National Bank for Foreign Economic Activity of the Republic of Uzbekistan

Consolidated Financial Statements

Year ended 31 December 2011
Together with Independent Auditors' Report

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As at 31 December 2011

(Millions of Uzbek soums)

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following statement, which should be read in conjunction with the independent auditors responsibilities stated in the independent auditors report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of the National Bank for Foreign Economic Activity of the Republic of Uzbekistan ("the Bank") and its subsidiaries ("the Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2011, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Uzbekistan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2011 were authorized for issue by the Management Board of the Bank on 30 April 2012.

On behalf of the Management Board:

Rakhimov Saidakhmad
Chairman of the Management Board

Rakhimova Guzal
Executive Chief Accountant

30 April 2012

Tashkent

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Independent auditors' report

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

We have audited the accompanying consolidated financial statements of the National Bank for Foreign Economic Activity of the Republic of Uzbekistan and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the National Bank for Foreign Economic Activity of the Republic of Uzbekistan and its subsidiaries as at 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young MChJ

30 April 2012

Consolidated statement of financial position

As at 31 December 2011

(Millions of Uzbek soums)

	Notes	*2011*	*2010*
Assets			
Cash and cash equivalents	6	1,855,932	1,917,724
Amounts due from credit institutions	7	509,325	317,325
Loans to customers	8	4,686,190	3,973,005
Investment securities:			
- available-for-sale	10	26,872	22,864
- held-to-maturity		1,698	2,412
Assets held for sale	9	46,396	154,567
Investments in associates	11	21,383	15,299
Property and equipment	12	578,094	441,960
Current income tax asset		1,493	-
Deferred income tax assets	13	16,490	18,313
Other assets	14	132,152	87,997
Total assets		**7,876,025**	**6,951,466**
Liabilities			
Amounts due to the Central Bank and the Government	16	327,217	279,480
Borrowings	17	1,547,461	1,291,060
Amounts due to credit institutions	18	409,941	254,965
Amounts due to customers	19	2,927,570	3,087,384
Other borrowed funds	20	1,758,900	1,142,916
Debt securities issued	21	85,240	161,087
Liabilities directly associated with assets held for sale	9	15,283	9,418
Current income tax liabilities		1,009	160
Other liabilities	14	31,833	23,388
Total liabilities		**7,104,454**	**6,249,858**
Equity	22		
Share capital		623,867	623,867
Retained earnings		130,551	62,427
Unrealised gains on available for sale securities		4,365	-
Other reserves		7,331	11,173
Total equity attributable to shareholder of the Bank		**766,114**	**697,467**
Non-controlling interests		5,457	4,141
Total equity		**771,571**	**701,608**
Total liabilities and equity		**7,876,025**	**6,951,466**

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

Saidakhmad Rakhimov — Chairman of the Management Board

Guzal Rakhimova — Executive Chief Accountant

30 April 2012

The accompanying notes on pages 6 to 44 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December 2011

(Millions of Uzbek soums)

	Notes	*2011*	*2010*
Interest income			
Loans to customers, excluding finance lease receivables		297,819	188,114
Amounts due from credit institutions		7,485	6,464
Finance lease receivables		5,094	5,969
		310,398	**200,547**
Interest expense			
Amounts due to customers		(42,028)	(54,284)
Borrowings		(38,091)	(28,112)
Other borrowed funds		(35,974)	(22,727)
Amounts due to credit institutions		(26,005)	(16,090)
Debt securities issued		(9,701)	(10,236)
Amounts due to the Central Bank and the Government		(2,599)	(2,609)
		(154,398)	**(134,058)**
Net interest income		**156,000**	**66,489**
Loan impairment charge	8	(69,193)	(8,669)
Initial loss recognition on interest bearing assets		(6,691)	(8,346)
Net interest income after loan impairment charge		**80,116**	**49,474**
Net fee and commission income	24	120,506	96,247
Net gains from foreign currencies:			
- translation differences		64,681	38,423
- dealing		12,473	11,715
Dividend income		4,775	3,178
Share of profit of associates	11	1,599	1,075
Other operating income	25	106,033	54,235
Other income		3,660	10,503
Non-interest income		**313,727**	**215,376**
General and other administrative expenses	27	(86,246)	(70,144)
Other operating expenses	28	(86,200)	(39,117)
Personnel expenses	26	(69,938)	(51,215)
Other (impairment and provisions)/ reversal		(44,407)	(4,731)
Depreciation and amortization		(22,738)	(22,923)
Non-interest expenses		**(309,529)**	**(188,130)**
Profit before income tax expense		**84,314**	**76,720**
Income tax expense	13	(16,716)	(5,911)
Profit for the year		**67,598**	**70,809**
Attributable to:			
- shareholder of the Bank		66,282	69,577
- non-controlling interests		1,316	1,232
		67,598	**70,809**

The accompanying notes on pages 6 to 44 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011

(Millions of Uzbek soums)

	Notes	2011	2010
Profit for the year		67,598	70,809
Other comprehensive income			
Unrealised gains on investment securities available-for-sale		5,135	-
Exchange differences on translation of foreign operations		720	786
Income tax relating to components of other comprehensive income		(770)	-
Other comprehensive income for the year, net of tax		**5,085**	**786**
Total comprehensive income for the year		**72,683**	**71,595**
Attributable to:			
- shareholder of the Bank		71,367	70,363
- non-controlling interests		1,316	1,232
		72,683	**71,595**

The accompanying notes on pages 6 to 44 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

(Millions of Uzbek soums)

	Attributable to the shareholder of the Bank					
	Share capital	***Retained earnings***	***Unrealised gain on investment securities available-for-sale***	***Other reserves***	***Non-controlling interests***	***Total***
31 December 2009	**520,306**	**102,211**	**-**	**7,740**	**2,909**	**633,166**
Profit for the year	-	69,577	-	786	1,232	71,595
Issue of share capital through capitalization of retained earnings (Note 22)	103,561	(103,561)	-	-	-	-
Dividends declared	-	(3,153)	-	-	-	(3,153)
Special purpose tax privileges granted (Note 22)	-	(2,647)	-	2,647	-	-
31 December 2010	**623,867**	**62,427**	**-**	**11,173**	**4,141**	**701,608**
Profit for the year	-	66,282	4,365	720	1,316	72,683
Dividends declared (Note 22)	-	(2,720)	-	-	-	(2,720)
Special purpose tax privileges granted (Note 22)	-	4,562	-	(4,562)	-	-
31 December 2011	**623,867**	**130,551**	**4,365**	**7,331**	**5,457**	**771,571**

The accompanying notes on pages 6 to 44 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2011

(Millions of Uzbek soums)

	Notes	*2011*	*2010*
Cash flows from operating activities			
Profit before tax		84,314	76,720
Loan impairment charge	8	69,193	8,669
Other impairment and provisions (reversal)		44,407	4,731
Initial loss recognition on interest bearing assets		6,691	8,346
Net translation gains on foreign exchange operations		(64,681)	(38,423)
Depreciation and amortization		22,738	22,923
Share of profit from associates	11	(1,599)	(1,075)
Change in other non-cash accruals		(31,955)	17,522
Cash flows from operating activities before changes in operating assets and liabilities		**129,108**	**99,413**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(191,991)	(56,642)
Loans to customers		(685,908)	(1,192,955)
Other assets		(242,290)	(61,329)
Assets held for sale		108,171	(26,565)
Net increase /(decrease) in operating liabilities			
Amounts due to the Central Bank and the Government		46,088	26,434
Borrowings		250,211	242,244
Amounts due to credit institutions		154,976	99,323
Amounts due to customers		(162,597)	1,155,157
Other borrowed funds		622,820	516,629
Liabilities directly associated with assets held for sale		5,865	(2,243)
Other liabilities		(4,822)	5,616
Net cash flows from operating activities before income tax		**29,631**	**805,082**
Income tax paid		(15,537)	(8,400)
Net cash from operating activities		**14,094**	**796,682**
Cash flows from investing activities			
Purchase of investment securities held-to-maturity		-	(1,004)
Proceeds on sale of investments held-to-maturity		714	-
Purchase of investments available-for-sale		(650)	-
Purchase of investments in associates	11	(4,502)	(9,254)
Dividends received from associates		17	250
Purchase of property and equipment		(12,333)	(19,878)
Proceeds on sale of property and equipment		2,720	3,278
Net cash used in investing activities		**(14,034)**	**(26,608)**
Cash flows from financing activities			
Proceeds from debt securities issued		**-**	95,618
Dividends paid to shareholders		(2,720)	(3,153)
Redemption of debt securities issued		(77,394)	(38,359)
Net cash (used in) / from financing activities		**(80,114)**	**54,106**
Effect of exchange rates changes on cash and cash equivalents		18,262	17,139
Net (decrease) / increase in cash and cash equivalents		**(61,792)**	**841,319**
Cash and cash equivalents, beginning		**1,917,724**	**1,076,405**
Cash and cash equivalents, ending	6	**1,855,932**	**1,917,724**
Interest received		236,305	209,559
Interest paid		150,438	137,096
Non-cash transactions:			
Acquisition of property repossessed on default loans		190,279	151,452
Non-cash increase in investment securities available-for-sale		5,135	3,178
Non-cash increase of share capital		-	103,561

The accompanying notes on pages 6 to 44 are an integral part of these consolidated financial statements.

(Millions of Uzbek soums)

1. Principal activities

National Bank for Foreign Economic Activity of the Republic of Uzbekistan ("the Bank") was formed by a Presidential Decree on 7 September 1991 and registered on 25 October 1991 as a closed stock company with limited liability under the laws of the Republic of Uzbekistan. On March 1993 the Bank was registered as a banking institution wholly-owned by the Government of the Republic of Uzbekistan. The Bank operates under a banking license # 22 reissued by the Central Bank of Uzbekistan ("CBU") on 26 December 2009. The Bank is the parent of its subsidiaries (together – "the Group").

The Bank services the Government of the Republic of Uzbekistan, accepts deposits from the public and extends loans, transfers payments in the Republic of Uzbekistan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

Its main office is located in Tashkent city and it has 14 regional branches (2010: 14) with 91 banking outlets (2010: 90) located in the territory of the Republic of Uzbekistan.

The sole shareholder of the Bank is the Cabinet of Ministers of the Republic of Uzbekistan. The ultimate shareholder and ultimate controlling party of the Bank is the Government of the Republic of Uzbekistan.

The Bank's registered legal address is 101 Amir Timur street, Tashkent, Republic of Uzbekistan.

The Bank participates in the state deposit insurance program. The State Deposit Insurance Fund guarantees repayment of 100% of individual deposits in case of business failure and revocation of the CBU banking license.

2. Operating environment

The Republic of Uzbekistan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy and continues to undergo substantial economic and social changes. The future stability of the Republic of Uzbekistan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Republic of Uzbekistan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Although the global financial crisis has not resulted in a slowdown in the economy, there have been other adverse consequences including capital market instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions. While the Uzbekistan Government has introduced a range of stabilization measures aimed at providing the liquidity to banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

The ongoing global financial crisis may result in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within the Republic of Uzbekistan. The Uzbekistan Government has introduced a range of anti-financial crisis measures aimed at providing liquidity and supporting the largest Uzbekistan banks and companies. However, the global financial crisis has resulted in uncertainty regarding the condition of the economy taken as a whole as the Republic of Uzbekistan significantly depends on exports.

Further, factors including increased unemployment, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, may have affected the Group's borrowers' ability to repay the amount due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that such information is available, the Group has reflected revised estimates of the expected future cash flows in its impairment assessment.

Foreign currencies, in particular the United States Dollar ("USD") and Euro ("EUR"), play a significant role in the underlying economics of many foreign trade transactions in the Republic of Uzbekistan. The following table summarizes the official exchange rate of the Uzbek soum ("UZS") to 1 USD and to 1 EUR established by the CBU:

	Exchange rate	
As at 31 December	***USD***	***EUR***
2011	1,795	2,342
2010	1,640	2,165

As at 30 April 2012 exchange rate of one USD was UZS 1,856.15 and one EUR was UZS 2,432.19.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in current circumstances, unexpected further deterioration could negatively affect the Group's results and financial position in a manner not currently determinable.

(Millions of Uzbek soums)

3. Basis of preparation

General

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

The Group maintains its accounting records in accordance with the respective laws of the Republic of Uzbekistan, the Russian Federation and the Republic of Kyrgyzstan. These consolidated financial statements have been prepared from statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassification of certain assets and liabilities, income and expenses to appropriate financial statement caption.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, assets held for sale have been measured at lower of carrying amount and fair value less costs to sell, investment securities available-for-sale are measured at fair value, while investments in associates are accounted for using equity method.

These consolidated financial statements are presented in millions of UZS, unless otherwise indicated.

The Group consist of the following subsidiaries consolidated in these financial statements:

Subsidiary	Ownership / voting, %		Country	Industry	Date of incorporation
	2011	2010			
Uzinvestproject LLC	52	52	Uzbekistan	Consulting	1995
Asia Invest Bank CJSC	85	85	Russia	Banking	1996
Rohat NBU WOS	100	100	Kyrgyzstan	Recreation	1999
VIP Service NBU	100	100	Uzbekistan	Office maintenance	1999
Ferghana Textile	100	100	Uzbekistan	Textile	2006
NBU Invest Group OJSC	100	100	Uzbekistan	Asset management	2008
NBU Investment OJSC	100	100	Uzbekistan	Asset management	2008
Oqsaroy Textile LLC	100	100	Uzbekistan	Textile	2009
Nam Tex LLC	100	100	Uzbekistan	Textile	2009
Kosonsoy To'qimachi LLC	100	100	Uzbekistan	Textile	2009
Koson Textile LLC	100	100	Uzbekistan	Textile	2009
Fresco LLC	100	100	Uzbekistan	Consumer products	2009
Kinder Fruits LLC	100	100	Uzbekistan	Consumer products	2009
Keramik Modern LLC	100	100	Uzbekistan	Production of ceramics	2009
Sogdiana Pipeplast LLC	100	100	Uzbekistan	Production of polyethylene pipes	2009
Asia Pipeplast LLC	100	100	Uzbekistan	Production of plastic pipes	2009
Horazm Gilamlari LLC	100	100	Uzbekistan	Textile	2009
Royal Silk LLC	100	100	Uzbekistan	Textile	2009
Poyteks LLC	100	100	Uzbekistan	Textile	2010
Xumo Toqimachi	100	100	Uzbekistan	Textile	2010
Nukus Textile LLC	100	100	Uzbekistan	Textile	2010
Billur Teks LLC	100	100	Uzbekistan	Textile	2010
Nukus-Agro LLC	100	100	Uzbekistan	Consumer products	2010
Surxon Sun Milk LLC	100	100	Uzbekistan	Consumer products	2010
Quva Qandolatlari LLC	100	100	Uzbekistan	Consumer products	2010
Toshkent Qogozi LLC	100	100	Uzbekistan	Production of paper	2010
Linplast LLC	100	100	Uzbekistan	Production of polyethylene	2010
East Brick LLC	100	100	Uzbekistan	Production of construction materials	2010
Qorasuv Savdo LLC	100	100	Uzbekistan	Retail and wholesale trade	2010
Chinoz Textile LLC	100	100	Uzbekistan	Textile	2010
Registon Plaza LLC	100	100	Uzbekistan	Hotel business	2010
Tashkent Palace New LLC	100	100	Uzbekistan	Hotel business	2010
Xorazm Palase LLC	100	100	Uzbekistan	Hotel business	2010
Gazalkent Stone LLC	100	100	Uzbekistan	Production of marble	2010
Namangan Qog'ozi LLC	100	100	Uzbekistan	Production of paper	2010
Keshmarble LLC	100	100	Uzbekistan	Production of marble	2010
Aziya Ays LLC	100	100	Uzbekistan	Consumer products	2010
Kurgantex LLC	100	-	Uzbekistan	Textile	2011
Rishton Toqimachi LLC	100	-	Uzbekistan	Textile	2011
Techno Motors Complex LLC	100	-	Uzbekistan	Service	2011

(Millions of Uzbek soums)

3. Basis of preparation (continued)

Inflation accounting

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

4. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no impact on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This Interpretation had no impact on the Group's consolidated financial statements.

Improvements to IFRSs
In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Group except the following amendment resulting in changes to accounting policies, as described below:

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as information is readily available.
- Other amendments to IFRS 1, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

The following amendments to standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- IFRIC 14 Prepayments of a Minimum Funding Requirement

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Basis of consolidation

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Business combinations (continued)

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

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

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

Financial assets

Initial recognition

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

Date of recognition

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

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Cash and cash equivalents

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

Amounts due from credit institutions

In the normal course of business, the Group maintains advances or deposits for various periods of time in other banks. Amounts due from credit institutions include mandatory reserve with the CBU which is restricted for use in the normal course of business. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank and the Government, borrowings, amounts due to credit institutions, amounts due to customers, debt securities issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Leases

i. Finance - Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers (continued)

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in other liabilities, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

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

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

Deferred income tax is provided on temporary differences arising on investment in an associate, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Uzbekistan, Russian Federation and the Republic of Kyrgyzstan also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of general and other administrative expenses.

Property and equipment

Property and equipment are carried at restated cost after the change of functional currency adjustment applied on 1 January 2007, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Property and equipment (continued)

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

	Years
Buildings	25-30
Furniture, fixtures and office equipment	2-5

Assets under construction represent the costs of assets under development. The cost comprises, cost of contractors engaged to construct asset, direct labor, material purchases and overheads, if appropriate. When assets under construction are completed and become operational, they are recognized as property and equipment and depreciated over their useful life. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale. The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired. The Group presents the assets and liabilities of a disposal group classified as held for sale separately from other assets and other liabilities in the consolidated statement of financial position. Those assets and liabilities are not offset and not presented as a single amount.

Provisions

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

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension fund of the Republic of Uzbekistan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits that should be respectively accounted.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Share capital

Share capital

Share capital represents contribution made by the Ministry of Finance of the Republic of Uzbekistan. The share capital is measured at restated cost after change of functional currency adjustment applied on 1 January 2007.

Other reserves

Other reserves represent the special purpose tax privileges and exchange difference on translation of foreign operations. The special purpose tax privileges are granted to newly established subsidiaries on the base of foreclosed property of former bankrupt entities. The exchange difference on translation of foreign operations arises on translation of the financial statements of foreign consolidated entities.

Dividends

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

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over certain period of time*

Fees earned for the provided services over a period of time are accrued over that period. These fees include commission income, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of share or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Other operating income

Other operating income is the amount receivable for the sale of goods and provision of services falling within the Group's ordinary activities, excluding intra-group sales.

Other operating income from sale of goods and provision of services is recognised when the risks and rewards of ownership of goods have been transferred to the customer and the service provided to the customer has been completed.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Other operating expenses

Other operating expenses include the cost of sold goods and provided services by the Group. Such costs mainly include the cost of purchased goods, the cost of bringing inventory to its present location and condition, and labor and overheads attributable to production and assembly of goods and rendering of services.

Foreign currency translation

The consolidated financial statements are presented in UZS, which is the Group's presentation currency. The functional currency of the entities operating in Uzbekistan is UZS, while the functional currencies of the Group entities operating in Russian Federation and the Republic of Kyrgyzstan are Russian Ruble and Kirgiz Som, respectively. The Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into UZS at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments"
In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.*IFRS 11 Joint Arrangements*
IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment will not have impact on the Group's financial position or performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group now evaluates the impact of the adoption of new Standard.

(Millions of Uzbek soums)

4. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IFRS 7 "Financial Instruments: Disclosures"
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has no impact either on disclosure or on the Group's financial position or performance.

Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets
In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group now evaluates the impact of the adoption of these amendments.

Amendments to IAS 19 Employee Benefits
The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Group expects that these amendments will have no impact on the Group's financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1 Presentation of Financial Statements, effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change presentation in the statement of comprehensive income but will have no effect on its financial position and performance.

Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
These amendments to IFRS 1, effective for annual periods beginning on or after 1 July 2011, introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. The Group expects that these amendments will have no impact on the Group's financial position.

5. Significant accounting judgments and estimates

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

The following estimates and judgments are considered important to the portrayal of the Group's financial position and results of operations:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of collateral

During the review of the adequacy of the allowance for loan impairment the management performed assessment of the fair value of collateral and is satisfied that the fair value of the collateral on individually impaired loans was adequate to cover the carrying value of those loans in case of default. Management monitors market value of collateral on regular basis. Management uses its experienced judgement or independent opinion to adjust the fair value of collateral to reflect current circumstances.

(Millions of Uzbek soums)

5. Significant accounting judgments and estimates (continued)

Allowance for impairment of financial assets

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

Taxation

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

As at 31 December 2011, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax positions will be sustained.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	*2010*
Cash on hand	50,038	45,656
Current accounts with the Central Bank	438,999	277,037
Current accounts with other credit institutions	275,335	43,220
Time deposits with credit institutions up to 90 days	1,091,560	1,551,811
Cash and cash equivalents	**1,855,932**	**1,917,724**

Current accounts with the Central Bank include an overnight deposit of UZS 412,993 (2010: UZS 218,190) placed with the Central Bank bearing a fixed interest rate of 0.2% per annum (2010: 0.3% per annum). As at 31 December 2011, an equivalent of UZS 531,489 (2010: UZS 1,120,639) was placed on time deposits with ten (2010: ten) internationally recognized OECD banks who are the main counterparties of the Group in performing the international settlements.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2011	*2010*
Obligatory reserve with the Central Bank	461,210	294,053
Time deposits for more than 90 days	48,115	23,272
Amounts due from credit institutions	**509,325**	**317,325**

In accordance with the requirements of the Central Bank, credit institutions should maintain non-interest earning mandatory reserve with the Central Bank, the amount of which depends on the level of funds attracted by a credit institution. The Bank's ability to withdraw this reserve is restricted by the statutory legislation.

As at 31 December 2011, time deposits consist of placement with one Uzbekistan bank (2010: five Uzbekistan banks) and three OECD banks (2010: nil OECD bank). As at 31 December 2011, the Bank placed UZS 33,670 (2010: nil) as deposits in EUR.

(Millions of Uzbek soums)

8. Loans to customers

Loans to customers comprise:

	2011	*2010*
Gross loans to customers	4,964,172	4,202,582
Less – Allowance for impairment	(277,982)	(229,577)
Loans to customers	**4,686,190**	**3,973,005**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customer is as follows:

	2011
At 1 January 2011	**229,577**
Charge for the year	69,193
Recoveries	2,188
Amounts written off	(30,488)
Currency translation effect	7,512
At 31 December 2011	**277,982**
Individual impairment	230,075
Collective impairment	47,907
	277,982
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**827,737**

	2010
At 1 January 2010	**261,005**
Charge for the year	8,669
Recoveries	3,431
Amounts written off	(48,569)
Currency translation effect	5,041
At 31 December 2010	**229,577**
Individual impairment	185,580
Collective impairment	43,997
	229,577
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**652,536**

Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance, include the receivables on property sold on deferred terms in amount of UZS 189,858 (2010: UZS 206,304). Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2011, comprised UZS 145,525 (2010: UZS 24,950).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties.

The Group also obtains Government guarantees for refinanced loans, where borrowings are also Government guaranteed. In addition, the Group obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

(Millions of Uzbek soums)

8. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2011, the Group had a concentration of loans represented by UZS 3,210,926 due from the ten largest borrowers or 65% of gross loan portfolio (2010: UZS 2,549,193 or 61%).

	2011	*2010*
State companies	3,624,175	3,027,206
Private companies	1,030,404	999,307
State budget or local authorities	202,747	80,972
Individuals	97,127	90,037
Other	9,719	5,060
Loans to customers, gross	**4,964,172**	**4,202,582**

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

	2011	*2010*
Production industry	2,597,880	2,511,387
Transport and communication	1,427,665	1,001,255
Trade and catering	305,340	227,286
Agriculture	213,406	184,411
Government social structure	189,560	60,755
Individuals	97,127	90,038
Housing and utilities	61,011	53,927
Construction	46,302	48,147
Other	25,881	25,376
Loans to customers, gross	**4,964,172**	**4,202,582**
Less – allowance for impairment	(277,982)	(229,577)
Loans to customers, net	**4,686,190**	**3,973,005**

Finance lease receivables

Included in loan portfolio are finance lease receivables. The analysis of finance lease receivables is as follows:

	2011	*2010*
Less than one year	88,134	102,660
From one year to five years	324,784	365,285
Finance lease payments	412,918	467,945
Less: unearned finance income	(70,354)	(84,866)
Net investments in finance lease	**342,564**	**383,079**

9. Assets held for sale

As at 31 December 2011, management announced a plan to dispose of 12 entities. The disposal of assets held for sale is due to be completed in 2012 and as at 31 December 2011 final procedures for disposal were in progress. As at 31 December 2010 and 2011, the following assets were classified as assets held for sale:

Assets held-for-sale	Ownership (%)	Country	Industry	Date of incorporation
Asaka Mak LLC	100	Uzbekistan	Consumer products	2009
Angren Kaolin LLC	100	Uzbekistan	Production of caoline	2009
Vodiy Ipagi LLC	100	Uzbekistan	Textile	2009
Nurotamarble LLC	100	Uzbekistan	Production of stone	2009
Azia Biskvit LLC	100	Uzbekistan	Consumer products	2009
Vodiy Muzqaymog'i LLC	100	Uzbekistan	Consumer products	2009
Bio Mikrel LLC	100	Uzbekistan	Agriculture	2010
Asia Sakato LLC	100	Uzbekistan	Consumer products	2010
Asaka Lazzat Non LLC	100	Uzbekistan	Consumer products	2010
Coinot And C LLC	100	Uzbekistan	Consumer products	2010
Asl Meva LLC	100	Uzbekistan	Consumer products	2010
Andijon Charm LLC	100	Uzbekistan	Production of leather	2010

(Millions of Uzbek soums)

9. Assets held for sale (continued)

The major classes of assets and liabilities of assets classified as held for sale as at 31 December 2011 are as follows:

	2011	*2010*
Assets		
Cash and cash equivalents	408	2,309
Trade and other receivables	3,019	1,883
Inventories	12,818	14,307
Property, plant and equipment	30,151	136,068
Assets held for sale	**46,396**	**154,567**
Borrowings	13,189	3,985
Trade and other payables	2,094	5,433
Liabilities directly associated with assets held for sale	**15,283**	**9,418**
Net assets held for sale	**31,113**	**145,149**

10. Investment securities available for sale

Available-for-sale equity securities comprise:

	2011	*2010*
Uzbekinvest NEIIC	9,274	9,274
Uzmetkombinat APO	5,906	4,012
Royal Bank of Scotland Uzbekistan CJSC	3,978	1,860
Microcreditbank JSC	3,607	3,607
Uzbek Korean Development Bank CJSC	1,908	1,046
Kurilish-Leasing JSC	337	316
Uzmedleasing JSC	300	300
Republican Currency Exchange OJSC	177	177
Uzavialeasing JSC	-	1,118
Madad JSC	-	659
Other	1,385	495
Available-for-sale securities	**26,872**	**22,864**

11. Investments in associates

As at 31 December 2011 and 2010 the following major associates are accounted for under the equity method:

Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
Elegans Teks JV	50	Uzbekistan	2009	Textile	2010
Chartis Uzbekistan LLC	49	Uzbekistan	1994	Insurance	1996
Uzbek Leasing International JSC	35	Uzbekistan	1995	Leasing	1997
Kafolat JSC	32	Uzbekistan	1997	Insurance	2010
Indorama Kokand Textile LLC	24	Uzbekistan	2010	Textile	2010

(Millions of Uzbek soums)

11. Investments in associates (continued)

Movement in investments in associates was:

	2011	*2010*
Balance, beginning of the year	15,299	5,220
Purchase cost	4,502	9,254
Share of profit	1,599	1,075
Dividends	(17)	(250)
Investments in associates, end of the period	**21,383**	**15,299**

The following table illustrates summarized financial information of the associates:

Aggregated assets and liabilities of associates	*2011*	*2010*
Assets	194,744	163,336
Liabilities	121,517	98,896
Net assets	**73,227**	**64,440**

Aggregated revenue and profit of associates	*2011*	*2010*
Revenue	18,258	14,867
Net profit	4,449	2,958

12. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture, fixtures and office equipment*	*Assets under construction*	*Total*
Cost				
31 December 2010	**393,081**	**211,264**	**60,219**	**664,564**
Additions	91,963	91,170	19,479	202,612
Disposals	(8,187)	(11,054)	(1,821)	(21,062)
Transfers	6,371	398	(6,769)	-
31 December 2011	**483,228**	**291,778**	**71,108**	**846,114**
Accumulated depreciation				
31 December 2010	**(123,142)**	**(99,462)**	**-**	**(222,604)**
Depreciation charge	(23,215)	(18,413)	-	(41,628)
Impairment	(770)	(5,727)	-	(6,497)
Disposals	464	2,245	-	2,709
31 December 2011	**(146,663)**	**(121,357)**	**-**	**(268,020)**
Net book value:				
31 December 2010	**269,939**	**111,802**	**60,219**	**441,960**
31 December 2011	**336,565**	**170,421**	**71,108**	**578,094**

In 2011, additions included non-cash acquisition of the property repossessed on default loans in amount of UZS 190,279 (2010: UZS 151,452). The disposals include the non-cash disposals in amount of UZS 18,342 (2010: UZS 5,608).

(Millions of Uzbek soums)

12. Property and equipment (continued)

	Buildings	*Furniture, fixtures, office equipment*	*Assets under construction*	*Total*
Cost				
31 December 2009	**333,561**	**141,220**	**27,339**	**502,120**
Additions	47,818	70,856	52,656	171,330
Disposals	(404)	(847)	(7,635)	(8,886)
Transfers	12,106	35	(12,141)	-
31 December 2010	**393,081**	**211,264**	**60,219**	**664,564**
Accumulated depreciation				
31 December 2009	**(110,319)**	**(91,117)**	**-**	**(201,436)**
Depreciation charge	(13,078)	(9,205)	-	(22,283)
Disposals	255	860	-	1,115
31 December 2010	**(123,142)**	**(99,462)**	**-**	**(222,604)**
Net book value:				
31 December 2009	**223,242**	**50,103**	**27,339**	**300,684**
31 December 2010	**269,939**	**111,802**	**60,219**	**441,960**

13. Taxation

The corporate income tax expense comprises:

	2011	*2010*
Current tax expense	14,893	8,208
Deferred tax expense	1,823	(2,297)
Income tax expense	**16,716**	**5,911**

Uzbekistan legal entities must file tax declarations with tax authorities. The income tax rate for banks in the Republic of Uzbekistan was 15% in 2011 (2010: 15%). The tax rate for companies other than banks was 9% for 2011 (2010: 9%). Corporate income tax rate in Russian Federation was 20% (2010: 20%) and in Kyzrgyzstan was 10% (2010: 10%).

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

	2011	*2010*
Profit before tax	**84,314**	**76,720**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**12,647**	**11,508**
Non-deductible expenses	11,797	7,805
Infrastructure tax	732	652
Non-taxable income	(4,072)	(6,851)
Income tax privileges	(2,485)	(6,806)
Tax effect on income taxed at different rates	(1,903)	-
Special tax privileges granted to subsidiaries	-	(397)
Income tax expense	**16,716**	**5,911**

(Millions of Uzbek soums)

13. Taxation (continued)

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

	2009	*Origination and reversal of temporary differences in income statement*	*2010*	*Origination and reversal of temporary differences in the income statement*	*2011*
Tax effect of deductible temporary differences:					
Allowance for loan impairment	23,622	185	23,807	(5,760)	18,047
Other provisions and accruals	4,435	(3,323)	1,112	5,799	6,911
Deferred tax assets	**28,057**	**(3,138)**	**24,919**	**39**	**24,958**
Tax effect of taxable temporary differences:					
Property and equipment	(6,188)	1,731	(4,457)	1,202	(3,255)
Investments	(4,530)	2,381	(2,149)	(3,064)	(5,213)
Accrued income	(1,323)	1,323	-	-	-
Deferred tax liabilities	**(12,041)**	**5,435**	**(6,606)**	**(1,862)**	**(8,468)**
Net deferred tax assets	**16,016**	**2,297**	**18,313**	**(1,823)**	**16,490**

14. Other assets and liabilities

Other assets comprise:

	2011	*2010*
Other financial assets:		
Other assets under court examination	35,658	3,776
Trade receivables	16,193	17,524
Amounts due from Moscow Interbank Currency Exchange	3,858	5,754
Commission receivables	2,778	1,900
Other financial assets	1,435	2,344
	59,922	**31,298**
Other non-financial assets:		
Inventory	56,189	43,940
Property and equipment purchased for finance lease	37,239	9,166
Prepayments for materials and services	15,454	4,127
Other prepaid expenses	1,070	1,470
Other non-financial assets	1,374	2,275
	111,326	**60,978**
Less – Allowance for impairment of other assets (Note 15)	(39,096)	(4,279)
Other assets	**132,152**	**87,997**

Other liabilities comprise:

	2011	*2010*
Other financial liabilities:		
Accounts payable	16,825	16,887
Taxes payable other than income tax	7,453	2,676
Unearned revenue	3,457	2,079
Payables to employees	986	578
	28,721	**22,220**
Other non-financial liabilities:		
Provisions for guarantees and other commitments	1,316	-
Other	1,796	1,168
	3,112	**1,168**
Other liabilities	**31,833**	**23,388**

(Millions of Uzbek soums)

15. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets	*Guarantees and commitments*	*Total*
31 December 2009	**10,481**	**2,772**	**13,253**
Reversal	(6,202)	(2,772)	(8,974)
31 December 2010	**4,279**	**-**	**4,279**
Charge	34,817	1,316	36,133
31 December 2011	**39,096**	**1,316**	**40,412**

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. The significant increase of other impairment was caused by the accrual of allowance on assets under court examination (Note 14).

16. Amounts due to the Central Bank and the Government

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

	2011	*2010*
Amounts due to the Ministry of Finance of the Republic of Uzbekistan	242,830	220,736
Funds received from CBU for lending purposes	23,724	26,707
Correspondent accounts of the Central Bank	60,663	32,037
Amounts due to the Central Bank and Government	**327,217**	**279,480**

The amounts due to the Ministry of Finance of the Republic of Uzbekistan bear interest rates ranging from 1% p.a. to 18% p.a. (2010: 1% p.a. to 18% p.a.) with maturity in 2012 (2010: maturity in 2012).

Funds received from CBU for financing of strategic state projects and bear interest rate ranging from 2.7% p.a. to 18% p.a. (2010: 2.7% p.a. to 18% p.a.) with maturity ranging from 2015 to 2027 (2010: maturity ranging from 2015 to 2027).

17. Borrowings

Borrowings consist of the following:

	Interest rate, %	*2011*	*2010*
Eximbank of China	2%-3% p.a.	657,583	526,648
China Development Bank	LIBOR + 1.2% - LIBOR + 3.5%	433,408	263,601
Societe Generale	LIBOR + 0.05%, EURIBOR + 0.45% - 3.70%	292,718	191,180
Eximbank of Korea	LIBOR + 2.5% - LIBOR + 3.5%, 5%	33,003	87,965
Eximbank of Japan	2.5% p.a.	32,905	66,436
Bayer.Hypo.Verein.BK	EURIBOR + 0.5% - EURIBOR + 0.65%	28,374	41,371
Islamic Development Bank	4%-5% mark up	23,373	30,959
Asian Development Bank	Pool based, LIBOR	16,708	28,385
Banco Bilbao Vizcaya	0.3% p.a.	12,372	11,996
Landesbank Berlin AG	EURIBOR + 0.5%	8,601	11,903
Dz Bank AG	EURIBOR + 0.5%	8,416	16,935
Barclays Bank London	LIBOR + 0.03%	-	10,382
Commerzbank AG	EURIBOR + 0.5%	-	2,445
Other		-	854
Borrowings		**1,547,461**	**1,291,060**

Borrowings are collateralized with the guarantees of the Government of the Republic of Uzbekistan.

(Millions of Uzbek soums)

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2011	*2010*
Current accounts	170,416	90,898
Time deposits	239,525	164,067
Amounts due to credit institutions	**409,941**	**254,965**

Current accounts include a balance of UZS 170,416 (2010: UZS 72,739) with Uzbekistan banks.

During 2011, the Bank placed with and received short-term funds from Uzbekistan banks in different currencies. As at 31 December 2011, the Bank received equivalent of UZS 208,253 (2010: UZS 145,990) as deposits in UZS and UZS 29,540 (2010: UZS 7,612) as deposit in USD from Uzbekistan banks bearing interest rate ranging from 3.0% p. a. to 12.5% p.a. (2010: 3.5% p.a. to 12.5% p.a.).

19. Amounts due to customers

The amounts due to customers consist of the following:

	2011	*2010*
Current accounts	2,425,026	2,740,285
Time deposits	502,544	347,099
Amounts due to customers	**2,927,570**	**3,087,384**
Held as security against letters of credit and guarantees	353,098	516,815

At 31 December 2011, amounts due to customers of UZS 1,411,171 or 48% were due to the ten largest customers (2010: UZS 1,613,040 or 52%).

In accordance with the Civil Code of the Republic of Uzbekistan, the Bank is obliged to repay time deposits upon demand of a depositor. In case a time deposit is repaid upon demand of the depositor prior to maturity, interest on it is not paid or paid based on a significant lower interest rate, depending on terms and conditions specified in the agreement.

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

	2011	*2010*
State and budgetary organizations	1,239,004	1,682,242
Private enterprises	1,204,362	991,606
Individuals	425,260	367,934
Other	58,944	45,602
Amounts due to customers	**2,927,570**	**3,087,384**

20. Other borrowed funds

Other borrowed funds consist of the following:

	2011	*2010*
Fund for Reconstruction and Development of the Republic of Uzbekistan	1,754,344	1,137,751
Employment Fund of the Republic of Uzbekistan	4,285	4,691
Other	271	474
Other borrowed funds	**1,758,900**	**1,142,916**

The funds borrowed from the Fund for Reconstruction and Development of the Republic of Uzbekistan bear interest rate of 1.75% to 4.0% p.a. (2010: 1.75% to 4.0% p.a.) and were issued to finance strategic state projects.

(Millions of Uzbek soums)

21. Debt securities issued

Debt securities issued consist of the following:

	2011	***2010***
Bonds	57,031	53,792
Certificates of deposit	28,209	66,161
Promissory notes	-	41,134
Debt securities issued	**85,240**	**161,087**

As at 31 December 2011, the Bank held certificates of deposit and bonds maturing in period between March 2012 and October 2020 (2010: February 2011 and December 2019). Debt securities issued by the Bank as at 31 December 2011 bear annual interest rates ranging from 8% to 12% (2010: from 7% to 12%).

22. Equity

Share capital

Authorized share capital of the Group is UZS 4,000 and UZS equivalent of USD 400,000,000. As at 31 December 2011, the Group fully paid in authorized share capital.

In accordance with the order of the Cabinet of Ministers of the Republic of Uzbekistan dated 22 July 2010 and decision of the Council of the Group dated 16 August 2010, retained earnings of UZS 103,561 were capitalized into share capital.

During 2011 the Group declared dividends in the respect of the year 2010 and as payment of dividends an asset of the Bank - a professional economic college in Tashkent city in amount of UZS 2,720 was transferred to the Ministry of Higher and Secondary Specialized Education of the Republic of Uzbekistan.

In accordance with Uzbekistan legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Group's consolidated financial statements. The Group had UZS 72,683 of undistributed and unreserved earnings as at 31 December 2011 (2010: UZS 71,595).

The Group does not disclose information on earnings per share as required by IAS 33 "Earnings per share" as share capital of the Bank consists of amounts of contributions and not certain amount of shares.

Other reserves

Other reserves represent the special purpose tax privileges granted to newly established subsidiaries on the base of foreclosed property of former bankrupt entities. Such privileges must be utilized to finance capital expenditure, technological modernization and refurbishment related to those subsidiaries. In 2011 the Group utilized UZS 4,562 (2010: UZS nil) of this reserve.

Exchange difference on translation of foreign operations

The exchange difference on translation of foreign operations arises on translation of the financial statements of consolidated entities: Asia Invest Bank OJSC and Rohat NBU WOS.

(Millions of Uzbek soums)

23. Commitments and contingencies

Operating environment

Uzbekistan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Uzbek economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Uzbek economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis may result in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Uzbekistan. The Uzbekistan Government has introduced a range of anti-financial crisis measures aimed at providing liquidity and supporting the largest Uzbekistan banks and companies. However, the global financial crisis has resulted in uncertainty regarding the condition of the economy taken as a whole since Uzbekistan significantly depends on exports.

Also, the borrowers of the Bank may be affected by the deterioration in liquidity and solvency, which can in turn impact their ability to repay the amounts due to the Bank.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Legal

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

Taxation

Uzbekistan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations (like the State Tax Committee and its various inspectorates) thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities that are empowered by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Uzbekistan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Bank is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

As at 31 December the Group's commitments and contingencies comprised the following:

	2011	***2010***
Credit related commitments		
Letters of credit	456,347	731,414
Guarantees	206,958	736,438
Undrawn loan commitments	167,975	499,883
	831,280	**1,967,735**
Capital expenditure commitments	11,830	5,377
Commitments and contingencies, (before deducting collateral)	**843,110**	**1,973,112**
Less – Cash held as security against letters of credit and guarantees (Note 19)	(353,098)	(516,815)
Commitments and contingencies	**490,012**	**1,456,297**

(Millions of Uzbek soums)

23. Commitments and contingencies (continued)

Insurance

The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions. The Bank is a member of a state customer deposit guarantee scheme.

24. Net fee and commission income

Net fee and commission income comprises:

	2011	*2010*
Local settlements operations	80,712	64,129
Currency conversion operations	24,751	14,716
Guarantees and letters of credit	12,382	11,719
Operations with plastic cards	11,434	13,063
Foreign settlements operations	5,661	7,136
Cash operations	2,504	2,441
Other	2,856	1,797
Fee and commission income	**140,300**	**115,001**
Cash operations	11,598	11,100
Currency conversion operations	4,273	3,962
Settlements operations	2,123	1,089
Operations with plastic cards	1,324	1,863
Other	476	740
Fee and commission expense	**19,794**	**18,754**
Net fee and commission income	**120,506**	**96,247**

25. Other operating income

Other operating income comprise:

	2011	*2010*
Textile	63,904	33,246
Manufacturing	24,215	16,157
Service	15,489	3,631
Consumer products	2,338	1,059
Other	87	142
Other operating income	**106,033**	**54,235**

Other operating income represents revenue of subsidiaries from sales of goods and rendering services.

26. Personnel expenses

Personnel expenses comprise:

	2011	*2010*
Salaries and bonuses	46,130	32,703
Other employee benefits	11,807	10,136
Social security tax	12,001	8,376
Personnel expenses	**69,938**	**51,215**

(Millions of Uzbek soums)

27. General and other administrative expenses

General and other administrative expenses comprise:

	2011	*2010*
Operating taxes other than income tax	36,916	24,395
Security	12,106	9,847
Property and software maintenance	5,561	4,758
Utilities and rent	4,751	3,358
Professional services	4,540	2,669
Office supplies	4,435	5,810
Membership fee	3,959	4,301
Charity and sponsorship	3,519	3,847
Communications	2,820	3,130
Transportation expenses	2,448	2,496
Business trip expenses	626	430
Penalties incurred	594	355
Expenses on repossession of collateral on defaulted loans	-	1,478
Other	3,971	3,270
General and other administrative expenses	**86,246**	**70,144**

28. Other operating expenses

Other operating expenses represent the cost of sales of subsidiaries recognized in consolidated income statement of the Group and comprise of:

	2011	*2010*
Textile	58,105	24,431
Manufacturing	17,525	12,807
Service	8,800	676
Consumer products	1,710	1,096
Other	60	107
Other operating expenses	**86,200**	**39,117**

29. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

(Millions of Uzbek soums)

29. Risk management (continued)

Introduction (continued)

Bank Treasury

Bank Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee and the Council of the Group.

Risk mitigation

As part of its overall risk management, the Group uses various available financial instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. Due to imperfections of Uzbekistan financial instruments market, derivatives are not utilized to manage the Group's exposure to risk.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. In addition to statutory limits of credit risk exposure, management established internal limits for certain transactions.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

(Millions of Uzbek soums)

29. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings developed with reference to the guidelines of the Central Bank. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system. In the table below loans to banks and customers as well as held to maturity securities of good grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

		2011					
		Neither past due nor impaired					
	Notes	***High Grade***	***Standard Grade***	***Sub-standard grade***	***Past due but not impaired***	***Individually impaired***	***Total***
Cash and cash equivalents, excluding cash on hand		1,773,674	32,220	-	-	-	1,805,894
Amounts due from credit institutions	7	508,325	1,000	-	-	-	509,325
Loans to customers	8	2,875,553	1,132,822	126,159	1,901	827,737	4,964,172
Investment securities: held to maturity		1,698	-	-	-	-	1,698
Total		**5,159,250**	**1,166,042**	**126,159**	**1,901**	**827,737**	**7,281,089**

		2010					
		Neither past due nor impaired					
	Notes	***High Grade***	***Standard Grade***	***Sub-standard grade***	***Past due but not impaired***	***Individually impaired***	***Total***
Cash and cash equivalents, excluding cash on hand		1,813,248	58,820	-	-	-	1,872,068
Amounts due from credit institutions	7	294,053	23,272	-	-	-	317,325
Loans to customers	8	1,761,895	1,412,812	371,803	3,536	652,536	4,202,582
Investment securities: held to maturity		2,412	-	-	-	-	2,412
Total		**3,871,608**	**1,494,904**	**371,803**	**3,536**	**652,536**	**6,394,387**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets

	2011			
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
Loans to customers	396	385	1,120	1,901
Total credit risk exposure	**396**	**385**	**1,120**	**1,901**

(Millions of Uzbek soums)

29. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets (continued)

	2010			
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
Loans to customers	927	1,022	1,587	3,536
Total credit risk exposure	**927**	**1,022**	**1,587**	**3,536**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Millions of Uzbek soums)

29. Risk management (continued)

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

	2011				*2010*			
	Uzbekistan	*OECD*	*CIS and other foreign banks*	*Total*	*Uzbekistan*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:								
Cash and cash equivalents	484,473	1,334,675	36,784	1,855,932	338,995	1,536,211	42,518	1,917,724
Amounts due from credit institutions	467,263	36,114	5,948	509,325	309,854	-	7,471	317,325
Loans to customers	4,584,512		101,678	4,686,190	3,859,317		113,688	3,973,005
Assets held for sale	46,396	-	-	46,396	154,567	-	-	154,567
Investment securities:				-				
- available-for-sale	26,872	-	-	26,872	22,864	-	-	22,864
- held-to-maturity	1,698	-	-	1,698	1,395	-	1,017	2,412
Investments in associates	21,383	-	-	21,383	15,299	-	-	15,299
Other financial assets	56,064	-	3,858	59,922	25,545	-	5,753	31,298
	5,688,661	**1,370,789**	**148,268**	**7,207,718**	**4,727,836**	**1,536,211**	**170,447**	**6,434,494**
Liabilities:								
Amounts due to the Central Bank and the Government	327,217	-	-	327,217	279,480	-	-	279,480
Borrowings	-	439,762	1,107,699	1,547,461	-	441,459	849,601	1,291,060
Amounts due to credit institutions	409,235	-	706	409,941	224,720	-	30,245	254,965
Amounts due to customers	2,897,332	-	30,238	2,927,570	3,062,657	-	24,727	3,087,384
Other borrowed funds	1,758,900	-	-	1,758,900	1,142,916	-	-	1,142,916
Debt securities issued	85,240	-	-	85,240	119,953	-	41,134	161,087
Liabilities directly associated with assets held for sale	15,283	-	-	15,283	9,418	-	-	9,418
Other financial liabilities	28,721			28,721	21,803	196	221	22,220
	5,521,928	**439,762**	**1,138,643**	**7,100,333**	**4,860,947**	**441,655**	**945,928**	**6,248,530**
Net assets / (liabilities)	**166,733**	**931,027**	**(990,375)**	**107,385**	**(133,111)**	**1,094,556**	**(775,481)**	**185,964**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Bank is exposed to daily calls on its available cash resources from 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.

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. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBU, the amount of which depends on the level of customer funds attracted. The Bank is also required to maintain current liquidity ratio at a minimum of 30%.

(Millions of Uzbek soums)

29. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratio established by the CBU. This ratio as at 31 December was as follows

	Minimum requirement of CBU, %	*2011, %*	*2010, %*
"Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	30.0	79.5	76.7

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

			2011		
Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to the Central Bank and the Government	280,174	28,426	18,893	5,649	333,142
Borrowings	9,824	67,842	448,038	1,388,710	1,914,414
Amounts due to credit institutions	195,110	25,407	217,541	898	438,956
Amounts due to customers	2,653,425	212,036	95,559	957	2,961,977
Other borrowed funds	24,133	146,102	960,182	844,607	1,975,024
Debt securities issued	12,981	21,496	96,042	17,407	147,926
Other financial liabilities	25,236	785	974	1,726	28,721
Total undiscounted financial liabilities	**3,200,883**	**502,094**	**1,837,229**	**2,259,954**	**7,800,160**

			2010		
Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 Years*	*Over 5 years*	*Total*
Amounts due to the Central Bank and the Government	244,780	15,791	19,487	8,884	288,942
Borrowings	69,526	182,099	664,443	644,085	1,560,153
Amounts due to credit institutions	67,639	74,895	168,081	820	311,435
Amounts due to customers	2,886,649	140,861	60,838	1,131	3,089,479
Other borrowed funds	26,104	65,344	509,609	829,368	1,430,425
Debt securities issued	12,347	70,160	59,856	98,262	240,625
Other financial liabilities	20,875	-	1,345	-	22,220
Total undiscounted financial liabilities	**3,327,920**	**549,150**	**1,483,659**	**1,582,550**	**6,943,279**

(Millions of Uzbek soums)

29. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2011	286,900	256,737	109,978	177,665	831,280
2010	756,896	267,770	416,085	526,984	1,967,735

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Group's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The Group has received significant funds from the Government and state owned entities. Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Uzbekistan legislation, the Group is obliged to repay such deposits upon demand of a depositor. Refer to Note 19.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. There have been no changes as to the way the Group measures risk or the risk the Group is exposed to.
The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The Asset and Liability Management Committee ("ALMC") also manages the interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The ALMC conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loans contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

(Millions of Uzbek soums)

29. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

	2011	
Currency	***Increase in basis points***	***Sensitivity of net interest income***
EUR	15	2,322
USD	15	1,008

	2011	
Currency	***Decrease in basis points***	***Sensitivity of net interest income***
EUR	15	(2,322)
USD	15	(1,008)

	2010	
Currency	***Increase in basis points***	***Sensitivity of net interest income***
EUR	100	45
USD	100	118

	2010	
Currency	***Decrease in basis points***	***Sensitivity of net interest income***
EUR	25	(11)
USD	25	(30)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the Central Bank regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the UZS, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	2011		***2010***	
Currency	***Change in currency rate in %***	***Effect on profit before tax***	***Change in currency rate in %***	***Effect on profit before tax***
USD	8	66,954	5	26,824
EUR	9	(106)	10	7,561

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks.

Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Millions of Uzbek soums)

30. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2011 and 2010, investment securities available-for-sale are classified as level 2 in the hierarchy.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2011			*2010*		
	Carrying Value	***Fair value***	***Unrecognised gain/(loss)***	***Carrying value***	***Fair value***	***Unrecognised gain/(loss)***
Financial assets						
Cash and cash equivalents	1,855,932	1,855,932	-	1,917,724	1,917,724	-
Amounts due from credit institutions	509,325	509,325	-	317,325	317,325	-
Loans to customers	4,686,190	4,693,181	6,991	3,973,005	3,985,231	12,226
Investment securities:						
- held-to-maturity	1,698	1,698		2,412	2,412	-
Financial liabilities						
Amounts due to Central Bank and the Government	327,217	327,049	168	279,480	241,452	38,028
Borrowings	1,547,461	1,546,533	928	1,291,060	1,259,845	31,215
Amounts due to credit institutions	409,941	409,098	843	254,965	207,896	47,069
Amounts due to customers	2,927,570	2,927,048	522	3,087,384	3,087,384	-
Other borrowed funds	1,758,900	1,748,915	9,985	1,142,916	1,073,124	69,792
Debt securities issued	85,240	85,240	-	161,087	161,087	-
Total unrecognised change in unrealised fair value			**19,437**			**198,330**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Millions of Uzbek soums)

31. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 29 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2011			***2010***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	1,855,932	-	1,855,932	1,917,724	-	1,917,724
Amounts due from credit institutions	508,325	1,000	509,325	317,325	-	317,325
Loans to customers	1,328,851	3,357,339	4,686,190	1,009,688	2,963,317	3,973,005
Assets held for sale	46,396	-	46,396	154,567	-	154,567
Investment securities:						
- available-for-sale	26,872	-	26,872	22,864	-	22,864
- held-to-maturity	1,698	-	1,698	1,558	854	2,412
Investments in associates	-	21,383	21,383	-	15,299	15,299
Property, plant and equipment	-	578,094	578,094	-	441,960	441,960
Current income tax asset	1,493	-	1,493	-	-	-
Deferred income tax assets	-	16,490	16,490	-	18,313	18,313
Other assets	98,002	34,150	132,152	77,654	10,343	87,997
	3,867,569	**4,008,456**	**7,876,025**	**3,501,380**	**3,450,086**	**6,951,466**
Amounts due to the Central Bank and the Government	306,737	20,480	327,217	259,084	20,396	279,480
Borrowings	38,040	1,509,421	1,547,461	221,920	1,069,140	1,291,060
Amounts due to credit institutions	202,632	207,309	409,941	126,559	128,406	254,965
Amounts due to customers	2,838,624	88,946	2,927,570	3,026,828	60,556	3,087,384
Other borrowed funds	137,040	1,621,860	1,758,900	61,974	1,080,942	1,142,916
Debt securities issued	25,338	59,902	85,240	69,393	91,694	161,087
Liabilities directly associated with assets held for sale	15,283	-	15,283	9,418	-	9,418
Current income tax liabilities	1,009	-	1,009	160	-	160
Other liabilities	27,827	4,006	31,833	19,965	3,423	23,388
	3,592,530	**3,511,924**	**7,104,454**	**3,795,301**	**2,454,557**	**6,249,858**
Net	**275,039**	**496,532**	**771,571**	**(293,921)**	**995,529**	**701,608**

(Millions of Uzbek soums)

32. Related party disclosures

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

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

Transactions with government-controlled entities

The Government of the Republic of Uzbekistan, acting through the Ministry of Finance of the Republic of Uzbekistan, controls the Group.

The Government of the Republic of Uzbekistan directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as “government-controlled entities”). The Group enters into banking transactions with these entities including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions. These transactions comprise a large portion of the Group’s transactions.

The movement of loans issued and other outstanding balances of related party transactions are as follows:

	2011		***2010***	
	Government controlled entities	***Associates***	***Government controlled entities***	***Associates***
Loans outstanding at 1 January, gross	139,756	3,090	107,043	-
Loans issued during the year	1,950	8,956	21,191	4,002
Loan repayments during the year	(4,895)	(3,060)	(731)	(990)
Currency translation difference	14,909	-	11,362	48
Interest accrued	1,009	97	891	30
Loans outstanding at 31 December, gross	**152,729**	**9,083**	**139,756**	**3,090**
Less: allowance for impairment at 31 December	(1,729)	-	(8,796)	-
Loans outstanding at 31 December, net	**151,000**	**9,083**	**130,960**	**3,090**
Cash and Balances with the CBU	461,210		294,053	-
Loans to customers	151,000	9,083	130,960	3,060
Amounts due to Central Bank and the Government	327,217	-	279,480	-
Term deposits	162,627	-	191,079	-
Current accounts	67,154	-	51,128	-
Debt securities issued	21,200	100	14,648	1,322
Other borrowed funds	1,758,900	-	1,142,916	-
Investment securities available for sale	177	-	177	-
Guarantees issued	-	6,259	-	21,205
Letters of credit	18,442	2,080	37,583	2,008

The income and expense arising from related party transactions are as follows:

	2011		***2010***	
	Government	***Associates***	***Government***	***Associates***
Interest income	6,838	647	2,754	146
Interest expense	6,413	-	11,245	-

Compensation of 15 key management personnel (2010: 12) was comprised of the following:

	2011	***2010***
Salaries and other short-term benefits	383	308
Social security costs	91	72
Total key management personnel compensation	**474**	**380**

(Millions of Uzbek soums)

33. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the Central Bank in supervising the Group.

During 2011, the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

CBU capital adequacy ratio

The CBU requires banks to maintain a minimum capital adequacy ratio of 5% and 10% of risk-weighted assets for Tier 1 capital and total regulatory capital respectively, computed based on Uzbek Accounting Legislation. As at 31 December the Bank's statutory capital adequacy ratio on this basis was as follows:

	2011	***2010***
Tier 1 capital	782,910	697,745
Tier 2 capital	97,924	87,344
Less: deductions from capital	(74,848)	(44,158)
Total regulatory capital	**805,986**	**740,931**
Risk weighted assets	**3,001,144**	**2,917,744**
Tier 1 capital ratio	26%	24%
Capital adequacy ratio	27%	25%

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December comprised:

	2011	***2010***
Tier 1 capital	694,151	620,280
Tier 2 capital	113,359	110,755
Less deductions from capital:	-	(573)
Total capital	**807,510**	**730,462**
Risk weighted assets	**3,254,068**	**4,138,329**
Tier 1 capital ratio	21.3%	15.0%
Capital adequacy ratio	24.8%	17.7%