auditor, the Bank is setting up increased bad debt provisions. These privatization measures are aimed at improving the quality of balance sheet during the period of liberalization of the economy, and retained profit of past years have been used as source for increased provisions.

In 2003 the Bank also carried out talks with international financial institutions, big commercial banks on different topics of mutual cooperation, including possible participation in the privatization of the bank. In particular, IFC expressed willingness to participate in the process of privatization of the Bank.

DEVELOPMENT OF ORGANIZATIONAL STRUCTURE

Escalation of competition in the loan markets requires the Bank to be mobile and clearly managed. The clear understanding of this necessity had become the basis for undertaking of many organizational changes in the system of management of the Bank. The latest such decision was the division of the Bank's organizational structure into 4 independent business groups, which fully correspond for the effective development.

The departments of corporate bank, retail bank, investment bank and management and development were established. The purpose of this division is in satisfaction of the needs of clients and increasing of commercial orientation, through improved decision-making and linking commercial performance of each group to remuneration.

In the course of this process organizational structure and the quality of the bank staff has to be optimized in an adequate manner.

The next in this process is restructuring branches. Branches (99 in total) are substantial part of organizational structure of the Bank, which provide extension and growth in the customer base, delivery of almost all products of the Bank to its' customers, located in any region of the country. Branches are the main structures of the Bank where the banking products are worked out and subsequently realized.

BANKING TECHNOLOGY DEVELOPMENT

NBU has developed the IT infrastructure meeting all modern international requirements and best practice.

The automated banking system allows the management of banking facilities by concentrating financial resources on proper directions and implementation of operative management of all bank structures.

Taking into account the trends of world information technologies development, new projects in IT development are being implemented by the specialists of the Bank. First, it includes the implementation of the most up-to-date automated "Globus" banking system. ABS "Globus" has been recognized as the most popular system on the market of integrated banking systems for the last two years and was selected by the bank through the open international tender.

This system includes such fundamentally new capacities as:

- Management of relations with clients;
- Market risk Management;
- Credit risk Management;
- Projecting of screen forms;
- Database Flexibility;
- Informational Security Management.

National Bank considers the implementation of this solution as an investment in its future development, and the possibility of closer integration into the world banking community.

By now, six largest NBU branches located in Tashkent, that generate 80% of the Bank's balance sheet, have migrated to ABS "Globus" system. Today the preparations to turn to ABS "Globus" are being carried out in other NBU branches located in Tashkent city and elsewhere.

HUMAN RESOURCES

Considering that investments in professional personnel development are the basis of long-term success, National Bank forms the team of professional staff and pays much attention to raising the level of its skills, motivation, social protection and devotion to corporate values.

National Bank employs more than 5800 professional and qualified specialists and managers. The activity of the solid group of directors and specialists has the goal of conceivable development in Uzbek and international financial markets.

National Bank gives serious consideration to staff training issues, perfection of their professional skills and carrier advancement. The main principles of staff policy are the revelation and stimulation of most initiative and purposeful officials.

The Bank appreciates and encourages the staff's professional skills, potential to make competent decisions, ability to work in command rhythm achieving the goals of dynamically developing bank.

In 2003 the staff training system included the following aspects:

- Participation in international banking seminars, training courses and conferences, probation in leading foreign banks;
- Education training in Banking Finance Academy, as well as in Public and State Building Academy of the Republic of Uzbekistan;
- Studies in the largest foreign educational institutions;
- Participation in professional training courses;
- Retraining in Regional Banking Training Center;
- Arranging internal banking seminars;

The general staff development policy of the Bank is based on the combination of the Bank's professional staff, the energy and initiative of its young specialists as well as traditions and new approaches.

The Bank tries to select, train and educate the students in the spirits of its traditions. In accordance with the Mutual Agreement signed between NBU and Tashkent State Economy University, 60 graduating students of "International Economic Relations" department attended practical and theoretical training course at NBU Staff Training Center in January 2003. Eight graduates were subsequently offered position within the Bank.

NBU HR strategy is to create optimal conditions, taking into account the human factor, for revelation of talented individuals and overall utilization of the staff's potential.