# OPEN JOINT STOCK COMMERCIAL BANK "KAPITALBANK"

Consolidated financial statements under
International Financial Reporting Standards (IFRS)
For the year ended December 31, 2012 and
Independent Auditors' Report

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# Independent Auditors' Report

## To the Shareholders and Council of OJSCB "Kapitalbank"

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint Stock Commercial Bank "Kapitalbank" (hereinafter – "the Bank") and its subsidiaries (hereinafter jointly referred as - "the Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### 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 auditor's judgment, including the assessment of the risk 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 adverse audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

We draw attention to Note 4 to the consolidated financial statements, where a number of factors indicate significant uncertainty that causes significant doubts in the Group's ability to continue business under going concern assumption. As at December 31, 2012, total amount of financial liabilities exceeded total amount of financial assets and the Group has negative cash flows from operating, investing and financing activities for the year ended on abovementioned date.

Grant Thornton LLC

**Grant Thornton LLC**
**April 19, 2013,**
**Tashkent, Republic of Uzbekistan**

**Statement management's responsibilities for the preparation and approval of the Consolidated Financial Statements for the year ended December 31, 2012**

The following statement, which should be read in conjunction whit the independent auditor's responsibilities stated in the independent auditor's report, is made with a view to distinguish respective responsibilities of management and those of the independent auditor in relation to the consolidated financial statements of Open Joint Stock Commercial Bank "Kapitalbank" (the-"Bank"), and its subsidiaries (hereinafter jointly referred to as the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at December 31, 2012, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing financial statements, management is responsible for:

- Properly selecting and applying accounting principles;
- Presentation of information, including accounting principles, in manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosure? When compliance whit IFRS's specific requirements is insufficient, to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2012 were authorized for issue on April 19, 2013:

**On behalf of the Group's management:**

**Deputy Chairman of the Board**
**B.T. Yuldashev**

**Chief Accountant**
**E.E.Skuibida**

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHRI OCHIQ AKSIYADORLIK-TIJORAT BANKI "KAPITALBANK"

OJSCB "Kapitalbank"

Tashkent, Republic of Uzbekistan

April 19, 2013

*Consolidated Statement of Financial Position as at December 31, 2012* *(in thousands UZS)*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | 167,684,653 | 75,362,570 |
| Required reserves in Central Bank | 8 | 47,100,546 | 40,829,989 |
| Funds in other banks | 9 | 48,823,332 | 43,980,913 |
| Loans to clients | 10, 37 | 260,266,400 | 195,606,350 |
| Investments available for sale | 11 | 3,193,490 | 523,574 |
| Investments in affiliated companies | 12 | 1,599,456 | 4,866,488 |
| Fixed and intangible assets | 13 | 49,787,200 | 48,676,228 |
| Other assets | 14 | 52,685,299 | 50,191,903 |
| Non-working assets intended for sale | 15 | 57,544,884 | 43,934,320 |
| **Total assets** | | **688,685,260** | **503,972,335** |
| **Liabilities** | | | |
| Funds of clients | 15,37 | 595,033,998 | 442,425,452 |
| Funds of other banks | 17 | 39,927,990 | 13,883,982 |
| Issued debt securities | 18 | 10,139,694 | 8,691,894 |
| Other attracted funds | 19 | 2,135,207 | 2,069,448 |
| Deferred tax liabilities | 29 | 1,929,388 | 2,016,099 |
| Other liabilities | 20 | 3,616,872 | 4,950,673 |
| Liabilities related to non-working assets intended for sale | 15 | 1,455,460 | 1,592,548 |
| **Total liabilities** | | **654,238,609** | **475,630,096** |
| **Capital** | | | |
| Charter capital | 21 | 33,917,190 | 31,631,797 |
| Additional paid-in capital | 21 | 227,483 | 150,000 |
| Accumulated comprehensive income/(loss) and funds | 22 | 301,595 | (3,439,558) |
| **Total capital related to shareholders of parent Bank** | | **34,446,268** | **28,342,239** |
| Non-controlling interest | | 383 | - |
| **Total capital** | | **34,446,651** | **28,342,239** |
| **Total liabilities and capital** | | **688,685,260** | **503,972,335** |

**Signed and approved on behalf of the Group's management:**

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHRI OCHIQ AKSIYADORLIK-TIJORAT BANKI "KAPITALBANK"

**Deputy Chairman of the Board**
**B.T. Yuldashev**

**Chief Accountant**
**E.E.Skuibida**

April 19, 2013

*for the year ended December 31, 2012* *(in thousands UZS)*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| Interest income | 23 | 36,182,048 | 25,037,361 |
| Interest expense | 23 | (26,120,727) | (15,649,098) |
| **Net interest income** | | **10,061,321** | **9,388,263** |
| Provision for impairment of assets on which interest accrues | 10 | (5,867,090) | (3,162,452) |
| **Net interest income after provision for impairment of assets on which interest accrues** | | **4,194,231** | **6,225,811** |
| Fee and commission revenue | 24 | 50,420,486 | 35,860,873 |
| Fe and commission expenses | 24 | (10,139,475) | (7,278,014) |
| Net gain /(loss) from foreign currency exchange operations | 25 | 1,287,689 | (687,437) |
| Loss from investments available for sale | 11 | (85,035) | (400,035) |
| Provision for impairment of other assets | 14 | (1,725,847) | (75,963) |
| Other revenues | 26 | 8,947,198 | 1,657,869 |
| Other expenses | | (3,904) | (9,594) |
| **Net non-interest revenues** | | **48,701,112** | **29,067,699** |
| OPERATING INCOME | | 52,895,343 | 35,293,510 |
| OPERATING EXPENSES | 27 | (46,901,485) | (35,207,012) |
| **Non-interest expenses** | | **5,993,858** | **86,498** |
| **Income/(loss) before income tax** | | **5,993,858** | **86,498** |
| Income tax expense | 28 | (1,037,803) | (1,645,177) |
| **Income/(loss) from continuing activities** | | **4,956,055** | **(1,558,679)** |
| **Discontinued activities** | | | |
| Income/(loss) from discontinued activities | 15 | (1,117,119) | (400,164) |
| **Net income/(loss) for the period** | | **3,838,936** | **(1,958,843)** |
| **Net income/(loss) attributable to:** | | | |
| Shareholders' share | | 3,839,003 | (1,958,843) |
| Non-controlling interest | | (67) | - |
| | | **3,838,936** | **(1,958,843)** |

*for the year ended December 31, 2012* *(in thousands UZS)*

*Continuation*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Net income/(loss) for the period** | | **3,838,936** | **(1,958,843)** |
| **Other comprehensive income** | | | |
| Effect from revaluation of fixed assets | 13 | - | 15,760,897 |
| Changes in fair value of investments available for sale | | (97,995) | - |
| Income tax related to comprehensive income components | 13, 29 | - | (2,364,135) |
| **Other comprehensive income after taxation** | | (97,995) | 13,396,762 |
| **Total comprehensive income for the period** | | **3,740,941** | **11,437,919** |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Shareholders' share | | 3,741,008 | 11,437,919 |
| Non-controlling interest | | (67) | - |
| | | **3,740,941** | **11,437,919** |
| Earnings (loss) per share (UZS) | | **1,159.00** | **(764.43)** |

**Deputy Chairman of the Board**
**B.T. Yuldashev**

**Chief Accountant**
**E.E.Skuibida**

April 19, 2013

*Consolidated Statement of Cash Flow for the year ended December 31, 2012* *(in thousands UZS)*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Income/(loss) from continuing activities before taxation | | 5,993,858 | 86,498 |
| Adjustments: | | | |
| Provision for impairment of assets on which interest accrues | 10 | 5,867,090 | 3,162,452 |
| Loss from investments in associate companies | 11 | 25,455 | - |
| Loss from investments available for sale | 11 | 157,575 | 400,035 |
| Provision for impairment of assets under other operations | 14 | 1,725,847 | 75,963 |
| Amortization and depreciation expenses | 13 | 4,746,785 | 3,567,022 |
| Net (revenues)/expenses from foreign currency translations | 25 | (1,287,689) | 687,437 |
| Changes in accrued interest net | | (321,133) | (135,343) |
| (Income)/loss from discontinued activities | 15 | 1,117,119 | 400,164 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **18,024,907** | **8,244,228** |
| **Net (increase)/decrease in operating assets** | | | |
| Mandatory reserves in the Central Bank of Uzbekistan | | (6,270,557) | (11,115,765) |
| Due from other banks | | (4,842,419) | (25,826,478) |
| Loans to customers | | (77,418,002) | (73,669,289) |
| Other assets | | (2,493,396) | 2,656,155 |
| **Net increase/(decrease) in operating liabilities** | | | |
| Customer accounts | | 152,608,546 | 139,328,959 |
| Due to other banks | | 26,044,008 | (6,090,086) |
| Other attracted funds | | 65,759 | (588,072) |
| Other liabilities | | (1,333,801) | 3,470,879 |
| (Outflow)/inflow of cash and cash equivalents from operating activities before taxation | | 104,385,045 | 36,410,531 |
| Paid income tax | | (1,720,425) | (1,397,302) |
| **Net cash flow from operating activities** | | **102,664,620** | **35,013,229** |

*Consolidated Statement of Cash Flow for the year ended December 31, 2012* *(in thousands UZS)*

*Continuation*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Acquisition of fixed and intangible assets | 13 | (15,674,939) | (18,358,368) |
| Proceeds from sale of fixed assets | 13 | 10,343,090 | 3,446,556 |
| Acquisitions/(disposals) of daughter companies less cash in daughter companies | | 450 | (19,097) |
| Sale/(acquisition) of investments in affiliated companies | | 3,267,032 | (3,439,936) |
| Proceeds from (acquisition)/sale of assets intended for sale | | (13,610,564) | (37,390,068) |
| Proceeds from (acquisition)/sale of investments available for sale | | (2,669,916) | (183,007) |
| **Net cash flow from investing activities** | | **(18,344,847)** | **(55,943,920)** |
| **Cash flows from financing activities** | | | |
| Proceeds from increase in Charter Capital | | 2,285,393 | 7,500,000 |
| Proceeds from issued debt securities | | 2,200,000 | 950,000 |
| Redemption of debt securities | | (824,694) | (600,000) |
| Dividends paid | | - | (7,650,000) |
| **Net cash flow from financing activities** | | **3,660,699** | **200,000** |
| Influence of changes in exchange rates on cash and cash equivalents | | **4,341,611** | **2,602,459** |
| **Net change in cash and cash equivalents** | | **92,322,083** | **(18,128,232)** |
| Cash and cash equivalents at the beginning of the reporting period | | 75,362,570 | 93,490,802 |
| **Cash and cash equivalents at the end of the reporting period** | | **167,684,653** | **75,362,570** |

**Deputy Chairman of the Board**
**B.T. Yuldashev**

**Chief Accountant**
**E.E.Skuibida**

April 19, 2013

*Consolidated Statement of Changes in Equity for the year ended December 31, 2012* *(in thousands UZS)*

| | Charter Capital | Additional paid-in capital | Retained earnings (loss) and funds | Total capital related to shareholders of parent Bank | Non-controlling interest | Total Capital |
|---|---|---|---|---|---|---|
| **Balance on 1 January 2011** | **24,131,797** | **-** | **(7,227,332)** | **16,904,465** | **19,097** | **16,923,562** |
| Increase in Charter Capital | 7,500,000 | - | - | 7,500,000 | - | 7,500,000 |
| Additional paid-in capital | | 150,000 | - | 150,000 | - | 150,000 |
| Payment of dividends | - | - | (7,650,000) | (7,650,000) | - | (7,650,000) |
| Discontinued operations of daughter company | - | - | - | - | (19,097) | - 19,097 |
| Comprehensive income for the year | - | - | 11,437,919 | 11,437,919 | - | 11,437,919 |
| **Balance on 31 December 2011** | **31,631,797** | **150,000** | **(3,439,413)** | **28,342,384** | **-** | **28,342,384** |
| **Balance on 1 January 2012** | **31,631,797** | **150,000** | **(3,439,413)** | **28,342,384** | **-** | **28,342,384** |
| Increase in Charter Capital | 2,285,393 | - | - | 2,285,393 | - | 2,285,393 |
| Additional paid-in capital | - | 77,483 | - | 77,483 | - | 77,483 |
| Acquisition of daughter company | - | - | - | - | 450 | 450 |
| Comprehensive income for the year | - | - | 3,741,008 | 3,741,008 | (67) | 3,740,941 |
| **Balance on 31 December 2012** | **33,917,190** | **227,483** | **301,595** | **34,446,268** | **383** | **34,446,651** |

**Deputy Chairman of the Board**
**B.T. Yuldashev**

**Chief Accountant**
**E.E.Skuibida**

April 19, 2013

## 1. Principal activity of the Group

Open Joint Stock Commercial Bank "Kapitalbank" (hereinafter – the "Bank") was founded in Tashkent city, Republic of Uzbekistan on 15 May 200 in form of Private Open Joint-Stock Commercial Bank in accordance with the legislation of Republic of Uzbekistan. Activity of the Bank is regulated by Central bank of Republic of Uzbekistan (hereinafter – "Central Bank") and is performed in accordance with license #69 for banking activities, which was issued on 7 April 2001. On 21 December 2004 on general meeting of shareholders of Private Open Joint-Stock Commercial Bank "Kapitalbank" and Joint Stock Commercial Bank "Avia Bank" shareholders of both banks decided to exchange 100% of shares of JSCB "Avia Bank" for 171 100 shares of POJSCB "Kapitalbank". Central Bank of Republic of Uzbekistan on 24 December 2004 has registered changed Charter of "Kapitalbank" in form of joint stock commercial bank. Thus, on 21 December 2004 JSCB "Kapitalbank" has actually received control over JSCB "Avia Bank" and has completed acquisition.

Under decision of the Bank's shareholders on 27 November 2008 legal form of the Bank was changed from Joint Stock Commercial bank to Open Joint Stock Commercial bank, and License and Charter were re-registered in accordance with requirements of Central Bank. Currently the bank's activities are regulated by Central Bank.

The bank operates under bank license #69 issued by Central Bank on 27 December 2008.

Besides, the Bank holds the General license #41 issued by Central Bank on 27 December 2008 for performing operations with foreign currencies.

The principal activities of the Bank comprise commercial bank operations, operations with securities, foreign currency, issuance of loans and guarantees. The Bank takes deposits from population and issues loans, effectuates payments both on the territory of Republic of Uzbekistan and outside it, as well as renders other banking services to legal entities and physical persons.

As of 31 December 2012 the Bank conducts bank activities through head office and has 13 branches, as well as 71 mini banks on the territory of Republic of Uzbekistan (2011: 13 branches and 61 mini banks).

The legal and actual address of the Bank's Head Office: 100047, Republic of Uzbekistan, Tashkent, Matbuotchilar Street, bld. 9.

The Bank is a member:

- Association of banks of Republic of Uzbekistan;
- Insurance Fund for population deposits in banks of Republic of Uzbekistan;
- International payment system VISA International (associate membership);
- Western Union – system of fast money transfers (agency);
- Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.).

Total number of employees in the Bank equals to 1,325 employees on 31 December 2012 (1,213 employees in 2011).

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The information about principal shareholders of the Bank is presented below:

| | 2012 | 2011 |
|---|---|---|
| **Title** | **Share(%)** | **Share(%)** |
| **Legal entities:** | | |
| "Artum Leasing Group" LLC | 14.84 | 19.68 |
| "Express-Leasing" LLC | 12.62 | 16.99 |
| OJSC "Kapital Sug'urta" | 9.46 | - |
| "Expert Leasing Group" LLC | 8.11 | - |
| "Optima Leasing" LLC | 6.87 | 6.81 |
| "Arhat Media Art" LLC | 5.35 | 5.76 |
| "Premier Leasing" LLC | 3.56 | 3.83 |
| "Bauram Group" LLC | 3.30 | 3.55 |
| "Optima Invest" LLC | 3.30 | 10.24 |
| DC "Polifleks" | 1.91 | - |
| "Orient Leasing" LLC | 0.72 | 0.78 |
| "Sharf Uniprom" LLC | 0.50 | 2.35 |
| "Markaz yog'" LLC | 0.49 | - |
| "Alternative Finance" LLC | 0.28 | - |
| "BBR Biznes Group" LLC | - | 4.22 |
| **Total legal entities** | **71.31** | **74.21** |
| **Physical persons:** | | |
| Omanov Haltura Jovlievich | 13.20 | 2.04 |
| Gafurov Ahmadjon Anvarovich | 7.57 | 8.15 |
| Rahimov Batir Ikramdjanovich | 5.94 | 6.39 |
| Ikramdjanov (Rahimov) Bahtiyor Ikramdjanovich | - | 6.40 |
| Other 32 shareholders - physical persons (2011 - 33 shareholders) | 1.98 | 2.81 |
| **Total physical persons:** | **28.69** | **25.79** |
| **Total shareholders** | **100.00** | **100.00** |

As of 31 December 2012 total number of shareholders of the Group was equal to 47 shareholders; out of them 14 shareholders are legal entities and 35 shareholders are physical persons, whose share equals to 2,526,776 and 1,018,812 shares correspondingly.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

***Consolidated companies***

The Bank is a parent company of the bank group (hereinafter – the "Group"), which comprises the following companies consolidated for the purposes of financial statements:

| Title | Country of Operations | Participation share/percentage of voting shares (%) | | Type of activities |
|---|---|---|---|---|
| | | 2012 | 2011 | |
| "Delta Leasing" LLC | Republic of Uzbekistan | 100.00 | 100.00 | Financial leasing |
| "Intensive Capital Mikrokredit Tashkiloti" LLC | Republic of Uzbekistan | 99.98 | 99.97 | Micro crediting |

"Delta Leasing" LLC was founded in 2007 in form of Limited Liability Company in accordance with the legislation of Republic of Uzbekistan. The principal activity is leasing services. "Delta Leasing" LLC was registered on 30 May 2007 in Tashkent city. As of 31 December 2012 and 2011 Charter Capital of "Delta Leasing" LLC equals to 4,000,000 thousands UZS and 5,000,000 thousands UZS, correspondingly.

"Delta Leasing" LLC does not have branches.

The legal and actual address of "Delta Leasing" LLC: Republic of Uzbekistan, Tashkent, Chilanzar district, Furkat Street, bld. 15/1.

Number of employees in "Delta Leasing" LLC equals to 17 employees on 31 December 2012.

"Intensive Capital Mikrokredit Tashkiloti" LLC was founded in 2009 in form of Limited Liability Company in accordance with the legislation of Republic of Uzbekistan. It operates under license #31 for micro crediting operations issued by Central Bank of Republic of Uzbekistan on 5 September 2009. The principal activity is micro crediting of legal entities and physical persons. "Intensive Capital Mikrokredit Tashkiloti" LLC was registered on 30 May 2007 in Chirchik town. As of 31 December 2012 and 2011 Charter Capital of "Intensive Capital Mikrokredit Tashkiloti" LLC equals to 2,000,450 thousands UZS and 1,750,000 thousands UZS, correspondingly.

"Intensive Capital Mikrokredit Tashkiloti" LLC does not have branches.

The legal address of "Intensive Capital Mikrokredit Tashkiloti" LLC: 111700, Republic of Uzbekistan, Tashkent region, Chirchik town, P.Yusupov Street, bld. 29.

The actual address of "Intensive Capital Mikrokredit Tashkiloti" LLC: Republic of Uzbekistan, Tashkent, Chilanzar district, Furkat Street, bld. 15/2.

Number of employees in "Intensive Capital Mikrokredit Tashkiloti" LLC equals to 16 employees on 31 December 2012.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

## 2. Economic environment in which the Group operates

### *General Overview*

The economy of Republic of Uzbekistan still demonstrates some features of developing market. The Government develops regulatory, tax and legal bases required under conditions of market economy, as well as it initiates significant economic and social changes. Further stability of economy of Republic of Uzbekistan depends to a large extent on reforms and reorganizations, as well as on effectiveness of economic activities, financial and monetary policy initiated by the Government.

Due to the fact that reformation process was not accomplished yet, transactions made in Uzbekistan are still subject to risks that are not typical to the economies of developed countries. Among them, in particular, non-convertibility of Uzbeks sum in majority of the countries outside Republic of Uzbekistan, low level of liquidity on money and capital markets, as well as continuing inflation.

In 2012 the Government has undertaken measures for further improvement of liquidity and stability of the country's financial system. As a result, aggregate capital of commercial banks increased by 24.3% during 2012, and on 1 January 2013 was equal to 6.2 trillions UZS.

Since 2002 in Republic of Uzbekistan the system of guaranteeing payment of compensation for people's deposits in banks is operating. According to the law on guaranteeing security of people's deposits in banks, the Fund of guaranteeing people's deposits in banks guarantees payment of complete compensation for people's deposits in commercial banks regardless of their size.

During 2012 and 2011 the refinancing rate was equal to 12%.

Further economic development of Republic of Uzbekistan depends to a large extent on effectiveness of economic activities, financial mechanisms and monetary policy undertaken by the Government, as well as development of tax, regulatory and political systems.

The economy of Republic of Uzbekistan is described by relatively average inflation rates. According to data of State Statistics Committee of Republic of Uzbekistan during 2012 inflation did not exceed 7 percent (in 2011: no more than 7.2 percent).

### *Foreign exchange transactions*

Foreign currencies, in particular USD and Euro, play significant role in determining economic characteristics of many business transactions performed in Republic of Uzbekistan. The table below presents the foreign exchange rates in UZS that were established by Central Bank of Uzbekistan:

| Date | USD | Euro |
|---|---|---|
| 31 December 2012 | 1,984.00 | 2,620.31 |
| 31 December 2011 | 1,795.00 | 2,341.97 |
| 31 December 2010 | 1,640.00 | 2,165.13 |
| 31 December 2009 | 1,511.40 | 2,213.75 |
| 31 December 2008 | 1,393.00 | 2,050.36 |

## 3. Financial reporting principles

### *Applicable standards*

The attached consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) approved by International Financial Reporting Standards Committee and Interpretations issued by International Financial Reporting Standards Interpretation Committee.

The Group maintains accounting records in accordance with the requirements of existing legislation of Republic of Uzbekistan. These financial statements are prepared on the basis of these records with required adjustments to comply in all material aspects with IFRS.

### *Functional and presentation currency*

The national currency of Republic of Uzbekistan is "Uzbek Sum" (hereinafter – UZS). Uzbek Sum was chosen as functional currency, as well as presentation currency for these financial statements.

All figures in financial statements were rounded to nearest thousand.

### *Financial data estimation principles*

These financial statements were prepared in accordance with historical or amortized cost accounting principle.

In 2011 according to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Group's Management decided to change accounting estimates of fair value "Buildings" class in Property section less accumulated depreciation and impairment losses (revaluation model). Issues requiring management estimates and being the most significant for financial statements are disclosed in Note 13.

### *Accounting under inflation*

According to the IAS 29 "Financial Reporting in Hyperinflationary Economies" Uzbekistan's economy was considered to be subject to hyperinflation till 31 December 2005. According to this standard, figures in financial statements should be presented in units of measurement effective on reporting date. Correspondingly, figures in the Bank's reporting before 1 January 2006 were recalculated with regard to changes in general purchasing power of UZS using price indices effective on reporting date. Abovementioned indices were calculated with regard to inflation rates published by State Statistics Committee of Republic of Uzbekistan ("Uzstat").

Starting from 1 January 2006 the economy of Republic of Uzbekistan is no longer considered as hyperinflationary. Correspondingly, starting from 1 January 2006 book value of assets, liabilities and equity in the Bank's financial statements was not recalculated with regard to changes in general purchasing power of UZS.

**4. Key assumptions and estimates**

Accounting is maintained by the Group in accordance with the legislation of Republic of Uzbekistan. The attached consolidated financial statements prepared under local accounting records were correspondingly adjusted to make them complying with IFRS.

Preparation of financial statements in accordance with IFRS require application of assumptions and estimates that influence application of accounting policy and recording amounts of assets and liabilities, revenues and expenses in financial statements. Estimates and related assumptions are based on historical experience and other applicable factors required for determining book value of assets and liabilities. Despite the fact that estimates are based on the management's most comprehensive knowledge of current situation, actual results may significantly differ from accepted estimates.

Information about significant issues related to assessing uncertainty and about the most important judgments made by management in applying IFRS that significantly influence these financial statements are presented in the following Notes:

- Note 6 "Main Accounting Principles" ("Impairment") and Note 10 "Loans to Clients" in relation to estimated reserve for impairment of loans.
- Note 22 "Retained Earnings/(Accumulated Loss)
- Note 31 "Contingent financial liabilities" ("Contingent tax liabilities") in relation to contingent tax liabilities.

***Going concern***

These financial statements reflect the current estimate by the Group's management of those effects on the activities and financial position of the Group that result from economic situation in Republic of Uzbekistan. Future development of the economy of Republic of Uzbekistan depends to a large extent on effectiveness of arrangements undertaken by the Government of Republic of Uzbekistan and other factors, including legal and political events, which are out of the Group's control. The Group's management is not able to forecast the impact on financial position of the Group in future. The attached consolidated financial statements do not contain any adjustments related to this risk.

Consolidated financial statements for the year ended 31 December 2012 were prepared under going concern assumption. The Group will continue its operations in foreseeable future, although below negative factors are known:

- Total financial liabilities exceeded total financial assets by 90,507,923 thousands UZS, Note 32;
- Outflow of cash from operating, investing and financing activities was equal to 78,217,850 thousands UZS;

Management's estimate of the Group's continuation of activities under going concern assumption is presented below:

- The Group continuously meets its obligations. The Group did not delay payments from clients' accounts;
- The Group focuses its attention on retail sector of bank services and it plans to continue developing its business in this sector in future through continuous expansion of network of branches and mini banks. International transfer servicing operations require big volume of cash. As a result the amount of liquid funds is significant; moreover, it doubled since 2011 to 257,200.615 thousands UZS totaling to 36% of total assets. Thus, management considers the size of liquidity buffer to be adequate;
- In accordance with the approved plan, during 2013 it is planned to increase the Group's charter capital by 20% solely through attraction of cash resources;
- In relation to the Group's daughter company "Kapteks" LLC the first stage of manufacturing plan comprising launch of air-spinning equipment was completed. It is planned to complete second stage comprising launch of ring-spinning equipment. Considering completion of the first stage of manufacturing plan, the Group has completed investment liabilities in relation to daughter company

"Kapteks" LLC. In December 2011 completion of investment liabilities was accepted by special Government commission and under the commission's decision the entity was transferred to the possession of the Group. Currently the entity is submitted to auction selling under condition of forming initial contribution on accounts opened in the Bank. The Group plans to receive from sale of the entity 36 000 000 thousands UZS. The Group plans to sell "Kapteks" LLC at margin no less than 4 billions UZS;

- The Group continues its policy of expanding its presence in regions. During 2012 10 retail centers were opened, ATMs were purchased for servicing clients – physical persons. Considering high volatility of funding market the Group's management toughens requirements to liquidity management and funding at the expense of stable sources – time deposits of clients. This resulted in relative decrease in net interest income. Specified actions required considerable capital investments and additional expenditures, what resulted in increasing operating and interest expenses. The Group intends to receive substantial payback from undertaken activities in medium-term perspective.

For operating control of the Group's liquidity risk the regular monitoring of external factors, which may influence the Group's level of liquidity, is performed and payment flows forecasts are prepared. For medium and long-term liquidity risk management in the Group the gap between maturity periods of assets and liabilities is analyzed. In order to limit risk the Group establishes the liquidity gap limits. The established maximum limits are periodically adjusted because of changing conditions of both internal and external environment.
In order to maintain the required liquidity level the Group has an opportunity to attract additional funds from Central Bank and in the interbank lending market. Diversification of liquidity sources allows to minimize the Group's dependence on any source and to ensure complete fulfillment of obligations. The current liquidity reserves accumulated by the Group and existing sources for attracting additional funds allow ensuring continuity of the Group's activities in long-term perspective.

***Important estimates and professional judgments in relation to accounting policy***

The Group makes estimates and assumptions that influence amounts of assets and liabilities recorded in reporting in the following financial year. Estimates and assumptions are continuously analyzed on basis of management experience and other factors, including expectations with regard to future events, which in management opinion are reasonable in light of current liabilities. In the process of applying accounting policy management also uses professional judgments and estimates. Professional judgments that have the most significant impact on amounts recorded in consolidated financial statements and estimates that may result in significant adjustments of book value of assets and liabilities during the following financial year include:

***Losses from impairment of loans and advances.*** The Bank analyzes its credit portfolio for impairment on regular basis. In determining whether it is necessary to record loss from impairment in income or loss for the year, the Bank uses professional judgments about availability of obvious indicators signaling measurable decrease in calculated future cash flows from loan portfolio, before a decrease by a single loan in this portfolio may be detected. Such indicator may include measurable data about negative changes in payment status of borrowers in a group or national or local economic conditions related to failure to perform obligations on assets in group. Management applies estimates based on data about losses of previous years in relation to assets with characteristics of credit risk and objective impairment evidence similar to assets in portfolio that were used for forecasting future cash flows. Methodology and assumptions used for estimates of amounts and periods of future cash flows are regularly analyzed to decrease any deviation between budgeted and actual losses.

Reserves for impairment of financial assets in consolidated financial statements were determined based on existing economic and political conditions. The Group is not able to forecast which changes in conditions will take place in the country and which influence these changes may have on adequacy of reserves for impairment of financial assets in future periods.
***Recognition of deferred tax asset.*** Recognized deferred tax asset represents the amount of income tax that may be taken into account against future income taxes, and is recorded in statement of financial position. Deferred tax asset is recognized only to the extent to which use of corresponding tax benefit is probable. Determination of future taxable income and the amount of tax benefits probable to arise in the future is based on medium-term business-plan prepared by management, which is based on moderately optimistic scenario of development of Uzbek economy, including government measures directed at ensuring macroeconomic balance, stable national currency, consecutive decrease in inflation, restoration of investment and consumer demand.

***Tax legislation.*** Tax, currency and customs legislation of Republic of Uzbekistan allow possibility of different interpretations. See note 32.

**5. New standards and interpretations**

A number of new standards, changes to standards and interpretations was published that are compulsory for reporting periods of the Group starting from 1 January 2012:

- Restoration of book value of an asset – change to IAS 12 (issued in December 2010; applicable for annual periods starting from 1 January 2012 or later);
- «Disclosure of information – Transfer of financial assets» – Changes to IFRS 7 (issued in October 2010; applicable for annual periods starting from 1 July 2011 or later);
- Changes to IFRS 1 – "First-time Adoption of IFRS" related to high hyperinflation and eliminating references to fixed dates for some required and voluntary exceptions.

The following new standards and interpretations did not come in force as of 1 January 2013 and were not early adopted:

- IFRS 9 "Financial Instruments Part 1: Classification and valuation" (issued in November 2009, applicable for annual periods starting from 1 January 2015 or later; early adoption is allowed). Currently the Group assesses influence of this standard on its financial statements.
- IFRS 10 "Consolidated Financial Statements" (issued in May 2011, applicable for annual periods starting on 1 January 2013 or later; early adoption is allowed). Currently the Group assesses influence of this standard on its financial statements.
- IFRS 11 "Joint Arrangements" (issued in May 2011, applicable for annual periods starting on 1 January 2013 or later; early adoption is allowed).
- IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011, applicable for annual periods starting on 1 January 2013 or later; early adoption is allowed).
- IFRS 13 "Fair Value Measurement" (issued in May 2011, applicable for annual periods starting on 1 January 2013 or later; early adoption is allowed). Currently the Group assesses influence of this standard on its financial statements.
- Changes to IAS 1 "Presentation of Financial Statements" (issued in June 2011, applicable for annual periods starting on 1 July 2012 or later). Currently the Group assesses influence of this standard on its financial statements.
- Revised IAS 19 "Employee Benefits" (issued in June 2011, applicable for annual periods starting on 1 January 2013 or later). Currently the Group assesses influence of this standard on its financial statements.
- IAS 27 "Non-consolidated Financial Statements" (revised in May 2011, applicable for annual periods starting on 1 January 2013 or later).
- IAS 28 "Investments in Associates" (revised in May 2011, applicable for annual periods starting on 1 January 2013 or later).
- Disclosures – Offsetting financial assets and financial liabilities – Changes to IFRS 7 (issued in December 2011, applicable for annual periods starting on 1 January 2013 or later). Currently the Group assesses influence of this standard on its financial statements.
- "Offsetting financial assets and financial liabilities" – Changes to IAS 32 (issued in December 2011, applicable for annual periods starting on 1 January 2014 or later). Currently the Group assesses influence of this standard on its financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective from 1 January 2013). The following clarifying changes were introduced in IFRS 1: i) companies that continue preparation of financial statements in accordance with IFRS may either repeat application of IFRS 1 or apply all IFRSs retrospectively, as if they have never seized their application; (ii) on first-time adoption of IFRS it is allowed not to apply retrospectively IAS 23 "Borrowing Costs"; changes to IAS 1 were made clarifying that explanations are not required for third balance sheet presented at the beginning of

previous period due to significant influence of retrospective re-calculation, changes in accounting policy, changes in classification for presentation purposes, while explanations are required when a company voluntarily decides disclose additional comparative data. IAS 16 was amended to clarify that supplementary equipment, which is used more than one period, is classified as fixed assets, but not as inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be considered in statement of profit and loss, as it always existed in accordance with requirements of IAS 12. IAS 34 was amended harmonizing requirements with IFRS 8. IAS 34 requires disclosure of assets' and liabilities' valuation method for operating segment only if such information is regularly presented to a manager making operating decisions and if the significant change in valuation exists after the latest annual financial statements.

- Changes to IFRS 1 "First time Adoption of International Financial Reporting Standards" – "loans from Government" (issued in May 2012, applicable for annual periods starting on 1 January 2013 or later).
- Changes to manual on transition to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012, applicable for annual periods starting on 1 January 2013 or later). Currently the Group assesses influence of revised manual on its financial statements.
- Changes to IFRS 10, IFRS 12 and IAS 27 – Investment Companies (issued on 31 October 2012, applicable for annual periods starting on 1 January 2014).
- Other revised standards and interpretations: Changes in IAS 12 "Income Taxes" introducing refutable assumption that cost of investment property recorded at fair value is completely reimbursed at sale. The changes will not influence these financial statements. IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" consider the issue of when and how to account for benefits arising from stripping works. Currently the Group assesses influence of this standard on its financial statements.

Unless otherwise explicitly stated above, it is expected that these new and revised standards will not materially affect the Group's financial statements.

## 6. Main accounting principles

### *Consolidation principles*

The consolidated financial statements include financial statements of the Bank and companies (including special-purpose companies) controlled by the Bank (daughter companies). A company is considered to be controlled when the Bank's management has a possibility to determined financial and operating policy of the company with the aim of receiving profit from its activities.

Revenues and expenses of daughter companies acquired or sold during a year are included in consolidated statement of comprehensive income starting from the moment of their actual acquisition or until their actual sale. Aggregate comprehensive income of daughter companies is related to the Bank's shareholders and non-controlling interest, even if it results in negative balance on non-controlling interest.

If necessary, financial statements of daughter companies are adjusted to align their accounting policy principles with the Group's accounting policy principles.

All transactions between the Group's companies, corresponding balances in calculations and unrealized incomes and losses from operations within Group are excluded at consolidation.

### *Non-controlling interest*

Non-controlling interest represents incomes and losses, as well as net assets of daughter companies not belonging, directly or indirectly, to the Bank.

Non-controlling interest is presented in consolidated statement of comprehensive income separately, in consolidated statement of financial position among owners' capital, separately from share capital of parent company.

### *Cash and cash equivalent*

Cash and cash equivalents represent assets that may be converted into cash within ninety days and include cash, balances on correspondent and current accounts of the Group. Funds, in relation to which any restrictions in use exist, are excluded from cash and cash equivalents.

Cash and cash equivalents do not include required reserves in Central Bank.

### *Required reserves in Central Bank*

Required reserves on accounts in Central Bank represent funds deposited in Central Bank and not intended for financing current operations of the Group. Required reserves on accounts in Central Bank are not included in cash and cash equivalents for the purposes of cash flow statement preparation. Обязательные резервы на счетах в Центральном банке

### *Initial recognition of financial assets*

Financial assets and financial liabilities are recorded in the statement of financial position, when the Bank becomes a party to contract in relation to corresponding financial instrument. The Group records acquisition and sale of financial assets and liabilities on standard terms on settlement date.

All financial assets are evaluated initially at fair value. The costs, which are directly related to acquisition or issuance, except for financial assets revalued at fair value through profit or loss, are added to the initial cost.

### *Fair value of financial instruments*

Fair value of financial instruments, which are traded at the end of reporting period in active market, is determined based on market quotes or dealers' quotes without deduction of transaction costs.

If fair value of financial assets and financial liabilities shown in consolidated statement of financial position cannot be determined based on active market prices, it is determined based on market prices on similar financial instruments or using various models of estimates, including mathematical models. Source data for such models are determined based on observed market or judgments.

The judgment is made with regard to such factors as time value of money, level of credit risk, instrument volatility, level of market risk and other applicable factors.

### *Amortized cost of financial instruments*

Amortized cost of a financial asset or a financial liability is a cost at which such financial asset or financial liability is valued at initial recognition, less payments of principal, plus or minus accumulated depreciation, using effective interest rate method, difference between initial cost and cost at the moment of extinction, less partial write-off (effectuated either directly or through reserve account) due to impairment or bad debt.

*Effective interest rate method* is a method of calculating amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and allocating interest revenues and interest expenses to the corresponding period. Effective interest rate is a discount rate that provides exact discounting of estimated future cash payments or receipts during expected duration period of a financial instrument down to the initial cost of a financial asset or financial liability. In the process of calculating effective interest rate the Bank is required to estimate the cash flows with regard to all contractual conditions in relation to a financial instrument (e.g., prepayments, call option and similar options), but does not consider future losses from loans. Such calculation includes all commissions and collections, which are paid and received by parties to the contract and which constitute inseparable part of an effective interest rate, transaction costs, as well as all other premiums or discounts. It is assumed that cash flows and maturity of a group of similar financial instruments may be reliably estimated. However, in rare cases when it is impossible to estimate cash flows or expected maturity of financial instrument (or a group of financial instruments), an organization is required to use cash flows assumed by a contract during the contractual period of a financial instrument (or a group of financial instruments).

### *Derecognition of financial assets*

Derecognition of a financial asset (or, if applicable, part of financial asset or part of group of homogeneous financial assets) occurs in the following situations:

- Expiration of rights for obtaining monetary receipts from such asset;
- The transfer by the Group of its right for obtaining monetary receipts from such asset, or reservation by the Group of right for obtaining monetary receipts from such asset with simultaneous incurrence of liability to repay them completely to a third party without significant delays; and
- If the Group has either transferred all risks and benefits connected with such asset, or not transferred and not reserved almost all the risks and benefits connected with the asset, but transferred the control over the asset. The control is reserved if a partner does not have a practical possibility to sell the whole asset to a completely unrelated party without additional restrictions.

If the Group transferred its rights for obtaining monetary receipts from an asset, or not transferred and not reserved almost all risks and benefits connected with it, as well as did not transfer control over the asset, such asset is recognized further in the amount of the Group's continuing participation in this asset. Continuation of participation in the asset, which takes form of guarantee on the transferred asset, is evaluated at lower of the two following amounts: initial net book value of the asset and maximum amount of compensation that may be claimed from the Group.

In case if continuation of participation takes form of sold and/or acquired option (including options, for which settlements are made at net amount, or similar contracts) in relation to transferred asset, then the degree of the Group's continuing participation is determined based on the value of transferred asset, which may be repurchased by the Group. This provision is not applied in cases when sold put option (including options, for which settlements are made at net amount, or similar contracts) on an asset is evaluated at fair value. In this case the degree of continuing participation of the Group is determined as lower of two amounts: fair value of transferred asset and option exercise price.

***Reclassification of financial assets***

The Group is not able to reclassify derivative financial instruments in the retention or issuance period, as well as financial instruments classified at initial recognition as evaluated at fair value through profit or loss, from financial assets evaluated at fair value through profit or loss.

Non-derivative trading financial assets evaluated at fair value through profit or loss in an exceptional case arising because of an event of irregular and atypical nature may be reclassified from financial assets evaluated at fair value through profit or loss, if these assets are no more held for the purposes of sale or repurchase in short-term perspective.

Non-derivative trading financial assets evaluated at fair value through profit or loss may be reclassified into borrowings and accounts receivable or investments held-to-maturity depending on the objectives, for which these financial instruments are held, if the Group has intention and ability to hold these financial assets in foreseeable future or until maturity.

Financial assets available for sale may reclassified into borrowings and accounts receivable if an organization has an intention and ability to hold these financial assets in foreseeable future or until maturity.

In case of reclassification of financial assets into borrowings and accounts receivable or investments held to maturity fair value on reclassification date will become the new cost of these financial assets. Subsequent valuation is made at amortized cost based on effective interest rate method.

If in result of change in intentions or abilities of the Group the classification of investments as held-to-maturity is no more appropriate, it should be mandatory reclassified into financial assets available for sale and revalued at fair value. Unrealized gains and losses, which arise in result of change in fair value of financial assets available for sale, are recorded in the statement of changes in owners' capital.

The Group is not able to reclassify any financial assets as investments held-to-maturity if during current or two preceding financial years the volume of investments held-to-maturity, which were sold or reclassified by the Group before maturity date, is represented by more than insignificant amount in comparison to the overall portfolio of investments held-to-maturity, except for sales and reclassifications, which:

- Were initiated so close to maturity date or call date of a financial asset (for example, less than three months before maturity) that changes in market interest rate would not significantly influence the fair value of the financial asset;
- Took place after the organization has received almost all initial principal of a financial asset through regular payments or prepayments;
- Took place in result of a special event that has occurred for reasons beyond the organizations control and that was of extraordinary nature and could not be reasonably foreseen by the organization.

If sales of reclassifications of more than insignificant amount of investments held-to-maturity do not meet any of the requirements, all other investments held-to-maturity should be reclassified into financial assets available for sale.

***Financial assets evaluated at fair value through profit or loss***

Financial assets evaluated at fair value through profit or loss include financial assets recorded at fair value through profit or loss.

*Trading securities* are either securities that are purchased with the purpose of generating profit due to short-term price or trade margin fluctuations, or securities being a part of portfolio actually used by the Group to receive short-term profit. The Group classifies securities as trading securities if it has an intention to sell them within a short period of time from the moment of acquisition. Trading securities can not be assigned to another category, except for rare cases arising from single event, which is extraordinary in nature, and it is unlikely that it will be repeated in near future.

Trading securities are recorded at fair cost. Interest revenues from trading securities are recorded in the statement of comprehensive income as a part of interest revenues. Dividends are recognized as dividend revenue as a part of other operating revenues at the moment of arising right of the Group to receive corresponding payments and under dividend probable receipt condition. All other components of changes in fair value, as well as revenues or expenses from derecognition are recorded in the statement of comprehensive income as revenues less expenses from transactions with financial assets evaluated at fair value through profit or loss in the period they have arisen in.

*Derivative financial instruments*, including currency contracts, interest futures, forward interest rate agreements, currency and interest swaps, currency and interest options, as well as other derivative financial instruments with positive fair value and not being derivative instruments determined as effective hedging instruments, are initially recognized in the statement of financial position at acquisition cost (including transaction costs), and later they are revalued at fair value. Fair value is calculated based on quoted market prices, cash flows discounting models, models for determining price based on option of spot rates at the year end depending on transaction type.

Changes in fair value of derivative financial instruments are recorded as revenues less expenses from operations with foreign currency and revenues less expenses from operations with trading securities depending on transaction type.

*Financial assets recorded at fair value through profit or loss* include securities, which at initial recognition were assigned to this category when one of the following conditions is satisfied:

- such classification eliminates or significantly decreases inconsistencies in accounting, which otherwise would arise in result of assessing assets or recognizing corresponding revenues and expenses using other methods;
- management of a group of financial assets, financial liabilities or both, as well as assessment of their effectiveness is performed on the basis of fair value in accordance with established risk management or investment strategies, and the information about such basis is regularly disclosed and revised by the Group's management.

Recognition and assessment of financial assets of this category corresponds to accounting policy described above in relation to trading securities.

### *Funds in other banks*

In the course of its ordinary activities the Group deposits the funds in other banks with different terms. Funds in other banks are not intended for an immediate resale or resale in near future and are accounted for at amortized cost based on effective interest rate method, if they were established fixed maturity periods. Funds, for which fixed maturity periods were not established, are accounted for at amortized cost based on expected periods of such assets realization. Funds in other banks are recorded after deduction of impairment reserves.

Cover under letter of credit represents the transferred by the issuing bank amount of letter of credit (cover) at the expense of payer or loan extended to him at the disposal of designated bank for the whole period of the issuing bank's outstanding liability.

### *Loans to clients*

Loans to clients include non-derivative financial assets with established or identifiable payments, unlisted in active market, except for those:

- In relation to which the intention exists to sell them immediately or in near future and which should be classified as trading instruments evaluated at fair value through profit or loss;
- Which after initial recognition are determined as available for sale;
- Under which an owner is not able to cover the total material amount of its initial investment for reasons different from decrease in solvency and which should be classified as available for sale.

Initially loans to clients are recorded at initial cost, which represents fair value of granted funds. Thereafter, loans to clients are accounted for at amortized cost using effective interest rate method after deduction of impairment reserve for loans to clients.

Loans to clients are recorded from the moment of distributing monetary funds to borrowers.

Loans to clients extended at interest rates different from market interest rates are evaluated on the issuance date at fair value, which represents future interest payments and loan principal, discounted with regard to market interest rates for similar credits. The difference between fair value and nominal value of a credit is recorded in the statement of comprehensive income as income/expense from extending loans to clients at rates above/below market rates. Afterwards, net book value of these credits is adjusted with regard to amortization of income/expense under extended credit, and corresponding income/expense is recorded in the statement of comprehensive income using effective interest rate method.

The Group acquires credits from third parties at nominal cost. Initially, acquired credits are recorded at fair value, which represents fair value of acquired credits. Thereafter, acquired credits are accounted for in the order described above.

***Financial assets available for sale***

Financial assets available for sale represent non-derivative financial assets, which are not included in any of the three abovementioned categories.

Initially, financial assets available for sale are recorded at fair value plus transaction costs directly related to acquisition or issue of a financial asset. After initial valuation financial assets available for sale are accounted for at fair value based on ask price. Certain financial assets available for sale, for which there are no quotes available from external independent sources, are evaluated by the Group's management at fair value, which is based on results of recent sale of similar financial assets to unrelated third parties or which is determined based on indicating bid/ask prices for each type of securities that are published information agencies or presented by professional participants of securities market. In case of absent active market and inability to determine fair value of an equity financial asset using reliable methods, it is possible to account for investments at acquisition cost.

Unrealized revenues and expenses arising from changes in fair value of financial assets available for sale are recorded in the statement of changes in owners' capital. At disposal of financial assets available for sale corresponding accumulated unrealized revenues and expenses, which were previously recorded as a part of capital, are reclassified into revenue or loss as "revenues less expenses from operations with financial assets available for sale" item. Disposal of financial assets available for sale is recorded using FIFO method.

Interest revenues from debt securities available for sale are calculated using effective interest rate method and recorded in the statement of comprehensive income as interest revenues. Dividends received from equity instruments available for sale are recorded in the statement of comprehensive income as a part of other operating revenues at the moment of arising right of the Bank to receive corresponding payments and under dividend probable receipt condition.

The Group does not revaluate investments in share investment funds and limited liability companies classified at initial recognition as financial assets available for sale. Such investments at initial recognition are recorded at acquisition cost plus transaction costs directly related to acquisition or issue of a financial asset. After initial valuation investments in share investment funds are recorded at acquisition costs and are not revaluated.

***Borrowings and accounts receivable***

Trade accounts receivable, issued borrowings and other accounts receivable with fixed or identifiable payments that are not circulated on organized market are classified as "borrowings and accounts receivable". Borrowings and accounts receivable are accounted for at amortized cost using effective interest arte method less impairment. Interest revenue is recognized using effective interest rate method, except for short-term accounts receivable, which have insignificant interest revenue.

***REPO and reverse REPO agreements on securities and lending operations***

In course of its activities the Group makes agreements on sale and repurchase (hereinafter – "REPO agreements"), as well as on acquisition and re-sale of financial assets (hereinafter – "reverse REPO agreements"). REPO and reverse REPO operations are used by the Group as one of liquidity management tools.

REPO transactions are agreements about transfer of a financial asset to another party in exchange for cash or another benefit with synchronous obligation for repurchase of financial assets in future for the amount equivalent to received cash or another benefit plus accrued interest. REPO agreements operations are recognized in accounting as financing operations. Financial assets sold under REPO agreements continue to be recorded in consolidated financial statements, while funds received under these agreements are recorded as a received deposit, secured by assets, among depositary instruments in banks.

Assets acquired under reverse REPO agreements are recorded in consolidated financial statements as funds placed in deposit secured by securities or other assets, and the yare classified as funds in banks and/or borrowings and funds extended to clients.

The Group signs REPO agreements on securities and deals on credit operations, on which it receives or transfers collateral in accordance with usual market practice. In accordance with standard conditions of reverse repurchase operations in Russia and other CIS countries, receiver of collateral has right to sell or re-pledge collateral under condition of return of equivalent securities on deal settlement.

Transfer of securities to counterparties is recorded in statement of financial position only if risks and benefits related to possession right are also transferred.

***Financial assets impairment***

At the end of reporting period the Group assesses the presence of objective evidence of impairment of a financial asset or group of financial assets. Losses from impairment are recorded in the statement of comprehensive income in proportion to their emergence in result of one or more events ("loss event"), which occur after initial recognition of financial asset and influence the amount or moment of future cash flows formation, which are connected with the financial asset or group of financial assets that may be assessed with sufficient degree of reliability. In case if the Group lacks objective evidence of impairment for an individually evaluated financial asset, this asset is included in group of financial assets with similar credit risk characteristics and assessed for impairment in aggregate with them.

***(1) Impairment of funds in other banks and loans to clients***

In relation to funds in other banks and loans to clients, which are accounted for at amortized cost, the Group assesses on individual basis the presence of objective evidence of impairment for separate significant financial assets and in aggregate for financial assets that are not separately significant.

The main criteria are listed below. Based on these criteria the presence of objective evidence of impairment of funds in other banks and loans to clients is determined for separately significant financial assets:

- Delay of any regular payment;
- Considerable financial difficulties of a borrower, which are confirmed by financial information at disposal of the Group;
- Threat of bankruptcy or another financial reorganization of a borrower;
- Negative change in national or local economic conditions influencing a borrower;
- Violation of a contract, for example, refusal or evasion from payment of interest or loan principal;
- Allocation by a creditor of preferential terms for economic or legal reasons connected with financial difficulties of a borrower, which would not be provided by a creditor in any other circumstances.

Assets, which are assessed for impairment on individual basis and in relation to which the impairment losses are recognized, should not be assessed for impairment on aggregate basis.

If the Group decides that a financial asset, which is assessed on individual basis, does not have an objective evidence of impairment, then this asset is included in the group of financial assets with similar credit risk characteristics and they are assessed for impairment in aggregate.

For the purposes of aggregate assessment for impairment financial assets are grouped by similar credit risk characteristics, such as type of assets, sector, geographical location, type of collateral, timeliness of payments and other factors. These characteristics are related to estimate of future cash flows for groups of such assets and indicate the ability of borrowers to discharge all owing sums in accordance with contract conditions in relation to assessed assets.

The main criterion, which serves as a basis for determining presence of objective evidence of loss from impairment of funds in other banks and loans to clients assessed in aggregate, is presence of accessible information that indicates an identifiable decrease in expected future cash flows from a group of financial assets starting from the moment of their initial recognition, with the assumption that such decrease can not be attributed to separate financial assets within the group. Such information may include unfavorable changes in payment status of borrowers in the group (for example, increase in the number of overdue payments or number of credit cards owners, which have reached their credit limits and make only minimal monthly payments), as well as national or local economic conditions related to default on obligations under assets within the group (for example, increase in unemployment in geographical region of borrowers, decrease in real estate prices in respect to mortgage loans in corresponding region, decrease in oil prices in respect to obtainment of borrowed assets by oil producers, and unfavorable changes in industry economic conditions resulting in certain consequences for borrowers within a group).

In case if objective evidence of loss from impairment is present, the loss amount represents the difference between net book value of an asset and present value of estimated future cash flows. Net book value of an asset is decreased at the expense of reserve account, and the amount of loss is recognized in the statement of comprehensive income.

Present value of expected future cash flows is discounted at initial effective interest rate on an asset. If a loan is extended at floating interest rate, then discount rate for assessment of losses from impairment will be current effective interest rate. Calculation of present value of expected future cash flows from financial assets with collateral reflects the monetary funds that may be received in case of foreclosure, after deduction of expenses for receipt and sale of collateral.

Future cash flows in group of loans, which are assessed for impairment in aggregate, are identified based on historical information about past losses from loans with similar characteristics in the group, as well as about successfulness of overdue debts compensation. Historical information about losses is adjusted based on current observed data to reflect current conditions, which were not present in the periods of past losses, and to exclude the influence of those conditions, which do not exist anymore. Assessment of changes in future cash flows should reflect and directly correlate with corresponding data by periods (for example, such as changes in unemployment rates, prices for real estate and exchange commodities, payment status or other factors indicating losses incurred in the group and their amount). Methodology and assumptions used for assessment of future cash flows are regularly revised in order to decrease divergence between loss estimates and actual figures.

If in a subsequent period the amount of loss from impairment decreases and this decrease may be objectively related to an event, which took place after recognition of impairment, such as, for example, increase in debtor's credit rating, the previously recorded loss from impairment is restored in the statement of comprehensive income through adjustment of the created reserve.

Assets, for which reimbursement is impossible, all required procedures were completed to achieve full or complete reimbursement and the final amount of loss was determined, are written off at the expense of created impairment reserve. The cost of impaired financial assets does not directly decrease.

In accordance with the legislation of Republic of Uzbekistan, when writing off uncollectible loan and corresponding interest the Group is obliged to undertake required and sufficient measures to collect the loan, which are possible according to the legislation, usual business practice or a contract.

### *(2) Impairment of financial assets available for sale*

At the end of reporting period the Group assesses the availability of objective evidence of impairment of a financial investment or group of investments available for sale.

In relation to investments in equity instruments classified as available for sale the main criterion, which serves as a basis for determining presence of objective evidence of loss from impairment, is a significant or continuous decrease in fair value of an equity instrument below its acquisition cost. In order to determine what decrease is a significant and/or continuous it is necessary to use judgment. The Group considers a decrease as significant in case if fair value decreases more than by 20% comparing to the acquisition cost and as continuous if value decreases during more than six months. The Bank also evaluates other factors, such as volatility of stock price. Accumulated impairment loss that is determined as difference between acquisition cost and current fair value less loss from impairment of such asset, which was initially recognized on profit and loss accounts, is reclassified from other comprehensive income on the profit and loss accounts.

Losses from impairment of equity instruments are not restored through profit and loss account; increase in fair value after impairment is recognized directly in other comprehensive income.

In relation to debt instruments classified as available for sale the assessment for presence of impairment evidence is performed on the same principles as for financial assets accounted for at amortized cost. Interest revenues are accrued on the basis of reduced net book value using interest rate applied to discount future cash flows for impairment loss assessment purposes. Interest revenues are recorded in the statement of comprehensive income as interest revenues item.

If in a subsequent year fair value of a debt instrument increases and this increase is objectively connected with the event, which has occurred after recognition of losses from impairment in the statement of comprehensive income, then losses from impairment are restored with proper recognition of revenue in the statement of comprehensive income.

It should be considered that loss estimate comprises subjective factor. The Group's management considers the amount of recorded impairment to be sufficient to cover losses incurred under assets subject to risk on reporting date, although there us a chance that in revised periods the Group may incur losses larger relative to recorded impairment.

### *Loans with revised conditions*

As far as possible, the Group tries to restructure loans without recovery of collateral. Such restructuring includes extension of repayment periods and agreeing on new conditions for loans. After revision of conditions impairment is estimated using initial effective interest rate calculated before changes in conditions, while loan is not considered to be overdue anymore. Management continuously controls loans with revised conditions for failure to perform on all these conditions and for presence of high possibility of receiving future payments on them. Loans continue to be tested for impairment separately or jointly using initial effective interest rate for the loans.

### *Write-off of loans and funds*

In case of inability to recover loans and funds extended to clients and banks, including recovery of collateral, they are written-off at the expense of impairment reserve. Write-off of extended loans and funds takes place after the Group's management decides on recovery of amounts due to the Group, as well as after sale by the Group of available collateral. Subsequent restoration of previously written-off amounts is recorded as decrease of expenses from impairment of financial assets in statement of comprehensive income during period of compensation.

### *Collateral received in possession for defaulted payments*

Property received in possession for defaulted payments represent financial and non-financial assets received by the Bank on settlement of overdue loans. Accepted non-financial assets are initially recognized at fair value and depending on their nature, as well as the Bank's intentions with regard to use of these assets are classified as fixed assets, long-term assets available for sale, investment property or inventories among other assets. Then, accepted financial and non-financial assets are revaluated and recorded in accordance with accounting policy for these categories of assets.

### *Financial liabilities*

Financial liabilities are classified either as financial liabilities evaluated at fair value through profit or loss, or as financial liabilities accounted for at amortized cost.

During the initial recognition of a financial liability the Group is required to evaluate it at fair value plus, in case of financial liability that is not evaluated at fair value through profit or loss, transaction costs directly related to acquisition or issue of the financial liability.

Derecognition of a financial liability takes place in case of execution, termination or expiration of corresponding liability.

If an existing financial liability is changed by another financial liability to the same creditor with significantly different conditions or in case of introducing significant changes into existing liability conditions, then the initial liability is derecognized and the new liability is accounted for after the difference in value of liabilities is recognized in the statement of comprehensive income.

### *Financial liabilities accounted for at amortized cost*

Financial liabilities accounted for at recognized cost include funds of other banks, funds of clients' securities and other borrowed funds.

*Funds of other banks.* Funds of other banks are recorded starting from the moment of allotment of monetary funds or other assets to the Bank by partner banks.

*Funds of clients.* Funds of clients represent non-derivative financial liabilities to physical persons, state and corporate clients on settlement accounts and deposits.

*Issued debt securities.* Issued debt securities include notes, bonds and certificates of deposit issued by the Bank. If the Bank acquires own issued debt securities they are excluded from the statement of financial position, and the difference between book value of a liability and paid amount is included in other operating revenues as revenue from settling indebtedness.

At issue of convertible bonds liability component is determined through estimate of fair value of equivalent non-convertible bond. Capital component is determined at residual cost after deduction of amount required for liability component from the total fair value of convertible bonds. Liability to make future repayments of principal and interest to bondholders is recorded at amortized cost before execution at the moment of bond conversion or redemption.

*Other borrowed funds.* Other borrowed funds include subordinated deposits received by the Group and they are recorded from the moment of cash receipt by the Group.

### *Offsetting financial instruments*

Financial assets and liabilities are offset against each other and the net amount is reported in the statement of financial position only in cases when legislation permits offsetting recorded amounts, as well as the intention exists either to offset or to simultaneously sell an asset and to settle a liability.

### *Financial rent*

Financial rent is a rent under which all risks and benefits related to possession of asset are transferred to a lessee. Right of possession may either be transferred or not. Classification of rent as financial or operational is made depending on subject of operation and does not depend on form of contract. Rent is classified as financial if:

- right of possession is transferred to lessee at the end of rent period;
- lessee has an opportunity to acquire the asset at price which is significantly lower than fair value on the date of realization of this opportunity; besides, there should be an objective certainty that this opportunity will be realized;
- rent period covers the major part of asset's useful life, although possession right is not transferred;
- at the beginning of rent period, present value of minimal rent payment equals to, at least, almost all fair value of rented asset; and
- rented assets are of special nature, so that only lessee can use them without substantial modifications.

Being a lessor the Group records assets in financial rent as advanced credits in the amount of net investments in financial rent. Financial revenue is then recognized by the Group under method showing permanent internal rate of return on the Group's net investments in financial rent.

Before the rent fixed assets acquired with intention to transfer them in financial rent are recorded in consolidated statement of financial position at acquisition cost among fixed assets acquired with the purpose of being transferred under financial rent contracts.

### *Fixed and intangible assets*

Fixed assets are recorded either at acquisition cost or at revalued cost, as described below, after deduction of accumulated depreciation and impairment reserve.

Fixed and intangible assets acquired after 1 January 2006 are accounted for at historical cost after deduction of accumulated depreciation (amortization) and accumulated losses from impairment (if exist). Fixed and intangible assets acquired before 1 January 2006 are accounted fro at historical cost, taking into account inflation, after deduction of accumulated depreciation and accumulated losses from impairment (if exist).

As of 31 December 2011 the Group has adopted accounting valuation methods for "Buildings and constructions" classes. Frequency of revaluation depends on changes in fair value of revaluated items of fixed assets. After initial recognition at historical cost buildings and land are recorded at revaluated cost representing fair value on revaluation date less accumulated depreciation and accumulated impairment losses. Revaluation is performed regularly to avoid significant deviations of fair value of revaluated assets from their book value.

At revaluation of buildings accumulated depreciation on revaluation date changes proportionally to change in revaluated asset value thus that after revaluation book value of an asset equals to it revaluated value.

Increase in value from revaluation is recorded in statement of comprehensive income as other comprehensive income, except for cases of restoration of previously decreased value of an asset previously recorded through profit or loss. Decrease in value from revaluation is recorded among profit or loss in statement of comprehensive income, except for direct offsetting of such decrease against previous increase in value for the same asset directly recorded among other comprehensive income as influence from fixed assets revaluation.

Fixed assets revaluation fund is related directly to retained earnings after realization of revaluated amount at asset disposal or write-off.

Gains and losses arising at disposal of fixed assets are determined based on their net book value and recorded as part of operating expenses in the statement of comprehensive income.

Repair and maintenance expenses are recorded in the statement of comprehensive income at the moment of their incurrence.

Construction in progress is accounted for at historical cost less impairment reserve.

After completion of construction assets are transferred to the fixed assets and are recorded at net book value at the time of transfer. Construction in progress is not subject to depreciation until putting the asset into operation.

### *Depreciation*

Depreciation of a fixed asset starts from the moment of putting it into operation. Depreciation is charged using straight line depreciation method with the following useful economic life of the assets:

- Buildings – 20 years;
- Office and computer equipment – from 5 to 12 years;
- Vehicles – 5 years;
- Other fixed assets – from 5 to 8 years;
- Intangible assets – 5 years.

Land has indefinite life and is not subject to depreciation.

At the end of exploitation period net book value of an asset represents the estimated residual value that the Group may receive at the moment of immediate sale of the asset after deduction of estimated cost of disposal, if condition and age of the asset correspond to the condition and age that this asset would have at the end of useful life. Net book value and estimated useful life of assets are revised and adjusted, if necessary, at the end of reporting period.

### *Operating rent – Group as a lessee*

Property rent, under which a lessor actually maintains all risks and benefits related to ownership right with regard to rent object, is classified as operating rent. Payments under operating rent contract are evenly written-off as expenses during period of rent and recorded in statement of comprehensive income as operating expenses.

### *Operating rent – Group as a lessor*

The Group records in statement of financial position assets being subject to operating rent depending on the nature of assets. Rent revenue under operating rent contracts are evenly recorded in statement of comprehensive income during rent period among other operating revenues. Aggregate value of benefits advanced by a lessor is evenly recorded as decrease of rent revenue during rent period. Initial direct expenditures incurred under operating rent contract are added to book value of a rented asset.

### *Investments in affiliated companies*

A company is affiliated if the Group may exercise significant influence on its financial and operating activities, and that is neither a daughter company, nor participating in joint activities. Significant influence is the ability to participate in decision making on financial and operating policy of an invested company, but not a control or joint control over such policy.

Results of activities, assets and liabilities of affiliated companies are included in these financial statements using equity method.

Investments in affiliated companies are recorded in consolidated statement at acquisition cost adjusted to changes in the Group's share in net assets of affiliated company after acquisition, less investments impairment. Losses of affiliated companies in the part exceeding the Group's share in such affiliated companies are not recognized.

Difference by which acquisition cost of identifiable assets, liabilities and contingent liabilities of affiliated companies exceeds the Group's share in their fair value on acquisition date represent goodwill. Goodwill is included in cost of investments and revised for impairment as a part of investment. Difference by which fair value of the Group's share in identifiable assets, liabilities and contingent liabilities of affiliated companies exceeds acquisition cost, i.e. discount at acquisition, is recorded in consolidated statement of profit and loss during acquisition period.

When the Group's company undertakes operations with the Group's affiliated company, profits and losses are excluded in the amount of the share owning by the Group in capital of the affiliated company. Losses may indicate about impairment of transferred asset that results in creation of corresponding impairment reserve.

### *Non-working assets intended for sale*

Long-term assets and groups of disposing assets are classified as intended for sale if their book value will be reimbursed mainly not from use in operating activities, but from sale. This requirement is considered to be met if an asset (or a group of disposing assets) may be sold in its current condition and the probability of sale is high. Management should accomplish sale of the asset within one year from the moment of its classification as intended for sale.

Long-term assets (and group of disposing assets) classified for sale are measured at lower of two: book value at the moment of such classification and fair value less sale expenditures. If fair value less expenditures for sale of non-working asset intended for sale is less than its book value, impairment should be recorded in consolidated statement of profit and loss as loss from non-working assets intended for sale. Any subsequent increase in fair value of the asset less sale expenditures is recorded with regard to accumulated loss from impairment that was previously recognized for this asset.

### *Funds of other banks*

Funds of other banks are recorded starting from the moment of allotment of monetary funds or other assets to the Group by partner banks. These non-derivative financial liabilities are recorded at amortized cost.

***Funds of clients***

Funds of clients represent non-derivative financial liabilities to physical persons, state and corporate clients on settlement accounts and deposits.

***Issued debt securities***

Issued debt securities include notes, bonds and certificates of deposit issued by the Bank. If the Bank acquires own issued debt securities they are excluded from the statement of financial position, and the difference between book value of a liability and paid amount is included in other operating revenues as revenue from settling indebtedness.

***Charter capital***

Common stock and non-cumulative, non redeemable preferred shares constitute Charter Capital. Charter Capital contributed until 1 January 2006 is recorded at cost adjusted with regard to inflation. Charter Capital contributed after the specified date is recorded at historical cost. Costs incurred to pay for third parties' services directly related to the issue of new shares, except for mergers of companies, are recorded as a part of capital as decreasing the amount received from such issue. Preferred shares subject to obligatory redemption are classified as liabilities. Dividends on such preferred shares are recorded in the statement of comprehensive income as interest expenses based on amortized cost using effective interest rate method. The Group does not have preferred shares.

***Additional paid-in capital***

Additional paid-in capital represents excess of contributions to Charter Capital over par value of issued shares.

***Dividends***

Dividends are recognized as liabilities and deducted from the capital at the end of reporting period only if they were declared before the end of reporting period inclusive. Information about dividends is disclosed in the notes about events after the end of reporting period if they were declared after the end of reporting period. Payments of dividends and other distributions of profits are made on the basis of net profit of a current year under accounting reporting prepared in accordance with the legislation of Republic of Uzbekistan.

After approval of dividends by general shareholders meeting they are recorded in financial statements as distribution of profit.

***Earnings per share***

Earnings per share are calculated by dividing income or loss belonging to the Bank's shareholders by weighted average number of common participation shares circulating during reporting year.

***Contingent assets and liabilities***

Contingent assets are not recorded in the consolidated statement of financial position, but information about them is disclosed in consolidated financial statements when inflow of economic benefits related to the assets is possible.

Contingent liabilities are not recorded in the consolidated statement of financial position, but the information about them is disclosed in consolidated financial statements, except for cases when disposal of resources related to the discharge of the liabilities is unlikely.

***Credit related commitments***

The Group assumes credit related commitments, including guarantees, letters of credit and loan extension commitments. Guarantees, which represent irrevocable commitments of the Group to make payments in case of clients' failure to perform their liabilities to third parties, bear the same level of credit risks as credits do. Documentary letters of credit, which are written commitments of the Group to make payments on behalf of clients in the limits of agreed amounts after fulfillment of specified conditions, are collateralized by corresponding shipments of goods or monetary deposits and, correspondingly, bear lower level of risk than direct crediting. Loan extension commitments represent outstanding portion of approved for issue loans, guarantees or letters of credits. In relation to loan extension commitments the Group is potentially subject to risk of arising losses in the amount equal to the total amount of outstanding commitments. Nevertheless, probable amount of losses is less than total amount of outstanding commitments, because the major portion of loan extensions commitments is stipulated by observance by clients of specific creditworthiness criteria.

Credit related commitments are initially recorded at fair value. Then, they are analyzed at the end of reporting period and adjusted to reflect the best current estimate. The best estimate of costs required for execution of existing commitment is the amount, which the Group would pay to discharge a commitment at the end of reporting period or would transfer to a third party on this date.

### *Reserves*

Reserves are recognized if the Group because of certain event in the past has legal or voluntarily accepted liabilities, for settlement of which the outflow of resources is highly probable. These resources constitute future economic benefits and may be evaluated with high degree of reliability.

Amount of reserve for future expenses recorded in accounting system represents the best estimate of the amount required to settle liability determined on reporting date with regard to risks and uncertainties specific for such liabilities. If the amount of reserve for future expenses is calculated based on forecasted cash flows on liability settlement, then reserve for future expenses is determined as discounted value of such cash flows (if influence of change in time value of money is material).

If it is expected that payments required to settle liabilities will be partially or completely reimbursed by a third party, corresponding accounts receivable is recorded as an asset if full confidence exists in receipt of such reimbursement and if a possibility exists to reliably evaluate the amount of this accounts receivable.

### *Taxation*

Income tax expenses/compensations include current and deferred taxes and are recorded in the statement of comprehensive income. Taxation expenses are recorded in the financial statements in accordance with the requirements of existing legislation of Republic of Uzbekistan. Current tax payments are calculated on the basis of taxable income for a year with the use of income tax rates effective during the reporting period.

Current tax amounts represent funds payable to budget or receivable from budget in relation to taxable incomes or losses of current or preceding reporting periods. In case of approval for issue of financial statements before submission of corresponding tax returns, the taxation figures shown in the financial statements are based on estimated data.

Deferred income tax is calculated using the method of balance sheet assets and liabilities in relation to all tax losses to be transferred and temporary differences between the taxable base of assets and liabilities and their net book value for the purposes of financial statements.

Deferred tax amounts are evaluated at taxation rates, which actually become effective at the end of reporting period or which, as expected, will be applied during the period of temporary differences restoration or utilization of tax losses transferred from the previous periods. Deferred tax assets and liabilities are offset against each other, if a legally fixed right to offset current tax assets and liabilities exist. Deferred tax assets in relation to deductible temporary differences and tax losses are recorded to the extent the probability exists to receive sufficient taxable income, against which the specified deductions may be used. In order to determine the amount of deferred tax assets, which may be recognized in financial statements based on probable terms and amount of future taxable income, as well as future strategies of tax planning, the management judgment is required.

Moreover, different operating expenses applicable to the Bank also exist in Republic of Uzbekistan. These taxes are recorded in the statement of comprehensive income as a part of operating expenses.

### *Recognition of revenues and expenses*

Interest revenues and expenses are recorded in the statement of comprehensive income in relation to all debt instruments on the accrual basis and calculated using effective interest rate method. Effective interest rate method is a method of calculating amortized cost of a financial asset or a financial liability and allocating interest revenues and interest expenses to the corresponding period. Effective interest rate is a discount rate for estimated future cash payments or receipts during expected duration period of a financial instrument down to the initial cost of a financial asset or financial liability. In the process of calculating effective interest rate the Bank estimates the cash flows with regard to all contractual conditions in relation to a financial instrument, but does not consider future losses from loans. Such calculation includes all commissions and collections, which are paid and received by parties to the contract and which constitute inseparable part of an effective interest rate, transaction costs, as well as all other premiums or discounts.

Interest revenues include coupon revenues received from financial assets with fixed income, accumulated discounts and premiums on notes and other discount instruments. In case of arising doubt in timely discharge of extended loans, the yare revalued down to reimbursable value with subsequent recognition of interest revenue based on interest rate, which was used for discounting future cash flows for the purpose of evaluating reimbursable value.

Commissions and other revenues and expenses are recorded on the accrual basis after delivery of services. Commission revenues for extension of loans, which are not extended yet, but the extension of which is probable, are recorded as part of other assets and are later accounted for during calculation of effective interest rate for a loan. Commission revenues from organization of transactions for third parties, for example, acquisition of loans, shares and other securities or acquisition and sale of companies, are recorded in the statement of comprehensive income at transaction completion. Commission revenues from management of investment portfolios and other consulting services are recorded in accordance with conditions o service contracts. Commission revenues from management of assets of investment funds are recorded proportionally to the volume of rendered services during the period of delivering such services. The same principle is applied in relation to the services connected with property management, financial planning, and depositary services, which are delivered on continuing basis during a long period of time.

### *Remunerations to employees and contributions to Social Insurance Fund*

On the territory of Republic of Uzbekistan the Group makes contributions under unified social tax. These contributions are also recorded on the accrual basis. Unified social tax includes contributions to Pension Fund. The Group does not have any own pension scheme. Wages and salaries expenses, contributions to state pension fund and social insurance fund, paid annual leaves and sick-leaves, bonuses and non-monetary benefits are accrued in proportion to delivery of corresponding services by the Group's employees.

### *Information by segments*

Operating segments are separated based on internal reports on the Group's components regularly inspected by a chief authority responsible for operating decision making with the purpose of allocating resources to segments and evaluating performance results.

The Group evaluates information about reporting segments in accordance with IFRS. Reporting operating segment is separated if it satisfies one of the following quantitative requirements:

- Its revenue from sales to external clients and from transactions with other segments equals to no less than 10% of aggregate revenue – internal and external – of all operating segments; or
- Absolute income or loss ratio equals to no less than 10% of the largest of (i) aggregate income of all operating segments not incurring losses; and (ii) aggregate loss of all operating segments incurring losses; or
- Its assets equals to no less than 10% of aggregate assets of all operating segments.

In case if aggregate revenue from external sales shown by operating segments equals to less than 75% of organization's revenue, additional operating segments are separated as reporting segments (even if they do not meet quantitative requirements specified above) until segments presented in reporting do not cover at least 75% of the Group's revenue.

***Foreign currency and precious metals***

Foreign currency transactions are initially recalculated into the functional currency at exchange rate of Central Bank effective on transaction date. Gains and losses arising during recalculation of foreign currency operations are recorded in the statement of comprehensive income as revenues after deduction of foreign currency revaluation expenses. Non-monetary items recorded at actual cost in foreign currencies are recalculated at exchange rate of Central Bank effective on transaction date. Non-monetary items recorded at fair value in foreign currencies are recalculated at exchange rate effective on the date of fair value identification.

On financial reporting date assets and liabilities of the Group, functional currency of which is different from presentation currency of the Group's reporting, are recalculated into Uzbek sums at exchange rate on reporting date, and their profit and loss statements are recalculated at weighted average annual rate. Foreign exchange differences arising during such recalculation are recorded as a part of other comprehensive income. At disposal of daughter or associated company, functional currency of which is different from presentation currency of the Group's reporting, the total amount shown as a part of other comprehensive income, which relates to such company, is reclassified from other comprehensive income into profit or loss of reporting period.

Gold, silver and other precious metals are accounted for in accordance with exchange rates that are officially established by Central Bank. Changes in exchange rates of Central Bank are accounted for as exchange differences as a part of revenues minus expenses from revaluation of foreign currency in the statement of comprehensive income.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

**7. Cash and cash equivalents**

| | 2012 | 2011 |
|---|---|---|
| Cash | 31,429,640 | 31,890,710 |
| Balances on current accounts in Central Bank | 1,470,990 | 1,290,429 |
| "Overnight" deposits on accounts in Central Bank | 57,228,540 | 19,063,780 |
| Correspondent accounts in other banks | 44,924,481 | 18,156,125 |
| Time deposits in other banks with maturity up to 90 days | 32,631,002 | 4,961,526 |
| **Total cash and cash equivalents** | **167,684,653** | **75,362,570** |

As of 31 December 2012 the Group has balances of funds on accounts and deposits in 7 banks, where balances of cash exceed 10% of the Group's capital. Total amount of these funds equals to 109,162,082 thousands UZS or 86.4% from total amount of correspondent funds and deposits in other banks.

As of 31 December 2011 the Group has balances of funds on accounts and deposits in five banks, where balances of cash exceed 10% of the Group's capital. Total amount of these funds equals to 56,027,836 thousands UZS or 84.8% from total amount of correspondent funds and deposits in other banks.

"Overnight" deposits in UZS are deposited in Central Bank at fixed interest rate 0.02%.

**8. Required reserves on accounts in Central bank**

Required reserves on accounts in Central bank as of 31 December 2012 were equal to 47,100,546 thousands UZS. According to the legislation of Republic of Uzbekistan, the Group is required to deposit required reserves in Central Bank on regular basis and has restrictions on their use. The amount of contributions to required reserves is calculated monthly as a percentage of the Bank's liabilities.

As of 31 December 2011 the balance of required reserves in Central Bank amounted to 40,829,989 thousands UZS.

**9. Funds in other banks**

| | 2012 | 2011 |
|---|---|---|
| Deposits in other banks | 28,624,842 | 4,961,525 |
| Funds, which are subject to any restrictions in use: cover under letter of credit | 20,198,490 | 39,019,388 |
| **Total funds in other banks** | **48,823,332** | **43,980,913** |

In 2012 and 2011 the Group did not create reserves for impairment of funds in other banks.

Funds in other banks are not secured.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

**10. Loans to clients**

| | 2012 | 2011 |
|---|---|---|
| Loans to clients | 262,121,192 | 199,629,355 |
| Net investments in financial rent | 8,559,538 | 5,948,460 |
| | 270,680,730 | 205,577,815 |
| Less impairment reserve | (10,414,330) | (9,971,465) |
| **Total loans to clients** | **260,266,400** | **195,606,350** |

As of 31 December 2012 and 2011 the receivable accrued interest revenues on loans equal to 4,394,932 thousands UZS and 2,446,292 thousands UZS respectively.

The table below presents the analysis of changes in the impairment reserve on loans to clients:

| | 2012 | 2011 |
|---|---|---|
| **Reserve for impairment of loans to clients as of 1 January** | **9,971,465** | **6,173,702** |
| (Restoration)/contributions to impairment reserve during the year | 5,867,090 | 3,162,452 |
| Restoration of previously written-off loans | 1,179,647 | 942,374 |
| Bad loans written-off during the year | (6,603,872) | (307,063) |
| **Reserve for impairment of loans to clients as of 31 December** | **10,414,330** | **9,971,465** |

The structure of the Group's credit portfolio by sectors of economy is presented below:

| | 2012 | 2011 |
|---|---|---|
| Leasing companies | 88,922,211 | 29,490,701 |
| Manufacturing | 51,820,506 | 48,478,914 |
| Trade | 39,937,936 | 42,190,816 |
| Physical persons | 34,902,855 | 30,798,007 |
| Transport and communications | 19,045,491 | 14,867,284 |
| Construction | 4,866,617 | 4,643,338 |
| Printing industry | 8,962,440 | 3,520,129 |
| Agriculture | 7,730,629 | 1,334,137 |
| Medical services | 449,387 | 779,405 |
| Other sectors | 14,042,658 | 29,475,084 |
| **Total loans to clients (total amount)** | **270,680,730** | **205,577,815** |
| Less impairment reserve | (10,414,330) | (9,971,465) |
| **Total loans to clients** | **260,266,400** | **195,606,350** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

Information on loans issued to physical persons is presented below:

| | 2012 | 2011 |
|---|---|---|
| Mortgage loans | 22,747,659 | 27,162,540 |
| Consumer loans | 8,805,826 | 3,635,467 |
| Other | 3,349,370 | - |
| **Total loans to physical persons** | **34,902,855** | **30,798,007** |

As of 31 December 2012 and 2011 all loans were extended to companies operating in Republic of Uzbekistan. This represents considerable geographic concentration in one region.

The information about hypothecation value of collateral is presented below:

| | 2012 | 2011 |
|---|---|---|
| Real estate | 152,806,749 | 112,227,971 |
| Warranties and guarantees of third parties | 17,105,310 | 16,547,208 |
| Transport | 42,719,354 | 22,049,459 |
| Insurance policy | 6,772,597 | 2,897,086 |
| Equipment | 30,900,643 | 16,531,007 |
| Cash deposits | 6,644,072 | 6,644,072 |
| Other collateral | 12,462,544 | 20,021,140 |
| Unsecured | 1,269,461 | 8,659,872 |
| **Total collateral** | **270,680,730** | **205,577,815** |
| Less impairment reserve | (10,414,330) | (9,971,465) |
| **Total loans to clients** | **260,266,400** | **195,606,350** |

Hypothecation value of collateral may differ from fair value of collateral.

Components of net investments in financial rent are the following:

| | 2012 | 2011 |
|---|---|---|
| Less than one year | 3,953,910 | 4,783,273 |
| From one to five years | 9,419,493 | 1,287,235 |
| Minimal rent payments | 13,373,403 | 6,070,508 |
| Less not received financial revenue | (4,813,865) | (122,048) |
| **Net investments in financial rent** | **8,559,538** | **5,948,460** |
| Current portion | 2,374,537 | 4,661,225 |
| Long-term portion | 6,185,001 | 1,287,235 |
| **Net investments in financial rent** | **8,559,538** | **5,948,460** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

**11. Investments available for sale**

Investments available for sale are the following:

| | 2012 | 2011 |
|---|---|---|
| Equity securities | 3,595,089 | 1,155,138 |
| Less impairment reserve | (401,599) | (631,564) |
| **Net financial assets available for sale** | **3,193,490** | **523,574** |

As of 31 December 2012 and 2011 debt securities do not exist.

Equity investments available for sale are the following:

| | Share | 2012 | Share | 2011 |
|---|---|---|---|---|
| OJSC "Agro Invest Sug'urta" | 13% | 1,678,650 | - | - |
| JV FC "Pahtakor" | 8% | 730,159 | 8% | 730,159 |
| OJSC "Kukon yog-moy" | 12% | 473,219 | - | - |
| KS "Kapital Union" | не определен | 265,311 | 20% | 315,000 |
| OAO CK "Alskom" | 3% | 212,622 | - | - |
| "Tosh Avto Ijara" LLC | 10% | 63,280 | - | - |
| "Qushrobod Agrotex Servis" LLC | 15% | 45,000 | 15% | 45,000 |
| "Banklararo Savdo Tizimi" LLC | 6% | 42,406 | 6% | 42,406 |
| "Banklararo Kredit Byuiosi" LLC | 3% | 40,000 | - | - |
| "Kapital Brook" LLC | 10% | 20,660 | - | - |
| "Bozor, pul va kredit" LLC | 6% | 18,132 | 6% | 16,923 |
| "Ezevon Agroteh Servis" LLC | 15% | 4,500 | 15% | 4,500 |
| Association of banks of Republic of Uzbekistan | 1% | 1,150 | 1% | 1,150 |
| **Equity financial assets available for sale** | | **3,595,089** | | **1,155,138** |
| Less impairment reserve | | (401,599) | | (631,564) |
| **Net financial assets available for sale** | | **3,193,490** | | **523,574** |

Analysis of changes in reserve for impairment of investments available for sale during the year is presented below:

| | 2012 | 2011 |
|---|---|---|
| **Reserve for impairment as of 1 January** | **631,564** | **256,356** |
| Contributions to impairment reserve | 85,035 | 400,035 |
| Restoration of reserve for impairment deuring the year | (315,000) | (24,827) |
| **Reserve for impairment as of 31 December** | **401,599** | **631,564** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

## 12. Investments in affiliated companies

Investments in affiliated companies under equity method are presented below:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Participation share** | **Book value** | **Participation share** | **Book value** |
| OJSC "Baloq'chi" | 26% | 820,806 | - | - |
| OJSC "Surxonoziqovqatsanoati" | 20% | 778,650 | - | - |
| OJSC IC "Kapital Sug'urta" | - | - | 92% | 4,717,988 |
| "Kapital Realtor Group" LLC | - | - | 99% | 148,500 |
| **Investments in affiliated companies** | | **1,599,456** | | **4,866,488** |

Changes of investments in affiliated companies:

| | 2012 | 2011 |
|---|---|---|
| **On 1 January** | **4,866,488** | **1,426,552** |
| Acquisition cost | 1,624,911 | 3,541,202 |
| Sale of investments | (4,866,488) | (346,561) |
| Changes in classification | - | 245,295 |
| Changes in fair value | (25,455) | - |
| **On 31 December** | **1,599,456** | **4,866,488** |

As of 31 December 2012 and 2011 assets, liabilities and net income of affiliated companies for the years ended on abovementioned dates were equal to:

| | 2012 | 2011 |
|---|---|---|
| Total assets | 33,327,938 | 13,553,816 |
| Total liabilities | (8,504,218) | (8,296,613) |
| Net assets | 24,823,720 | 5,257,203 |
| **The Group's share in net assets in affiliated companies** | **5,734,279** | **4,851,268** |
| Total revenue | 49,210,023 | 8,832,306 |
| Net income | 7,310,155 | 176,889 |
| **The Group's share in net income in affiliated companies** | **1,688,646** | **166,880** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

### 13. Fixed and intangible assets

The flow of fixed and intangible assets as of 31 December 2012 is presented below:

| | Buildings and other constructions | Furniture and equipment | Vehicles | Intangible assets | Other | Total |
|---|---|---|---|---|---|---|
| **Net book value on 31 December 2011** | **37,370,975** | **5,167,839** | **727,444** | **1,027,671** | **4,382,299** | **48,676,228** |
| **Original cost** | | | | | | |
| Balance on 1 January 2012 | 40,410,499 | 9,927,503 | 1,951,257 | 1,911,563 | 4,463,149 | 58,663,971 |
| Acquisitions | 5,799,532 | 7,824,132 | 1,617,455 | 433,820 | - | 15,674,939 |
| Disposals | (6,790,046) | (145,168) | (108,536) | - | (3,299,340) | (10,343,090) |
| **Balance on 31 December 2012** | **39,419,985** | **17,606,467** | **3,460,176** | **2,345,383** | **1,163,809** | **63,995,820** |
| **Accumulated depreciation** | | | | | | |
| Balance on 1 January 2012 | 3,039,524 | 4,759,664 | 1,223,813 | 883,892 | 80,850 | 9,987,743 |
| Depreciation charges | 1,637,991 | 2,321,930 | 395,357 | 391,507 | - | 4,746,785 |
| Disposals | (217,712) | (219,076) | (51,207) | 1,304 | (39,217) | (525,908) |
| **Balance on 31 December 2012** | **4,459,803** | **6,862,518** | **1,567,963** | **1,276,703** | **41,633** | **14,208,620** |
| **Net book value on 31 December 2012** | **34,960,182** | **10,743,949** | **1,892,213** | **1,068,680** | **1,122,176** | **49,787,200** |

The flow of fixed and intangible assets as of 31 December 2011 is presented below:

| | Buildings and other constructions | Furniture and equipment | Vehicles | Intangible assets | Other | Total |
|---|---|---|---|---|---|---|
| **Net book value on 31 December 2010** | **14,728,249** | **4,177,167** | **1,152,017** | **735,496** | **262,717** | **21,055,646** |
| **Original cost** | | | | | | |
| Balance on 1 January 2011 | 16,189,689 | 7,774,530 | 2,401,031 | 1,360,357 | 265,655 | 27,991,262 |
| Acquisitions | 10,754,458 | 2,277,265 | 271,810 | 551,206 | 4,503,629 | 18,358,368 |
| Revaluation | 15,760,897 | - | - | - | - | 15,760,897 |
| Disposals | (2,294,545) | (124,292) | (721,584) | - | (306,135) | (3,446,556) |
| **Balance on 31 December 2011** | **40,410,499** | **9,927,503** | **1,951,257** | **1,911,563** | **4,463,149** | **58,663,971** |
| **Accumulated depreciation** | | | | | | |
| Balance on 1 January 2011 | 1,461,440 | 3,597,363 | 1,249,014 | 624,861 | 2,938 | 6,935,616 |
| Depreciation charges | 1,622,042 | 1,261,034 | 347,003 | 259,031 | 77,912 | 3,567,022 |
| Disposals | (43,958) | (98,733) | (372,204) | - | - | (514,895) |
| **Balance on 31 December 2011** | **3,039,524** | **4,759,664** | **1,223,813** | **883,892** | **80,850** | **9,987,743** |
| **Net book value on 31 December 2011** | **37,370,975** | **5,167,839** | **727,444** | **1,027,671** | **4,382,299** | **48,676,228** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

Among fixed assets "Buildings and constructions" of the Group were evaluated by an independent valuator as of 31 December 2011. Valuation was performed by an independent firm "INTIL" LLC, which determined fair value. The independent valuator applied different adjusting coefficients and market prices of objects comparable to buildings and constructions of the Group to receive market value of valuated objects. Changes in abovementioned estimates may influence value of buildings.

Book value of buildings include 15 760 897 thousands UZS representing positive revaluation of the Group's buildings.

## 14. Other assets

Other assets are the following:

| | 2012 | 2011 |
|---|---|---|
| **Other financial assets** | | |
| International payment systems settlements | 27,096,624 | 12,631,965 |
| Accrued commission | 1,776,856 | 2,068,270 |
| Accounts receivable from other operations | 815,057 | 3,491,275 |
| Other | 1,263,883 | 1,249,987 |
| **Total other financial assets** | **30,952,420** | **19,441,497** |
| **Other non-financial assets** | | |
| Prepayment for equipment and goods | 16,587,820 | 10,783,717 |
| Other taxes | 2,780,737 | 877,456 |
| Low-value and quickly wearing assets in warehouse | 394,891 | 466,645 |
| Other properties | 290,446 | 972,273 |
| Prepayment for building | - | 15,900,000 |
| Other | 1,995,639 | 1,750,315 |
| **Total other non-financial assets** | **22,049,533** | **30,750,406** |
| Reserve for impairment of other assets | (316,654) | - |
| **Total other assets** | **52,685,299** | **50,191,903** |

Analysis of changes in reserve for impairment of other assets during the year is presented below:

| | 2012 | 2011 |
|---|---|---|
| **Reserve for impairment of other assets as of 1 January** | **-** | **-** |
| Contributions to impairment reserve | 1,725,847 | 75,963 |
| Written-off assets | (1,409,193) | (75,963) |
| **Reserve for impairment of other assets as of 31 December** | **316,654** | **-** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

## 15. Non-working assets intended for sale

Non-working assets intended for sale are the following:

| | 2012 | 2011 |
|---|---|---|
| "Kapteks" LLC | 31,386,568 | 21,800,603 |
| "Kapsanteks" LLC | 16,116,669 | 8,385,907 |
| Properties available for sale | 10,041,647 | 13,747,810 |
| **As of 31 December** | **57,544,884** | **43,934,320** |

In October 2009 the Group has acquired 100% of shares in capital of "Kapteks" LLC operating in textile industry. The Company was acquired by the Bank under Decree of President of Republic of Uzbekistan #УП-4053 from 18 November 2008 "On measures for further improvement of financial stability of entities in real sector of economy", Decree of President of Republic of Uzbekistan #П-4010 from 19 November 2009 "On approval of procedure for realization by commercial banks of economically unsound entities". As of 31 December 2012 investment in Charter Capital of "Kapteks" LLC was equal to 27,481,915 thousands UZS.

As of 31 December 2012 the total amount of assets and liabilities of "Kapteks" LLC was equal to 31,386,568 thousands UZS and 1,349,741 thousands UZS respectively. Income from discontinued operations of "Kapteks" LLC was equal to 1,600,875 thousands UZS.

As of 31 December 2011 the total amount of assets and liabilities of "Kapteks" LLC was equal to 21,800,603 thousands UZS and 1,496,659 thousands UZS respectively. Loss from discontinued operations of "Kapteks" LLC was equal to 402,434 thousands UZS.

UE "Kapsanteks" was founded in 2011 in form of a Unitary Enterprise of the Bank in accordance with the legislation of Republic of Uzbekistan. UE "Kapsanteks" is a legal successor of Open Joint Stock Company "Kulol" that was accepted to balance sheet at zero cost under Decree of President of Republic of Uzbekistan #УП-4053 from 18 November 2008 "On measures for further improvement of financial stability of entities in real sector of economy", Decree of President of Republic of Uzbekistan #П-4010 from 19 November 2009 "On approval of procedure for realization by commercial banks of economically unsound entities" and decision of State Commission on realization of economically unsound entities to commercial banks #1 from 14 January 2011. The principal activity is manufacturing of sanitary ware from ceramics. The Group should invest in UE "Kapsanteks" no less than 9.5 millions USD. UE "Kapsanteks" was registered on 1 April 2011 in Angren town. Charter Capital of UE "Kapsanteks" as of 31 December 2012 equals to 15,530,054 thousands UZS.

As of 31 December 2012 the total amount of assets and liabilities of "Kapsanteks" LLC was equal to 16,116,669 thousands UZS and 105,719 thousands UZS respectively. There is no income or loss from discontinued operations of "Kapsanteks" LLC.

As of 31 December 2011 the total amount of assets and liabilities of "Kapsanteks" LLC was equal to 8,385,907 thousands UZS and 95,889 thousands UZS respectively. There is no income or loss from discontinued operations of "Kapsanteks" LLC.

Property received against redemption of the loan the Group intends to sell within one-year period.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

## 16. Funds of clients

| | 2012 | 2011 |
|---|---|---|
| Demand deposits | 336,017,028 | 283,655,038 |
| Time deposits | 259,016,970 | 158,770,414 |
| **Total funds of clients** | **595,033,998** | **442,425,452** |

According to the legislation of Republic of Uzbekistan the Group is obliged to give out the deposit amount of physical person on demand. In the cases when time deposits are given out to the depositors before the maturity date the interest on such deposits is paid in the amount equivalent to the interest paid by the Group on demand deposits, unless otherwise stated in the contract.

As of 31 December 2012 and 2011 funds of clients in the amount of 47,431,519 thousands UZS and 49,984,585 thousands UZS were used as collateral against letters of credit issued by the Group, as well as other operations related to contingent liabilities.

Analysis of funds of clients by sectors of economy is presented below:

| | 2012 | 2011 |
|---|---|---|
| Physical persons | 237,611,413 | 121,003,148 |
| Trade | 90,145,965 | 67,908,885 |
| Manufacturing | 64,380,214 | 72,534,070 |
| Other services | 50,551,134 | 44,294,196 |
| Transport and communications | 40,130,658 | 27,644,472 |
| Education and research | 26,358,709 | 2,782,143 |
| Construction | 15,173,835 | 13,304,768 |
| Culture and art | 12,051,209 | 1,666,274 |
| Food industry | 12,738,521 | 9,616,454 |
| Agriculture | 6,890,757 | 2,808,673 |
| Social funds | 3,508,092 | 185,193 |
| Insurance | 3,435,627 | 55,420,006 |
| Investments and financial sector | 1,975,973 | 4,601,013 |
| Other | 30,081,891 | 18,656,157 |
| **Total funds of clients** | **595,033,998** | **442,425,452** |

## 17. Funds of other banks

| | 2012 | 2011 |
|---|---|---|
| Deposits of other banks | 39,706,943 | 13,587,821 |
| Correspondent accounts of other banks | 96,454 | 170,678 |
| Loans received from Central Bank | 124,593 | 125,483 |
| **Total funds of other banks** | **39,927,990** | **13,883,982** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

**18. Issued debt securities**

Issued debt securities are the following:

| | Repayment date (month/year) | Annual coupon rate | 2012 | 2011 |
|---|---|---|---|---|
| Subordinated bonds: | November 2019 | 12% | 5,151,233 | 5,151,232 |
| | May 2017 | 14% | 2,539,315 | 2,537,397 |
| | August 2014 | 14% | 2,070,575 | - |
| Certificates of deposits, including: | June 2012-July 2013 | 11% | 200,000 | - |
| | June 2011 - February 2013 | 12% | 100,000 | 100,000 |
| | June 2011 - December 2013 | 12.5% | 50,000 | 50,000 |
| | June 2011 - February 2012 | 12.5% | - | 800,000 |
| Savings certificate | January 2013 | 24% | 28,571 | 53,265 |
| **Total issued debt securities** | | | **10,139,694** | **8,691,894** |

The Group is not obliged to follow any financial ratios in relation to issued debt securities specified above.

**19. Other attracted funds**

Other attracted funds are the following:

| | Repayment date | 2012 | 2011 |
|---|---|---|---|
| Financing advanced by local financial institutions | 2014 | 2,135,207 | 2,069,448 |
| **Other attracted funds** | | **2,135,207** | **2,069,448** |

The Group does not have any obligations to follow any financial ratios in relation to other attracted funds specified above. Other attracted funds are valued at amortized cost.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

### 20. Other liabilities

Other liabilities are the following:

| | 2012 | 2011 |
|---|---|---|
| **Other financial liabilities** | | |
| Settlements under other operations | 1,733,850 | 4,360,461 |
| Deferred income | 1,156,296 | - |
| Dividends payable | 1,568 | 1,568 |
| Payables for equipment intended for subsequent leasing | - | 90,001 |
| **Total other financial liabilities** | **2,891,714** | **4,452,030** |
| **Other non-financial liabilities** | | |
| Other taxes payable | 502,777 | 130,300 |
| Other | 222,381 | 368,343 |
| **Total other non-financial liabilities** | **725,158** | **498,643** |
| **Total other liabilities** | **3,616,872** | **4,950,673** |

### 21. Charter capital and additional paid-in capital

Declared, issued and fully paid-in capital includes the following components:

| | Declared charter capital | Issued charter capital | Paid-in charter capital | Total, with regard to inflation |
|---|---|---|---|---|
| **Balance on 31 December 2010** | **33,000,000** | **33,000,000** | **25,500,000** | **24,131,797** |
| Increase | - | - | 7,500,000 | 7,500,000 |
| **Balance on 31 December 2011** | **33,000,000** | **33,000,000** | **33,000,000** | **31,631,797** |
| Increase | 20,000,000 | 10,000,000 | 2,285,393 | 2,285,393 |
| **Balance on 31 December 2012** | **53,000,000** | **43,000,000** | **35,285,393** | **33,917,190** |

All common shares have par value of 10 000 UZS per share. Each share grants one voting right.

As of 31 December 2012 and 2011 the Group does not have preferred shares.

Changes in quantity of shares in circulation for the years are presented below:

| | Declared charter capital | Issued charter capital | Paid-in charter capital |
|---|---|---|---|
| **Balance on 31 December 2010** | **3,300,000** | **3,300,000** | **2,550,000** |
| Issue of common shares | - | - | 750,000 |
| **Balance on 31 December 2011** | **3,300,000** | **3,300,000** | **3,300,000** |
| Issue of common shares | 2,000,000 | 1,000,000 | 228,539 |
| **Balance on 31 December 2012** | **5,300,000** | **4,300,000** | **3,528,539** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

Additional paid-in capital equals to the amount by which contributions to capital exceed par value of issued shares. As of 31 December 2012 and 2011 additional paid-in capital equals to 227,483 thousands UZS and 150,000 thousands UZS respectively.

## 22. Retained earnings/ (Accumulated loss)

According to the legislation of Republic of Uzbekistan the Group may distribute in form of dividends only accumulated retained earnings under the Group's financial statements, prepared in accordance with the legislation of Republic of Uzbekistan. According to the legislation the Group should create reserve fund in the amount no less than 15% of Charter Capital.

In 2012 no dividends were paid. In 2011 under decision of the Group's shareholders interim dividends on common shares were paid in the amount of 7,650,000 thousands UZS.

The flow of retained earnings of the Group for the years, according to IFRS, is presented below:

| | Revaluation fund | Retained earnings/(accumulated loss) | Accumulated comprehensive income/(loss) |
|---|---|---|---|
| **Balance on 31 December 2010** | - | **(7,227,332)** | **(7,227,332)** |
| Increase, revaluation of fixed assets | 15,760,897 | - | 15,760,897 |
| Decrease, loss for 2011 | - | (1,958,843) | (1,958,843) |
| Decrease, payment of dividends | - | (7,650,000) | (7,650,000) |
| Decrease, effect of deferred tax liability on revaluation of fixed assets | (2,364,135) | - | (2,364,135) |
| **Balance on 31 December 2011** | **13,396,762** | **(16,836,175)** | **(3,439,413)** |
| Increase, income for 2012 | - | 3,741,008 | 3,741,008 |
| **Balance on 31 December 2012** | **13,396,762** | **(13,095,167)** | **301,595** |

## 23. Net interest income

| | 2012 | 2011 |
|---|---|---|
| **Interest revenues** | | |
| Loans to clients | 35,274,806 | 24,223,390 |
| Funds in other banks | 548,791 | 449,929 |
| Other interest revenues | 358,451 | 364,042 |
| **Total interest revenues** | **36,182,048** | **25,037,361** |
| **Interest expenses** | | |
| Funds of clients | 22,452,817 | 12,833,199 |
| Funds under issued debt securities | 1,793,555 | 1,022,844 |
| Funds of other banks | 1,166,905 | 1,793,055 |
| Other interest expenses | 707,450 | - |
| **Total interest expenses** | **26,120,727** | **15,649,098** |
| **Net interest income** | **10,061,321** | **9,388,263** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

## 24. Commission revenues and expenses

| | 2012 | 2011 |
|---|---|---|
| **Commission revenues** | | |
| Commissions for foreign exchange transactions | 19,815,823 | 14,603,890 |
| Commissions for settlement operations | 14,233,890 | 13,868,742 |
| Commissions for guarantees and letters of credit | 7,550,442 | 2,760,551 |
| Transactions with plastic cards | 4,847,923 | 2,244,043 |
| Commissions for encashment | 1,157,455 | 1,249,080 |
| Registration of import and export contracts | 222,665 | 110,793 |
| Issue of inquiries and extracts | 103,594 | 901,704 |
| Other | 2,488,694 | 122,070 |
| **Total commission revenues** | **50,420,486** | **35,860,873** |
| **Commission expenses** | | |
| Commissions to other banks | 3,232,408 | 1,452,212 |
| Settlement operations | 2,811,287 | 2,739,269 |
| Commissions for encashment | 1,366,205 | 1,329,826 |
| Commissions for plastic cards | 1,111,450 | 556,450 |
| Commissions for foreign exchange transactions | 540,708 | 213,558 |
| Software support | 365,981 | 335,318 |
| Transactions with securities | 100,512 | 28,031 |
| Other | 610,924 | 623,350 |
| **Total commission expenses** | **10,139,475** | **7,278,014** |
| **Net commission revenues** | **40,281,011** | **28,582,859** |

## 25. Net income/ (loss) from foreign exchange transactions

Net income/(loss) from foreign exchange transactions is the following:

| | 2012 | 2011 |
|---|---|---|
| Trade operations, net | 51,822 | 2,217,622 |
| Exchange differences, net | 1,235,867 | (2,905,059) |
| **Total income/(loss) from foreign exchange transactions** | **1,287,689** | **(687,437)** |

## 26. Other revenues

| | 2012 | 2011 |
|---|---|---|
| Fines and penalties | 7,780,637 | 1,415,024 |
| Dividend revenues | 452,877 | 126,737 |
| Revenue from sale of fixed assets | 175,432 | 80,807 |
| Revenue from rent of fixed assets | 29,066 | 24,322 |
| Other | 509,186 | 10,979 |
| **Total other revenues** | **8,947,198** | **1,657,869** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

## 27. Operating expenses

| | 2012 | 2011 |
|---|---|---|
| Salaries and bonuses | 13,410,062 | 9,370,227 |
| Other taxes, except for income tax | 5,066,040 | 3,605,612 |
| Depreciation and amortization | 4,746,785 | 3,567,022 |
| Single social tax | 3,522,540 | 2,998,403 |
| Financial aid to employees | 3,951,473 | 2,766,573 |
| Security | 4,176,815 | 2,579,008 |
| Membership fees | 3,210,466 | 2,463,280 |
| Rent | 1,363,955 | 1,583,828 |
| Communication | 1,405,226 | 1,185,796 |
| Office supplies | 1,282,205 | 785,127 |
| Repair | 1,049,183 | 781,484 |
| Advertising | 798,740 | 528,173 |
| Charity and sponsorship | 440,513 | 520,179 |
| Traveling expenses | 342,321 | 388,813 |
| Professional services | 361,549 | 367,821 |
| Other employee expenses | 538,490 | 359,518 |
| Vehicles maintenance expenses | 416,411 | 295,364 |
| Representation expenses | 129,628 | 187,877 |
| Insurance | 112,794 | 116,935 |
| Subscription expenses | 47,868 | 38,296 |
| Loss from disposal of fixed assets | 17,702 | 15,116 |
| Other | 510,719 | 702,560 |
| **Total operating expenses** | **46,901,485** | **35,207,012** |

## 28. Income tax

Income tax expenses include the following components:

| | 2012 | 2011 |
|---|---|---|
| Current income tax expenses | 1,124,514 | 1,397,302 |
| Less deferred taxation accounted for directly among other comprehensive income | (86,711) | 3,207,921 |
| **Income tax expenses for the year** | **1,037,803** | **4,605,223** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The comparison of theoretical tax expenses with actual tax expenditures is presented below:

| | 2012 | 2011 |
|---|---|---|
| **Income/(loss) under IFRS before taxation** | **5,993,858** | **86,498** |
| Theoretical tax payments under corresponding 15% rate | 899,079 | 12,975 |
| Non-deductible expenses | 183,030 | 400,035 |
| Non-deductible infrastructure tax | 407,582 | 17,897 |
| Effect from revaluation of fixed assets | - | 2,364,135 |
| Other | (451,888) | 1,214,271 |
| **Income tax expenses for the year** | **1,037,803** | **4,009,312** |

The differences between the IFRS and tax legislation of Republic of Uzbekistan result in emergence of certain temporary differences between the net book values of some assets and liabilities for the purposes of preparing financial statements and for the purposes of calculating the Group's income tax.

Due to the fact that certain expenses are not counted in calculation of income tax and that untaxable revenue also exists, the Group has arising permanent tax differences.

The Group calculates income tax in accordance with Tax Code of Republic of Uzbekistan. Effective income tax rate for banks in 2012 and 2011 was equal to 15% from taxable base.

In accordance with the tax legislation of Republic of Uzbekistan the Group also pays other taxes and contributions related to its operating activities.

Tax effect from temporary differences is the following:

| | 2012 | 2011 |
|---|---|---|
| **Tax influence of temporary changes decreasing tax base** | | |
| Reserve for impairment of loans to clients | 1,120,042 | 3,653,029 |
| Other | 183,030 | 85,035 |
| **Total amount of deferred tax assets** | **1,303,072** | **3,738,064** |
| **Tax influence of temporary changes increasing tax base** | | |
| Fixed and intangible assets | 724,997 | 588,073 |
| Revaluation of fixed assets | - | 15,760,897 |
| Other | - | 4,802,495 |
| **Total amount of deferred tax liabilities** | **724,997** | **21,151,465** |
| **Total net deferred tax asset/(liability)** | **578,075** | **(17,413,401)** |
| **Net deferred tax assets/(liabilities) at established 15% rate** | **86,711** | **(2,612,010)** |
| **Net deferred tax assets/(liabilities) as of 31 December** | **(1,929,388)** | **(2,016,099)** |

The net tax liabilities represent the amount of taxes and contributions payable. The net tax assets represent the advance payments for paid taxes and contributions.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

**29. Earnings per share**

Basic earnings per share are calculated by dividing net income, attributable to common stock, by weighted average number of common stock in circulation during the year less average number of common stock repurchased by the Bank from shareholders.

| | 2012 | 2011 |
|---|---|---|
| **Net income/(loss) attributable to shareholders possessing common shares** | **3,838,936** | **(1,958,843)** |
| Weighted average quantity of common stock in circulation | 3,312,281 | 2,562,500 |
| **Basic and diluted Earnings per Share (UZS)** | **1,159.00** | **(764.43)** |

**30. Dividends**

| | 2012 | 2011 |
|---|---|---|
| Dividends payable as of 1 January | **(16,836,175)** | **(7,227,332)** |
| Dividends declared during the year | - | 7,650,000 |
| **Dividends (overpaid) as of 31 December** | **(16,836,175)** | **(14,877,332)** |
| **Net income/(loss) for the year** | **3,838,936** | **(1,958,843)** |
| **Total comprehensive income for the period** | **3,740,941** | **11,437,919** |

The Group has directed retained earnings at payment of dividends according to the legislation of Republic of Uzbekistan, because the Group's profitability significantly differentiates from reporting prepared under IFRS.

Information about significant aspects related to assessment of uncertainty and the most important judgments made by management at IFRS application significantly influencing these financial statements are presented in Note 4.

All dividends on common stock are declared and paid in UZS.

**31. Contingent liabilities**

***Insurance***

The Group did not implemented in corpore insurance of fixed assets, insurance against discontinuation of activities, or insurance against liability of third parties in relation to property of ecological damages arising from defective equipment or from principal activity of the Group. Unless the Group obtains adequate insurance coverage there is a risk that loss or damage of its assets may negatively influence the activities and financial position of the Group.

***Legal issues***

In the course of ordinary activities the Group is an object of legal actions and claims. In the opinion of the management, probable liabilities (if exist) arising in result of such actions or claims will not materially influence the financial position or performance of the Group in future.

***Contingent tax liabilities***

Currently legislation of Republic of Uzbekistan comprises several normative acts that regulate system of taxes paid to the budget of Republic of Uzbekistan and local state budgets. These taxes comprise Value Added Tax, income tax, some other taxes and social taxes. Tax legislation of Republic of Uzbekistan allows different interpretations and is subject to frequent changes. Often there are different opinions concerning interpretation of regulatory documents both among different departments and within one department (i.e. State Tax Committee and its inspectorates). This creates uncertainty and grounds for many arguments. Tax returns and other legal commitments (e.g., issues of customs and foreign exchange regulations) are subject to revisions and inspections by different bodies that have legal power to implement significant disciplinary actions (e.g., fines and penalties) and that may follow more strict position in interpretation of legislation and inspection of tax reports. As a result, tax authorities may question those transactions and accounting principles that were not questioned earlier. Such situation creates higher probability that tax risks will arise in Republic of Uzbekistan, compared to countries with more developed taxation systems. Tax inspections may cover three calendar years of activities that directly forego the year of inspection. Under certain conditions earlier periods may also be inspected.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

As at 31 December 2012 the management considers that it applies adequate interpretation of the existing legislation and the Group's position in relation to tax, currency and customs issues will be supported by controlling authorities.

### *Credit related commitments*

The main objective of these instruments is assurance of extending funds to clients as need arises. The total amount of liabilities under guarantees, letter of credits and outstanding credit lines does not necessarily represents future cash claims, because the expiration or termination of the specified liabilities without extending funds to clients is also possible. Nevertheless, potential risk exists, that's why the statement of financial position among other liabilities under guarantees includes reserve for credit related commitments in relation to issued guarantees depending on the financial position of a client. In relation to the liabilities under extension of credits and outstanding credit lines the Group is in less extent subject to risk of emergence of losses, because in case of impairing extended loans the Group will not distribute remaining amounts. That is why reserve for these contingent credit related commitments is equal to zero.

The Group's credit related commitments are the following:

| | 2012 | 2011 |
|---|---|---|
| Letters of credit and other contingent liabilities related to settlement operations | 47,421,632 | 47,806,543 |
| Issued guarantees and similar commitments | 17,188,521 | 10,084,751 |
| Loan extension commitments | 4,150,764 | 2,571,696 |
| **Total credit related commitments** | **68,760,917** | **60,462,990** |

## 32. Risk management

The Group's risk management is effectuated in relation to financial risks (credit, market, foreign exchange risks, liquidity risk and interest rate risk), as well as operating and legal risks. The main task of financial risks management is identification of risk limits and further observance of these established limits. The assessment of accepted risk also serves as a basis for optimal distribution of capital with regard to risks, pricing of operations and assessment of performance results. Operating and legal risks management should provide for proper observance of internal regulations and procedures to minimize the operating and legal risks.

### *Credit risk*

The Group assumes the credit risk, i.e. risk that a partner will not be able to discharge completely the debts in a specified time period. The Group controls credit risk by establishing both the limits for individual borrowers or for a group of related borrowers, and the limits by industrial segment. The Group runs regular monitoring of such risks. The limits are revised at least annually. The limits of credit risk for borrowers are approved by the Board and Management of the Group.

The risk on a single borrower, including banks and brokerage firms, is additionally limited by the limits covering balance and off-balance sheet risks, as well as by daily limits of delivery risk in relation to trade instruments, such as forward currency contracts. Actual observance of the limits in relation to the level of accepted risk is controlled on daily basis.

Credit risk management is effectuated by regular analysis of ability of existing and potential borrowers to discharge interest payments and loan principal, as well as by revising credit limits, if necessary. Besides, in order to reduce risk the collateral is accepted in form of pledged property, warrantees of companies and physical persons.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The maximum level of credit risk of the Group is usually reflected in the net book value of financial assets in the statement of financial position. The possibility to offset assets and liabilities do not have essential value for decreasing potential credit risk. For guarantees and credit related commitments the maximum level of credit risk is equal to the amount of obligations identified in Note 32.

Credit risk on off-balance sheet financial instruments is defined as probability of losses because of inability of another participant of a transaction with this financial instrument to fulfill the terms of the contract. The Group applies the same credit policy in relation to contingent liabilities as in relation to balance sheet financial instruments, which is based on the transactions approval procedure, application of constraining risk limits and monitoring.

The Group performs the analysis of credits by maturity periods and subsequent control of overdue balances. That is why management provides data about overdue payments and other information related to credit risk.

The Group is subject to advance repayment risk because of issuing loans with fixed or floating interest rates, including mortgage loans, which allow a borrower advance repayment of loans. Financial performance and equity of the Group for current year and at the end of reporting period would not significantly depend on changes in rates under advance repayment, because such loans are recorded at amortized cost and advance repayment amount corresponds or almost corresponds to the amortized cost of loans to clients.

### *Maximum credit risk level*

The Group's maximum credit level may substantially vary depending on individual risks inherent in specific assets and general market risks.

The following table presents maximum level of credit risk for financial assets and contingent liabilities. For financial assets recorded on balance-sheet accounts maximum level of credit risk is equal to book value of these assets without accounting for offsetting of assets, liabilities and collateral. For financial guarantees and other contingent liabilities maximum level of credit risk represents maximum amount that the Group may have to pay if it is necessary to pay under grantee or in case of demanded borrowings under open credit lines.

As of 31 December 2012:

| | **Maximum credit risk level** | **Offsetting amount** | **Net credit risk level after offsetting** | **Collateral** | **Net credit risk level after offsetting and collateral** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 77,555,483 | - | 77,555,483 | - | 77,555,483 |
| Funds in other banks | 48,823,332 | - | 48,823,332 | - | 48,823,332 |
| Loans to clients | 270,680,730 | - | 270,680,730 | 269,411,269 | 1,269,461 |
| Investments available for sale | 3,595,089 | - | 3,595,089 | - | 3,595,089 |
| Investments in affiliated companies | 1,599,456 | - | 1,599,456 | - | 1,599,456 |
| Other financial assets | 30,952,420 | - | 30,952,420 | - | 30,952,420 |

As of 31 December 2011:

| | **Maximum credit risk level** | **Offsetting amount** | **Net credit risk level after offsetting** | **Collateral** | **Net credit risk level after offsetting and collateral** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 23,117,651 | - | 23,117,651 | - | 23,117,651 |
| Funds in other banks | 43,980,913 | - | 43,980,913 | - | 43,980,913 |
| Loans to clients | 205,577,815 | - | 205,577,815 | 196,917,943 | 8,659,872 |
| Investments available for sale | 1,155,138 | - | 1,155,138 | - | 1,155,138 |
| Investments in affiliated companies | 4,866,488 | - | 4,866,488 | - | 4,866,488 |
| Other financial assets | 19,441,497 | - | 19,441,497 | - | 19,441,497 |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

Financial assets are classified with regard to current credit ratings assigned by internationally recognized rating agencies. The highest possible rating is AAA. Investment level of financial assets corresponds to rating from AAA to BBB. Financial assets with rating below BBB are considered to be speculative.

Classification of the Group's financial assets by credit ratings is presented below:

| | AA | A | BBB | <BBB | Unrated | On 31 December 2012 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | 25,678,253 | 6,024,733 | 45,852,497 | 90,129,170 | 167,684,653 |
| Required reserves in Central Bank | - | - | - | - | 47,100,546 | 47,100,546 |
| Funds in other banks | | 36,867,203 | 1,256,978 | 10,699,151 | - | 48,823,332 |
| Loans to clients | - | - | - | - | 260,266,400 | 260,266,400 |
| Investments available for sale | - | - | - | - | 3,193,490 | 3,193,490 |
| Investments in affiliated companies | - | - | - | - | 1,599,456 | 1,599,456 |
| Other financial assets | - | - | - | - | 30,952,420 | 30,952,420 |

| | AA | A | BBB | <BBB | Unrated | On 31 December 2011 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | 11,973,020 | - | 3,250,587 | 60,138,963 | 75,362,570 |
| Required reserves in Central Bank | - | - | - | - | 40,829,989 | 40,829,989 |
| Funds in other banks | - | 39,386,704 | - | 4,594,209 | - | 43,980,913 |
| Loans to clients | - | - | - | - | 195,606,350 | 195,606,350 |
| Investments available for sale | - | - | - | - | 523,574 | 523,574 |
| Investments in affiliated companies | - | - | - | - | 4,866,488 | 4,866,488 |
| Other financial assets | - | - | - | - | 19,441,497 | 19,441,497 |

Organizations of banking sector are in general subject to risk arising in relation to financial instruments and contingent liabilities. Credit risk of the Group is concentrated in Republic of Uzbekistan. The level of credit risk is subject to continuous monitoring aiming at following credit and creditworthiness limits in accordance with risk management policy approved by the Group.

As long as not all counterparties of the Group possess ratings of international rating agencies, the Group has developed own instruments for determining ratings of counterparties comparable to ratings of international rating agencies. Such instrument is a rating model. Client rating is formed based on analysis of its financial indicators, analysis of industry and market of client operations. Rating model also considers qualitative parameters, such as management quality and company market share.

Use of internal rating model helps to standardize approach to client analysis and ensures quantitative assessment of borrowers' creditworthiness that do not possess rating of international rating agencies. Model also allows considering peculiarities of local markets.

The quality of internal rating model is verified continuously through evaluation of its effectiveness and validity. In case of any deficiencies revealed, the Group modifies the model.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The next table presents book value of overdue assets and assets that are not impaired, but that are also classified by time of becoming overdue:

| | Current not impaired assets | Less than 3 months | 3 to 6 months | 6 to 12 months | Impaired financial assets | On 31 December 2012 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 77,555,483 | - | - | - | - | 77,555,483 |
| Funds in other banks | 48,823,332 | - | - | - | - | 48,823,332 |
| Loans to clients | 243,623,692 | 6,764,153 | 4,509,577 | 2,254,789 | 13,528,519 | 270,680,730 |
| Investments available for sale | 955,526 | - | - | - | 2,639,563 | 3,595,089 |
| Investments in affiliated companies | 1,599,456 | - | - | - | - | 1,599,456 |
| Other financial assets | 30,952,420 | - | - | - | - | 30,952,420 |

| | Current not impaired assets | Less than 3 months | 3 to 6 months | 6 to 12 months | Impaired financial assets | On 31 December 2011 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 23,117,651 | - | - | - | - | 23,117,651 |
| Funds in other banks | 43,980,913 | - | - | - | - | 43,980,913 |
| Loans to clients | 187,239,036 | 7,811,040 | 2,825,192 | - | 7,702,547 | 205,577,815 |
| Investments available for sale | 131,516 | - | - | - | 1,023,622 | 1,155,138 |
| Investments in affiliated companies | 4,866,488 | - | - | - | - | 4,866,488 |
| Other financial assets | 19,441,497 | - | - | - | - | 19,441,497 |

### *Market risk*

The Group assumes market risk connected with open positions on interest, currency and equity instruments, which are subject to risk of general and specific changes in the market. The Group establishes limits in relation to the level of accepted risk and controls their observance on daily basis. However, application of this approach do not allow preventing emergence of losses, which exceed established limits, in case of more significant changes in the market.

Assets and Liabilities Management Committee manages interest rate and market risks by managing the Group's position in interest rates, ensuring positive interest rate margin. Treasury administration monitors current results of the Group's financial activities, estimates the Group's vulnerability in relation to changes in interest rates and influence on the Group's profit.

Majority of the Group's loan agreements and other financial assets and liabilities on which interest accrues have floating interest rate, or agreement conditions assume possibility of changing interest rate to creditors. The Group's management monitors the Group's interest rate margin and believes that the Group does not bear significant risk of changes in interest rate and corresponding risk in relation to cash flows.

### *Interest rate sensitivity analysis*

Interest rate risk is a risk of decreasing value of the Group's financial assets, except for those intended for trading purposes, and/or increase in value of the Group's liabilities due to changes in interest rate. Interest rate risk arises primarily due to the fact that the Group's assets' maturity period may exceed the Group's liabilities' maturity period (maturity gap). Sensitivity of the Group to changes in interest rate is evaluated under influence of market risk.

As of 31 December 2012 and 2011 the Group did not have any trading financial assets and liabilities being subject to floating interest rate and to interest rate sensitivity analysis.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

### *Geographical risk*

The geographical analysis of the Group's assets and liabilities as of 31 December 2012 is presented below:

| | Uzbekistan | OECD countries | Other countries | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 134,771,407 | 26,886,703 | 6,026,543 | 167,684,653 |
| Required reserves in Central Bank | 47,100,546 | - | - | 47,100,546 |
| Funds in other banks | 1,291,406 | 36,867,203 | 10,664,723 | 48,823,332 |
| Loans to clients | 260,266,400 | - | - | 260,266,400 |
| Investments available for sale | 3,193,490 | - | - | 3,193,490 |
| Investments in affiliated companies | 1,599,456 | - | - | 1,599,456 |
| Other assets | 3,855,796 | - | 27,096,624 | 30,952,420 |
| **Total financial assets** | **452,078,501** | **63,753,906** | **43,787,890** | **559,620,297** |
| **Financial liabilities** | | | | |
| Funds of clients | 592,946,283 | 453,819 | 1,633,896 | 595,033,998 |
| Funds of other banks | 39,926,623 | - | 1,367 | 39,927,990 |
| Issued debt securities | 10,139,694 | - | - | 10,139,694 |
| Other attracted funds | 2,135,207 | - | - | 2,135,207 |
| Other liabilities | 2,891,714 | - | - | 2,891,714 |
| **Total financial liabilities** | **648,039,521** | **453,819** | **1,635,263** | **650,128,603** |
| **Net balance sheet position** | **(195,961,020)** | **63,300,087** | **42,152,627** | **(90,508,306)** |

The geographical analysis of the Group's assets and liabilities as of 31 December 2011 is presented below:

| | Uzbekistan | OECD countries | Other countries | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 63,339,804 | 10,626,151 | 1,396,615 | 75,362,570 |
| Required reserves in Central Bank | 40,829,989 | - | - | 40,829,989 |
| Funds in other banks | 44,080 | 37,512,528 | 6,424,305 | 43,980,913 |
| Loans to clients | 195,606,350 | - | - | 195,606,350 |
| Investments available for sale | 523,574 | - | - | 523,574 |
| Investments in affiliated companies | 4,866,488 | | | 4,866,488 |
| Other assets | 5,493,226 | 1,541,065 | 12,407,206 | 19,441,497 |
| **Total financial assets** | **310,703,511** | **49,679,744** | **20,228,126** | **380,611,381** |
| **Financial liabilities** | | | | |
| Funds of clients | 441,247,475 | - | 1,177,977 | 442,425,452 |
| Funds of other banks | 13,883,982 | - | - | 13,883,982 |
| Issued debt securities | 8,691,894 | - | - | 8,691,894 |
| Other attracted funds | 2,069,448 | - | - | 2,069,448 |
| Other liabilities | 4,452,030 | - | - | 4,452,030 |
| **Total financial liabilities** | **470,344,829** | **-** | **1,177,977** | **471,522,806** |
| **Net balance sheet position** | **(159,641,318)** | **49,679,744** | **19,050,149** | **(90,911,425)** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

***Exchange risk.***

The Group assumes risk connected with the influence of fluctuations in exchange rates on its financial position and cash flows. The Assets and Liabilities Management Committee establishes the limits in relation to the level of accepted risk with a breakdown into currencies and in general, both at the end of each day and within one day, and controls their observance on daily basis.

The table below presents the analysis of the Group's exchange risk as at 31 December 2012. The Group's assets and liabilities are shown in the table at net book value with a breakdown into main currencies.

| | **UZS** | **USD** | **Euro** | **Other currencies** | **Total** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 59,166,022 | 99,084,060 | 8,774,202 | 660,369 | 167,684,653 |
| Required reserves in Central Bank | 3,619,577 | 43,480,969 | - | - | 47,100,546 |
| Funds in other banks | - | 46,691,042 | 2,132,290 | - | 48,823,332 |
| Loans to clients | 254,174,180 | 6,092,220 | - | - | 260,266,400 |
| Investments available for sale | 3,193,490 | - | - | - | 3,193,490 |
| Investments in affiliated companies | 1,599,456 | - | - | - | 1,599,456 |
| Other assets | 3,855,796 | 27,096,624 | - | - | 30,952,420 |
| **Total financial assets** | **325,608,521** | **222,444,915** | **10,906,492** | **660,369** | **559,620,297** |
| **Financial liabilities** | | | | | |
| Funds of clients | 332,062,147 | 251,528,632 | 10,954,116 | 489,103 | 595,033,998 |
| Funds of other banks | 39,707,488 | 220,502 | - | - | 39,927,990 |
| Issued debt securities | 10,139,694 | - | - | - | 10,139,694 |
| Other attracted funds | 2,135,207 | - | - | - | 2,135,207 |
| Other liabilities | 2,864,994 | 26,720 | - | - | 2,891,714 |
| **Total financial liabilities** | **386,909,530** | **251,775,854** | **10,954,116** | **489,103** | **650,128,603** |
| **Net balance sheet position** | **(61,301,009)** | **(29,330,939)** | **(47,624)** | **171,266** | **(90,508,306)** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The Group's position in relation to currencies as at 31 December 2011 is the following:

| | UZS | USD | Euro | Other currencies | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 13,343,600 | 55,907,712 | 5,810,916 | 300,342 | 75,362,570 |
| Required reserves in Central Bank | 27,527,922 | 13,302,067 | - | - | 40,829,989 |
| Funds in other banks | 43,479 | 39,762,832 | 4,174,602 | - | 43,980,913 |
| Loans to clients | 185,102,007 | 10,101,909 | 402,434 | - | 195,606,350 |
| Investments available for sale | 523,574 | - | - | - | 523,574 |
| Investments in affiliated companies | 4,866,488 | - | - | - | 4,866,488 |
| Other assets | 6,809,532 | 12,631,965 | | - | 19,441,497 |
| **Total financial assets** | **238,216,602** | **131,706,485** | **10,387,952** | **300,342** | **380,611,381** |
| **Financial liabilities** | | | | | |
| Funds of clients | 276,528,825 | 154,579,371 | 11,143,303 | 173,953 | 442,425,452 |
| Funds of other banks | 13,499,622 | 384,360 | - | - | 13,883,982 |
| Issued debt securities | 8,691,894 | - | - | - | 8,691,894 |
| Other attracted funds | 2,069,448 | - | - | - | 2,069,448 |
| Other liabilities | 4,452,030 | - | - | - | 4,452,030 |
| **Total financial liabilities** | **305,241,819** | **154,963,731** | **11,143,303** | **173,953** | **471,522,806** |
| **Net balance sheet position** | **(67,025,217)** | **(23,257,246)** | **(755,351)** | **126,389** | **(90,911,425)** |

The Group has advanced loans in foreign currency. Depending on cash flows received by a borrower, increasing foreign exchange rates in relation to UZS may negatively influence ability of borrowers to discharge loans. This increases the probability of incurring losses from loans. There are cases when there are no cash flows in foreign currency from borrowers, so that the Group covers loans at the expense of UZS conversion in foreign currency.

The table below presents the change in financial performance and comprehensive income as a result of possible changes in exchange rates used at the end of reporting period, all other conditions being equal. The reasonable and possible change in each exchange rate was determined based on limits of exchange rate fluctuations based on 10% difference from existing rates.

The influence on net income and capital based on nominal value of an asset as of 31 December 2012 and 2011 is presented below:

| | 2012 | 2011 |
|---|---|---|
| Appreciation of USD by 10% | (2,933,094) | (2,325,725) |
| Depreciation of USD by 10% | 2,933,094 | 2,325,725 |
| Appreciation of Euro by 10% | (4,762) | (75,535) |
| Depreciation of Euro by 10% | 4,762 | 75,535 |

The risk was calculated only for monetary balances in foreign currency that is different from the functional currency of the Group.

### *Price risk*

Price risk is risk of changes in cost of financial instrument as a result of changes in market prices irrespective of whether these changes are caused by factors specific for a separate security or its issuer, or by factors influencing all securities circulating in the market. The Group is subject to price risk due to influence of general or specific changes in market on its products.

For price risk management the Group uses periodic assessment of potential losses that may be incurred due to negative changes in market conjuncture and establishes adequate limits on the amount of acceptable losses, as well as requirements in relation to income and collateral norms. In relation to obligations on unused loans the Group may incur losses in the amount of total amount of such obligations. However, probable amount of loss is lower than the total amount of such liabilities, because in majority of cases origination of obligations depends on certain conditions specified in loan agreements.

### *Other price risk*

The Group is subject to prepayment risk due to extension of loans with fixed interest rate, including mortgage loans that grant borrowers right to prepay loans. Financial result and equity of the Group for current year and on current reporting date would not be significantly dependent on changes in rates on prepayment, because such loans are recorded at amortized cost, in the amount of prepayment corresponds or almost corresponds to amortized cost of loans and advances to clients.

### *Liquidity risk*

Liquidity risk arises when there is no match between maturities of operations with assets and operations with liabilities. The Group is subject to the risk because of everyday necessity to use existing monetary funds for settlements of clients' accounts, payments on deposits' maturity dates, issues of loans, payments under guarantees and derivative financial instruments. The Group does not accumulate monetary funds for simultaneous discharge of liabilities under all abovementioned claims, because based on existing practice it is possible to make rather accurate and precise forecast of required level of monetary funds to discharge these liabilities. The liquidity risk is managed by the Group's Assets and Liabilities Management Committee.

The Group tries to maintain stable financing base, which consists mainly of funds of other banks, deposits of legal entities and physical persons, as well as to invest funds in diversified portfolios of liquid assets in order to have a possibility to quickly and easily discharge unexpected liquidity claims.

The Group's liquidity management requires analysis of the liquid assets level required to discharge liabilities on their maturity dates; availability of appropriate plans in cases of problems with financing; control over compliance of balance sheet liquidity ratios with the legal requirements. The Group calculates the liquidity norms on daily basis in accordance with the requirements of Central Bank.

The information about financial assets and liabilities is received by the Assets and Liabilities Management Committee. Assets and Liabilities Management Committee provides for availability of adequate portfolio of short-term liquid assets, deposits in banks and other interbank instruments, as well as regulates established limits on short-term investments in credits (up to 30 days) to maintain sufficient liquidity level in the Group in general.

Assets and Liabilities Management Committee controls everyday liquidity position and regularly initiates liquidity stress-testing with different scenarios, which cover both standard and more unfavorable market conditions.

In cases when the amounts payable are not fixed, the amounts in the table are determined based on conditions existing on reporting date. Payments in foreign currencies are recalculated using spot exchange rate at the end of reporting period.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The table below presents the analysis of financial liabilities by maturity periods as at 31 December 2012:

| | Less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Funds of clients | 67,699,231 | 48,205,351 | 129,818,043 | 17,656,416 | - | 263,379,041 |
| Funds of other banks | 18,935,175 | - | 21,715,200 | - | - | 40,650,375 |
| Issued debt securities | - | 103,225 | 282,250 | 5,661,000 | 8,225,000 | 14,271,475 |
| Other attracted funds | - | - | 401,913 | 1,944,679 | - | 2,346,592 |
| **Total potential future payments under financial liabilities with accrued interest** | **86,634,406** | **48,308,576** | **152,217,406** | **25,262,095** | **8,225,000** | **320,647,483** |
| Funds of clients | 337,645,075 | - | - | - | - | 337,645,075 |
| Funds of other banks | 581,841 | - | - | - | - | 581,841 |
| Issued debt securities | 389,694 | - | - | - | - | 389,694 |
| Other financial liabilities | 2,891,714 | - | - | - | - | 2,891,714 |
| **Total financial liabilities** | **428,142,730** | **48,308,576** | **152,217,406** | **25,262,095** | **8,225,000** | **662,155,807** |

The table below presents the analysis of financial liabilities by maturity periods as at 31 December 2011:

| | Less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Funds of clients | 18,817,001 | 47,283,631 | 84,438,020 | 21,498,021 | 1,862,543 | 173,899,216 |
| Funds of other banks | 3,830,083 | 7,014,879 | 2,901,750 | - | 184,474 | 13,931,186 |
| Issued debt securities | - | - | 928,626 | 245,658 | 12,251,250 | 13,425,534 |
| Other attracted funds | - | - | 187,260 | 5,969,753 | - | 6,157,013 |
| **Total potential future payments under financial liabilities with accrued interest** | **22,647,084** | **54,298,510** | **88,455,656** | **27,713,432** | **14,298,267** | **207,412,949** |
| Funds of clients | 208,711,231 | 30,888,882 | 44,834,588 | - | - | 284,434,701 |
| Funds of other banks | 581,841 | - | - | - | | 581,841 |
| Other financial liabilities | 4,452,030 | - | - | - | - | 4,452,030 |
| **Total financial liabilities** | **236,392,186** | **85,187,392** | **133,290,244** | **27,713,432** | **14,298,267** | **496,881,521** |

Funds of clients are shown in the table above by periods remaining to maturity. However, according to the legislation of Republic of Uzbekistan, physical persons have right to withdraw money from their accounts before maturity date, but in such case they loose their rights on accrued interests.

In the opinion of the Group's management, coincidence and/or controlled non-coincidence of placement and maturity dates and interest rates on assets and liabilities is the principal factor for the successful management of the Group. Usually, in banks there is no complete coincidence of the abovementioned items, because the transactions usually have indefinite maturity periods and different nature. Non-coincidence of these items potentially increases the profitability of activities, but on the other hand the risk of emergence of losses also increases. Maturity periods of assets and liabilities and a possibility to substitute interest liabilities at acceptable cost, when their maturity dates approach, are the important factors for assessing the Bank's liquidity and its risks in case of changes in interest and exchange rates.

The Group's management considers that, despite significant proportion of "on-demand" funds of clients, diversification of such funds by the number and type of depositors, as well as experience gained by the Group during the previous periods indicate that these funds constitute long-term and stable source for financing the Group's activities.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

Liquidity requirements in relation to guarantees and letter of credits are considerably lower than the amount of corresponding liabilities, because the Group normally does not expect that funds under these liabilities will be demanded by third parties. The total amount of contractual obligations under credit arrangements does not necessarily represent the amount of monetary funds, which should be repaid in the future, because many of these liabilities may become unclaimed or terminated before their maturity date.

### *Interest rate risk*

The Group assumes risk connected with the influence of fluctuations in market interest rates on its financial position and cash flows. Such fluctuations may increase the level of interest margin, however in the case of unexpected change in interest rates the interest margin may also decrease or result in losses.

The Group is subject to interest rate risk primarily because of its activities on extension of credits at fixed interest rates in the amounts and on terms, which differ from the amounts and terms of funds obtained at fixed interest rates. In practice, interest rates are usually established for short terms. Besides, interest rates, which are fixed in the conditions of contracts both for assets and liabilities, are often revised by mutual agreement in accordance with current market situation.

The Group's Assets and Liabilities Management Committee establishes limits in relation to the accepted level of divergence in periods of changes in interest rates and controls their observance on regular basis. In case of absence of hedging instruments the Group usually strives for coincidence of interest rates positions.

The table below presents the general analysis of the Group's interest rate risk as at 31 December 2012. It also indicates the total amounts of financial assets and liabilities of the Group at net book value with a breakdown into interest rates revision dates in accordance with contracts or maturity periods, whichever is earlier.

| | On-demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | More than 5 years | Uncertain term | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 23,814,641 | 8,816,361 | - | - | - | - | 32,631,002 |
| Funds in other banks | - | - | 28,624,842 | - | - | - | 28,624,842 |
| Loans to clients | 39,663,140 | 29,769,757 | 87,108,426 | 93,525,077 | 10,200,000 | - | 260,266,400 |
| **Total financial assets on which interest accrues** | **63,477,781** | **38,586,118** | **115,733,268** | **93,525,077** | **10,200,000** | **-** | **321,522,244** |
| Cash and cash equivalents | 135,053,651 | - | - | - | - | - | 135,053,651 |
| Required reserves in Central Bank | - | - | - | - | - | 47,100,546 | 47,100,546 |
| Investments available for sale | - | - | - | - | - | 3,193,490 | 3,193,490 |
| Investments in affiliated companies | - | - | - | - | - | 1,599,456 | 1,599,456 |
| Other financial assets | 30,952,420 | - | - | - | - | - | 30,952,420 |
| **Total financial assets** | **229,483,852** | **38,586,118** | **115,733,268** | **93,525,077** | **10,200,000** | **51,893,492** | **539,421,807** |
| **Financial liabilities** | | | | | | | |
| Funds of clients | 67,128,638 | 47,006,681 | 128,588,807 | 14,664,797 | - | - | 257,388,923 |
| Funds of other banks | 18,866,000 | - | 20,800,000 | - | - | - | 39,666,000 |
| Issued debt securities | - | 100,000 | 250,000 | 4,500,000 | 5,000,000 | - | 9,850,000 |
| Other attracted funds | - | - | 365,708 | 1,769,499 | - | - | 2,135,207 |
| **Total financial liabilities on which interest accrues** | **85,994,638** | **47,106,681** | **150,004,515** | **20,934,296** | **5,000,000** | **-** | **309,040,130** |
| Funds of clients | 337,645,075 | - | - | - | - | - | 337,645,075 |
| Funds of other banks | 261,990 | - | - | - | - | - | 261,990 |
| Issued debt securities | 389,694 | - | - | - | - | - | 389,694 |
| Other financial liabilities | 2,891,714 | - | - | - | - | - | 2,891,714 |
| **Total financial liabilities** | **427,183,111** | **47,106,681** | **150,004,515** | **20,934,296** | **5,000,000** | **-** | **650,228,603** |
| Difference between financial assets and liabilities | (197,699,259) | (8,520,563) | (34,271,247) | 72,590,781 | 5,200,000 | 51,893,492 | (110,806,796) |
| Difference between financial assets and liabilities, on which interest accrues | (22,516,857) | (8,520,563) | (34,271,247) | 72,590,781 | 5,200,000 | - | 12,482,114 |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The table below presents the general analysis of interest rate risk as at 31 December 2011:

| | On-demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | More than 5 years | Uncertain term | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 24,025,306 | - | - | - | - | - | 24,025,306 |
| Funds in other banks | - | - | 4,961,525 | - | 0 | - | 4,961,525 |
| Loans to clients | 15,395,280 | 14,907,822 | 70,004,970 | 85,966,108 | 9,332,170 | - | 195,606,350 |
| **Total financial assets on which interest accrues** | **39,420,586** | **14,907,822** | **74,966,495** | **85,966,108** | **9,332,170** | **-** | **224,593,181** |
| Cash and cash equivalents | 51,337,264 | - | - | - | - | - | 51,337,264 |
| Required reserves in Central Bank | 40,829,989 | - | - | - | - | - | 40,829,989 |
| Funds in other banks | 1,861,258 | 8,000,690 | 29,157,440 | - | - | - | 39,019,388 |
| Investments available for sale | - | - | - | - | - | 523,574 | 523,574 |
| Investments in affiliated companies | - | - | 4,866,488 | - | - | - | 4,866,488 |
| Other financial assets | 19,441,497 | - | - | - | - | - | 19,441,497 |
| **Total financial assets** | **152,890,594** | **22,908,512** | **108,990,423** | **85,966,108** | **9,332,170** | **523,574** | **380,611,381** |
| **Financial liabilities** | | | | | | | |
| Funds of clients | 18,644,693 | 46,008,058 | 76,008,660 | 16,131,178 | 1,198,162 | - | 157,990,751 |
| Funds of other banks | 3,800,000 | 6,852,141 | 2,650,000 | - | - | - | 13,302,141 |
| Issued debt securities | 189,694 | - | 824,200 | 178,000 | 7,500,000 | - | 8,691,894 |
| Other attracted funds | - | - | 155,480 | 1,913,968 | - | - | 2,069,448 |
| **Total financial liabilities on which interest accrues** | **22,634,387** | **52,860,199** | **79,638,340** | **18,223,146** | **8,698,162** | **-** | **182,054,234** |
| Funds of clients | 208,711,231 | 30,888,882 | 44,834,588 | - | - | - | 284,434,701 |
| Funds of other banks | 581,841 | - | - | - | - | - | 581,841 |
| Other financial liabilities | 4,452,030 | - | - | - | - | - | 4,452,030 |
| **Total financial liabilities** | **236,379,489** | **83,749,081** | **124,472,928** | **18,223,146** | **8,698,162** | **-** | **471,522,806** |
| Difference between financial assets and liabilities | (83,488,895) | (60,840,569) | (15,482,505) | 67,742,962 | 634,008 | 523,574 | (90,911,425) |
| Difference between financial assets and liabilities, on which interest accrues | 16,786,199 | (37,952,377) | (4,671,845) | 67,742,962 | 634,008 | - | 42,538,947 |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The Group monitors interest rates on financial instruments. The table below presents interest rates on the basis of reports that were analyzed by key managers of the Group as of 31 December 2012:

| | UZS | USD | Euro | Weighted average effective interest rate |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Funds in Central Bank | 0.02% | - | - | 0.02% |
| Funds in other banks | - | До 4% | до 0.1% | 1.02% |
| Loans to clients | 6-40% | 10-20% | - | 16.9% |
| **Financial liabilities** | | | | |
| Funds of clients | 0.1-24% | 0.1-13% | 8-11% | 10.2% |
| Funds of other banks | 1-12.5% | 3.5-9% | - | 4.4% |
| Issued debt securities | 12-24% | - | - | 12.9% |
| Other attracted funds | 19-21% | - | - | 9.9% |

The table below presents interest rates on the basis of reports that were analyzed by key managers of the Group as of 31 December 2011:

| | UZS | USD | Euro | Weighted average effective interest rate |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Funds in Central Bank | 0.02% | - | - | 0.02% |
| Funds in other banks | - | 0.5-8% | до 1.4% | 2.01% |
| Loans to clients | 6-40% | 10-24% | 12% | 16.5% |
| **Financial liabilities** | | | | |
| Funds of clients | 3.6-25% | 6-17% | 6-17% | 11.09% |
| Funds of other banks | 6-11% | 3.5% | - | 9.5% |
| Issued debt securities | 12-24% | - | - | 12.67% |
| Other attracted funds | 19-21% | - | - | 20.44% |

## 33. Information by segments

The main format of presentation of information on segments of the Group's activities is presentation of information by operating segments, supplementary – by geographic segments.

### *Operating segments*

The Group undertakes activities in two main operating segments:

- Work with private clients – delivery of bank services to private clients, administration of current accounts of private clients, reception of savings deposits, presentation of investment savings products, safe custody services, servicing credit and debit cards, advancement of consumer loans and mortgage loans.
- Servicing corporate clients – administration of settlement accounts, attraction of deposits, advancement of overdrafts, borrowings and other lending services, non-acceptance charge-off of funds, transactions with foreign currency and derivate financial instruments.

Transactions between operating segments are effectuated on commercial conditions. Funds are reallocated among segments that result in reallocation of financing expenditures considered at calculation of operating income. Interest accrued on these funds is calculated based on cost of capital of the Group. Other substantial revenues or expenses from operations between operating segments do not exist. Assets and liabilities of segments represent assets and liabilities constituting the major part of balance sheet, except for such items as taxation of borrowed funds. Internal expenses and adjustments of transfer pricing are accounted for in results of corresponding segments. For reliable reallocation of incomes generated from external clients agreements on distribution of incomes exist among segments.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

Information on operating segments as of 31 December 2012 is presented below:

| | **Servicing physical persons** | **Servicing corporate clients** | **2012** |
|---|---|---|---|
| Interest revenues | 5,855,573 | 30,326,475 | 36,182,048 |
| Interest expenses | (17,468,232) | (8,652,495) | (26,120,727) |
| Restoration/(creation) of reserve for impairment of assets on which interest accrues | (1,061,674) | (4,805,416) | (5,867,090) |
| Commission revenues | 29,847,062 | 20,573,424 | 50,420,486 |
| Commission expenses | (81,942) | (10,057,533) | (10,139,475) |
| Net revenues/(expenses) from foreign currency transactions | (12,782) | 1,300,471 | 1,287,689 |
| Loss from investments available for sale | - | (85,035) | (85,035) |
| Reserve for impairment of other assets | - | (1,725,847) | (1,725,847) |
| Other revenues | 1,688,265 | 7,258,933 | 8,947,198 |
| Other expenses | - | (3,904) | (3,904) |
| **Total operating revenues** | **18,766,270** | **34,129,073** | **52,895,343** |
| Operating expenses | (16,639,762) | (30,261,723) | (46,901,485) |
| **Income/(loss) before income tax** | **2,126,508** | **3,867,350** | **5,993,858** |
| Income tax expense | (368,193) | (669,610) | (1,037,803) |
| Income/(loss) from discontinued activities | - | (1,117,119) | (1,117,119) |
| **Net income/(loss) for the period** | **1,758,315** | **2,080,621** | **3,838,936** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The table below presents information about segment concentration of assets and liabilities as of 31 December 2012:

| | Physical persons | Corporate clients | Inseparable | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | - | - | 167,684,653 | 167,684,653 |
| Required reserves in Central Bank | - | - | 47,100,546 | 47,100,546 |
| Funds in other banks | - | - | 48,823,332 | 48,823,332 |
| Loans to clients | 34,861,432 | 225,404,968 | - | 260,266,400 |
| Investments available for sale | - | 3,193,490 | - | 3,193,490 |
| Investments in affiliated companies | | 1,599,456 | - | 1,599,456 |
| Fixed and intangible assets | - | - | 49,787,200 | 49,787,200 |
| Other assets | 35,444,130 | 3,271,406 | 13,969,763 | 52,685,299 |
| Non-working assets intended for sale | 996,213 | - | 56,548,671 | 57,544,884 |
| **Total assets** | **71,301,775** | **233,469,320** | **383,914,165** | **688,685,260** |
| **Liabilities** | | | | |
| Funds of clients | 225,320,726 | 369,713,272 | - | 595,033,998 |
| Funds of other banks | - | - | 39,927,990 | 39,927,990 |
| Issued debt securities | - | 10,139,694 | - | 10,139,694 |
| Other attracted funds | - | 2,135,207 | - | 2,135,207 |
| Deferred tax liabilities | - | - | 1,929,388 | 1,929,388 |
| Other liabilities | - | 2,891,714 | 725,158 | 3,616,872 |
| Liabilities related to non-working assets intended for sale | - | - | 1,455,460 | 1,455,460 |
| **Total liabilities** | **225,320,726** | **384,879,887** | **44,037,996** | **654,238,609** |
| **Cumulative gap** | | | | **34,446,651** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

Information on operating segments as of 31 December 2011 is presented below::

| | Servicing physical persons | Servicing corporate clients | 2011 |
|---|---|---|---|
| Interest revenues | 4,673,810 | 20,363,551 | 25,037,361 |
| Interest expenses | (10,581,998) | (5,067,100) | (15,649,098) |
| Restoration/(creation) of reserve for impairment of assets on which interest accrues | (583,431) | (2,579,021) | (3,162,452) |
| Commission revenues | 15,783,233 | 20,077,640 | 35,860,873 |
| Commission expenses | (1,646,377) | (5,631,637) | (7,278,014) |
| Net revenues/(expenses) from foreign currency transactions | (9,366) | (678,071) | (687,437) |
| Loss from investments available for sale | - | (400,035) | (400,035) |
| Reserve for impairment of other assets | - | (75,963) | (75,963) |
| Other revenues | 503,919 | 1,153,950 | 1,657,869 |
| Other expenses | - | (9,594) | (9,594) |
| **Total operating revenues** | **8,139,790** | **27,153,720** | **35,293,510** |
| Operating expenses | (8,119,841) | (27,087,171) | (35,207,012) |
| **Income/(loss) before income tax** | **19,949** | **66,549** | **86,498** |
| Income tax expense | (379,430) | (1,265,747) | (1,645,177) |
| Income/(loss) from discontinued activities | - | (400,164) | (400,164) |
| **Net income/(loss) for the period** | **(359,481)** | **(1,599,362)** | **(1,958,843)** |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The table below presents information about segment concentration of assets and liabilities as of 31 December 2011:

| | Розничные услуги | Корпоратив-ные услуги | Не распреде-ляемое | Итого |
|---|---|---|---|---|
| **Активы** | | | | |
| Cash and cash equivalents | - | - | 75,362,570 | 75,362,570 |
| Required reserves in Central Bank | - | - | 40,829,989 | 40,829,989 |
| Funds in other banks | - | - | 43,980,913 | 43,980,913 |
| Loans to clients | 30,798,007 | 164,808,343 | - | 195,606,350 |
| Investments available for sale | - | 523,574 | - | 523,574 |
| Investments in affiliated companies | - | 4,866,488 | - | 4,866,488 |
| Fixed and intangible assets | - | - | 48,676,228 | 48,676,228 |
| Other assets | 12,631,965 | 33,493,249 | 4,066,689 | 50,191,903 |
| Non-working assets intended for sale | - | - | 43,934,320 | 43,934,320 |
| **Итого активов** | **43,429,972** | **203,691,654** | **256,850,709** | **503,972,335** |
| **Обязательства** | | | | |
| Funds of clients | 121,003,148 | 321,422,304 | - | 442,425,452 |
| Funds of other banks | - | - | 13,883,982 | 13,883,982 |
| Issued debt securities | - | 8,691,894 | - | 8,691,894 |
| Other attracted funds | - | 2,069,448 | - | 2,069,448 |
| Deferred tax liabilities | - | - | 2,016,099 | 2,016,099 |
| Other liabilities | - | 4,452,030 | 498,643 | 4,950,673 |
| Liabilities related to non-working assets intended for sale | - | - | 1,592,548 | 1,592,548 |
| **Итого обязательств** | **121,003,148** | **336,635,676** | **17,991,272** | **475,630,096** |
| **Совокупный разрыв** | | | | **28,342,239** |

***Geographic segments***

As of 31 December 2012 and 2011 all operations took place in Republic of Uzbekistan.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

**34. Prudential requirements**

In accordance with established quantitative norms for ensuring capital adequacy the Group is obliged to meet the requirements with regard to minimum amounts and norms of ratio of total capital (8%) and of tier-1 capital (4%) to the total amount of assets weighted with regard to their risk.

The norm was calculated in accordance with rules established by Base Agreement and use of the following risk estimates for assets and off-balance sheet liabilities less impairment reserve:

| Estimate | Description |
|---|---|
| 0% | Cash and cash equivalents |
| 0% | Accounts in Central Bank |
| 0% | Government debt obligations |
| 20% | Loans to clients and funds in banks, up to 1 year maturity |
| 100% | Loans to clients |
| 100% | Guarantees |
| 50% | Obligations under unused loans with initial maturity period more than 1 year |
| 50% | Letters of credit not secured by cash collateral |
| 100% | Other assets |

The table below presents analysis of sources of regulatory capital of the Group for subsequent determination of capital adequacy:

| | **2012** | **2011** |
|---|---|---|
| Flow of tier 1 capital | | |
| **On 1 January** | **28,342,384** | **16,923,562** |
| Issue of common shares | 2,285,393 | 7,500,000 |
| Additional paid-in capital | 77,483 | 150,000 |
| Income/(loss) | 3,741,008 | 11,437,919 |
| Other | 383 | (7,669,097) |
| **On 31 December** | **34,446,651** | **28,342,384** |

| | **2012** | **2011** |
|---|---|---|
| Composition of regulatory capital: | | |
| **Tier 1 capital** | **34,446,651** | **28,342,384** |
| Subordinated loan | 9,500,000 | 7,500,000 |
| **Total regulatory capital** | **43,946,651** | **35,842,384** |
| **Capital adequacy ratio** | | |
| Tier 1 capital | 7.09% | 7.75% |
| Total capital | 9.04% | 9.81% |

As of 31 December 2012 the Group has met capital adequacy requirements. In accordance with the established quantitative norms for ensuring capital adequacy the Group is obliged to meet the requirements with regard to minimum amounts and norms of ratio of total capital (8%) and of tier-1 capital (4%) to the total amount of assets weighted with regard to their risk.

The norm was calculated in accordance with rules established by Basel Agreement.

## 35. Capital management

The Group's capital management has the following objectives: observance of capital requirements established by Central Bank of Republic of Uzbekistan, and, in particular, requirements of deposits insurance system; assurance of the Bank's ability to function under going concern assumption, and maintenance of capital base on the level required to provide for 10% capital adequacy ratio according to the requirements of Central Bank of Republic of Uzbekistan. Control over capital adequacy required by Central Bank of Republic of Uzbekistan is performed monthly based on forecasted and actual data, which contain corresponding calculations that are verified and approved by Management of the Group.

Capital structure is considered on quarterly basis by the Group's Management and Board. In the course of this consideration the Management, in particular, analyses cost of capital and risks related to each class of capital. Based on Management recommendations the Group adjusts capital structure by paying dividends, issuing additional shares, attracting additional borrowed funds or paying on existing borrowings.

The Group's capital management is effectuated through development of policies, acceptance of strategic and tactical decision by the Group's Board, its Credit Committee, the Group's Assets and Liabilities Management Committee.

Aiming to reduce risks related to capital management the Group has developed and implemented capital management system. Formation principles and methods used in this system are clearly specified in Policy on Management of Assets and Liabilities and Credit Policy of the Group approved by the Group's Board. General policy of the Group with regard to risks related to capital management did not change comparing to 2008.

## 36. Fair value of financial instruments

Fair value is determined as a price, at which an instrument may be exchanged in a current transaction among interested parties willing to make a deal on market conditions, other than forced or liquidation sale. The best confirmation of fair value is a financial instrument quote on active market. As far as there is no liquid market for the major part of the Bank's financial instruments, their fair value should be estimated based on current state of the market and specific risks related to the particular instrument. The estimates presented below may not correspond to the amounts the Group may receive from the market sale of existing portfolio of the particular instrument.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

The estimates of fair value of the Group's financial instruments are presented below:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | **Book value** | **Fair value** |
| **Financial assets** | | | | |
| Cash and cash equivalents | 167,684,653 | 167,684,653 | 75,362,570 | 75,362,570 |
| Required reserves in Central Bank | 47,100,546 | 47,100,546 | 40,829,989 | 40,829,989 |
| Funds in other banks | 48,823,332 | 48,823,332 | 43,980,913 | 43,980,913 |
| Loans to clients | 260,266,400 | 260,266,400 | 195,606,350 | 195,606,350 |
| Investments available for sale | 3,265,990 | 3,193,490 | 523,574 | 523,574 |
| Investments in affiliated companies | 1,624,911 | 1,599,456 | 4,866,488 | 4,866,488 |
| Other assets | 30,952,420 | 30,952,420 | 19,441,497 | 19,441,497 |
| **Financial liabilities** | | | | |
| Funds of clients | 595,033,998 | 595,033,998 | 442,425,452 | 442,425,452 |
| Funds of other banks | 39,927,990 | 39,927,990 | 13,883,982 | 13,883,982 |
| Issued debt securities | 10,139,694 | 10,139,694 | 8,691,894 | 8,691,894 |
| Other attracted funds | 2,135,207 | 2,135,207 | 2,069,448 | 2,069,448 |
| Other financial liabilities | 2,891,714 | 2,891,714 | 4,452,030 | 4,452,030 |

The Group applies the following methods and assumptions to estimate the fair value of the abovementioned financial instruments:

***Financial instruments recorded as fair value***

Cash and cash equivalents, financial assets and liabilities valuated at fair value through profit or loss and financial assets available for sale are recorded in the statement of financial position at fair value. For certain financial assets available for sale there are no external independent market quotes. Fair value of these assets was estimated by the Group based on results of recent sale of shares in organizations – investment objects – to unrelated third parties, analysis of other information, such as discounted cash flows and financial information about organizations – investment objects, as well as based on other valuation methods applied.

***Funds in other banks***

Fair value of funds deposited at floating interest rate is equal to their book value. The estimated fair value of funds deposited at fixed interest rate is based on the estimate of discounted cash flows using interest rate on money market for instruments with similar level of credit risk and maturity period.

***Loans to clients***

The loans to clients are recorded after deduction of impairment reserve. The estimated fair value of loans to clients represents discounted amount of expected future cash flows. In order to determine the fair value the expected cash flows are discounted at current market rates.

***Investments available for sale***

Fair value is determined based on purchase quotes. Certain investments available for sale, for which quotes from external independent sources do not exist, are evaluated by the Group's management at fair value, which is based on results of recent sales of similar financial assets to unrelated third parties or is determined on the basis of indicative bid/ask quotes of each type of securities that are published by information agencies or presented by professional participants of securities market.

***Investments in daughter companies***

Investments in non-consolidated daughter companies are evaluated by the Group's management at fair value, which his based on recent sales of similar financial assets to unrelated third parties or is determined on the basis of indicative bid/ask quotes of each type of securities that are published by information agencies or presented by professional participants of securities market.

***Funds of other banks***

The fair value of funds of other banks with maturity period of less than one month is approximately equal to book value because of relatively short maturity period. For the funds of other banks with maturity period of more than one month fair value represents current amount of expected future cash flows discounted at corresponding market rates at the year end. In the opinion of the Group, the fair value of funds of other banks as of 31 December 2012 and 2011 does not differ significantly from their book value. This is explained by relatively short maturity periods of these obligations.

***Funds of clients***

The estimated fair value of liabilities with indeterminate maturity period represents an amount payable on creditor's demand. The estimated fair value of funds borrowed at fixed interest rate and other obtained funds without market quote is based on the estimate of discounted cash flows using interest rates for debt instruments with similar maturity period. In the opinion of the Group, the fair value of funds of clients as of 31 December 2012 and 2011 does not differ significantly from their book value. This is explained by existing practice of adjusting interest rates aimed at reflecting current market conditions. As a result, interest on the majority of balances is accrued at rates that are approximately equal to market interest rates.

***Issued debt securities***

Estimated fair value of issued debt securities at fixed interest rate is calculated based on discounted cash flows using existing in the money market interest rates for debt instruments with similar characteristics of credit risk and maturity periods. In case of issued debt securities that are quoted on exchange fair value is based on declared market prices.

***Other attracted funds***

Fair value of other attracted funds at fixed interest rate without market quote is based on discounted cash flows using interest rates for debt instruments with similar maturity periods. Estimated fair value of other attracted funds of the Group is approximately equal to book value, because these instruments do not have market quotes, similar instruments and were attracted under special conditions.

**37. Transactions with related parties**

For the purpose of these financial statements preparation the parties are regarded as affiliates if one of them has a possibility to either control another or significantly influence its process of financial and operating decision-making, as stated in IAS 24 "Related party disclosures". When considering all possible interrelations with related parties, one considers the economic substance of such interrelations, but not their legal form only.

In the course of ordinary activities the Bank performs transactions with its principal shareholders, directors, as well as other parties. These transactions comprise effectuation of payments, issue of loans, mobilization of deposits, issue of guarantees, financing trade and foreign exchange operations. According to the Bank's policy, all transactions with related parties are performed on the same conditions as with independent parties.

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

Balances at the year end and volumes of performed transactions with related parties are presented below:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Transactions with related parties | Total by category in accordance with items of financial statements | Transactions with related parties | Total by category in accordance with items of financial statements |
| **Loans to clients** | **15,050,983** | **270,680,730** | **30,813,898** | **205,577,815** |
| - parent company | 659,700 | | - | |
| - parties possessing joint control or significant influence on the Group | 14,391,283 | | 30,813,898 | |
| **Reserve for impairment of loans to clients** | **287,826** | **10,414,330** | **-** | **9,971,465** |
| - parent company | - | | - | |
| - parties possessing joint control or significant influence on the Group | 287,826 | | - | |
| **Other assets** | - | **52,685,299** | **15,900,000** | **50,191,903** |
| - parent company | - | | 15,900,000 | |
| - parties possessing joint control or significant influence on the Group | - | | - | |
| **Funds of clients** | **4,241,686** | **595,033,998** | **6,210,129** | **442,425,452** |
| - parent company | 3,553,003 | | - | |
| - parties possessing joint control or significant influence on the Group | 688,683 | | 6,210,129 | |
| **Issued debt securities** | **200,000** | **10,139,694** | **740,000** | **8,691,894** |
| - parent company | 200,000 | | - | |
| - parties possessing joint control or significant influence on the Group | - | | 740,000 | |
| **Other attracted funds** | **-** | **2,135,207** | **2,069,448** | **2,069,448** |
| - parent company | - | | - | |
| - parties possessing joint control or significant influence on the Group | - | | 2,069,448 | |

*Notes to Consolidated Financial Statements for the year ended December 31, 2012 (in thousands UZS)*

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Transactions with related parties | Total by category in accordance with items of financial statements | Transactions with related parties | Total by category in accordance with items of financial statements |
| **Interest revenues** | **1,875,248** | **36,182,048** | **1,732,506** | **25,037,361** |
| - parent company | 11,414 | | - | |
| - parties possessing joint control or significant influence on the Group | 1,863,834 | | 1,732,506 | |
| **Interest expenses** | **50,744** | **26,120,727** | **708,216** | **15,649,098** |
| - parent company | 40,226 | | - | |
| - parties possessing joint control or significant influence on the Group | 10,518 | | 708,216 | |
| **Commission revenues** | **251,472** | **50,420,486** | **356,810** | **35,860,873** |
| - parent company | 106,907 | | - | |
| - parties possessing joint control or significant influence on the Group | 144,565 | | 356,810 | |
| **Issued guarantees and similar liabilities** | **-** | **17,188,521** | **127,931** | **10,084,751** |
| - parent company | - | | - | |
| - parties possessing joint control or significant influence on the Group | - | | 127,931 | |
| **Remuneration to key management personnel** | **1,987,437** | **13,410,062** | **1,119,742** | **9,370,227** |