

ANNUAL REPORT
OF THE NATION BANK OF UZBEKISTAN
2004 YEAR

Contents:

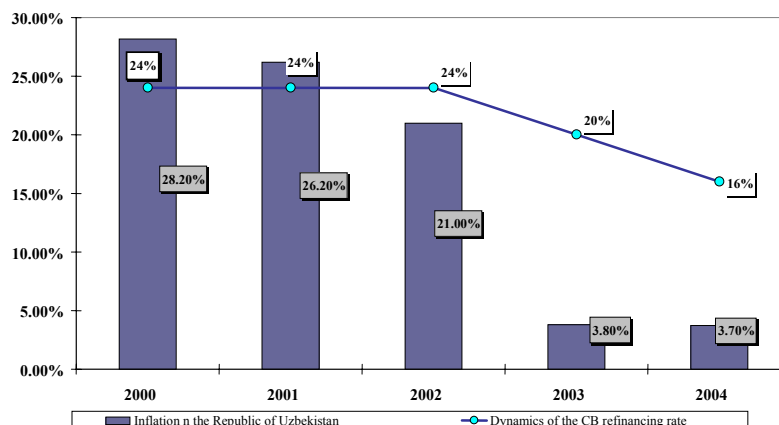
ECONOMY OF UZBEKISTAN	3
MAJOR RESULTS OF BANK'S PERFORMANCE IN 2004	6
CORPORATE BANKING	10
<u>BRANCH NETWORK</u>	11
<u>LENDING ACTIVITY</u>	12
<u>PROJECT FINANCE</u>	13
<u>SMALL BUSINESS AND PRIVATE ENTREPRENEURSHIP LENDING</u>	14
BANK IN THE INTERNATIONAL SCENE	17
RETAIL BANKING	19
<u>DEPOSIT OPERATIONS</u>	19
<u>CARD BUSINESS</u>	21
INVESTMENT BANKING	23
DEVELOPMENT OF BANKING TECHNOLOGIES	26
BANK'S PERSONNEL	27
CHALLENGES FOR 2005	28

ECONOMY OF UZBEKISTAN

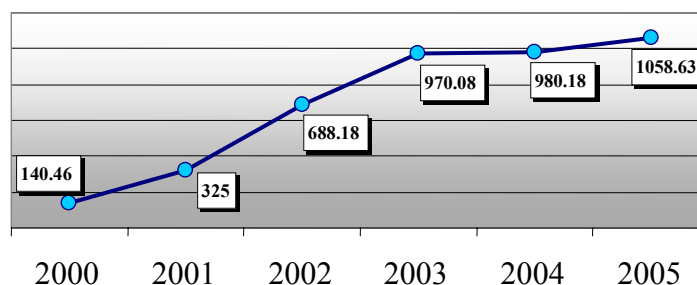
In 2004, the Republic of Uzbekistan has fixed the achieved high rates of economic growth. For the first time during the years of reformation, rates of the GDP growth rate have reached 7.7%, or by 3.3% exceeded this parameter of increase from the year 2003. Accelerated macroeconomic growth has been observed practically in all branches sectors of the economy, including industrial sector – 109.4%, agriculture - 110%, payment services area – 113.8%, construction – 103.6%, etc. and others.

Optimization of fiscal administration provided resulted in execution of the revenue side of the State Budget by 102.2% compared with the of the annual forecast value. Following tThe 2004 year results, show the State budgetary deficit made up at 0.4% of GDP and which was has been fully financed by the from non-inflationary sources.

As a result of In 2004 level of devaluation of the national currency against the US dollar has not did not exceeded 8%, and inflation – 3.7%. Accounting for Taking into account the achieved conditions of macroeconomic stabilization in a 2004, the country's Central Bank was gradually reducing the refinancing rate from 20% to 16%, which in turn and that allowed resulted in corresponding changing of the interest rates throughout the entire financial system.



Dynamics of the official USD/Soum exchange rate established by the Central Bank of the RUz (as for the beginning of 2000-2005)



Due to the introduction of convertibility of the national currency under current international operations at the end of 2003, the country's economy gained a new development impulse that had its positive impact on the expansion of production and exports of competitive products by domestic manufacturers. In 2004 the foreign trade turnover increased by 29.6% against 2003 and amounted to US\$ 8,669 million. Total exports increased by 30.3% and reached US\$ 4,853 million, of which 52.6% were exports of finished goods for non-primary purposes. Foreign trade surplus amounted to US\$ 1,037 million that is US\$ 276.2 million in excess of 2003. Import structure was dominated by capital goods (equipment), which accounted for 46%, consumer goods accounted for 29.1% and intermediate goods - 24.9%.

The balance of payments current account balance showed positive dynamics. In particular, if in 2002 the current account surplus amounted for 2.3% of GDP, in 2003 – 3.4% of GDP; in 2004 this figure reached 3.8% of GDP. Similar to the current account balance, trade balance in 2002 was also positive and amounted to 2.9%, in 2003 – 7.7%, and in 2004 – 8.7% of GDP. Compared to 2003 volume of production by enterprises with foreign investments grew by 24%, their share in the total production volume reached 20.2%, their exports increased by 39.1%.

Growth of the industrial output reached 109.4%; share of manufacturing sector in GDP increased from 15.8% in 2003 to 17.1% in 2004. Creating incentives for production of finished goods and localization of production in engineering industry and metal-processing, ferrous metallurgy, timber and wood-working industries, glass industry and in the production of building materials significantly contributed to achievement of positive results. There is an increase in the output of liquefied gas, coal, rolled ferrous metal, steel and cement. Moreover,

following the adoption of measures encouraging consumer goods production in terms of tax and customs privileges, simplification of licensing procedures, certification of consumer goods producer enterprises, their production level increased by 13.4% in 2004 compared to 2003. The output of nonfoods and foodstuffs grew by 118.6% and 112.1% respectively. Share of nonfoods in the total production volume increased from 48.2% to 50.4%.

Due to favorable conditions created for the investments in the economy of Uzbekistan the utilization of capital investments increased by 5.2% in 2004 compared to 2003. Overall, the country utilized 2,473.2 billion Soum of capital investments from all sources of finance. Increased foreign investor activity has been observed. In 2004 US\$ 754.6 million of foreign investments and loans were attracted within the framework of the Investment Program. The volume of foreign direct investments and non-guaranteed loans has doubled.

Restructuring of agricultural enterprises, introduction of new market-based lending mechanisms to these enterprises and enhancement of contractual relations have significantly accelerated development of agricultural sector. In 2004 agricultural output increased by 10.1%.

Improvement of the legislative base, taxation and lending systems for small business entities influenced the increase of their share in GDP to 35.6% against 35% in 2003. In 2004 the number of small business enterprises, registered in the country, increased by 14% and reached 277,400 entities. The volumes of loans allocated to small business entities by commercial banks and non-budget funds amounted to 353.7 billion Soum, including 43.1 billion in micro-credits. Medium- and long-term loans account for 70.3% of the total volume. Banks allocated 9.3 billion Soum to 8,480 small business entities to build up their starting capital. Development of small and private businesses allowed to create 427,600 new job-places which is 13.9% more than in 2003.

Measures implemented in the priority areas of economic reforms in 2004 had a favorable influence on the development of social sphere and enhancement of major indicators of living standards of the population. Along with the steady growth of the economy, a series of purposeful measures implemented within the programs of the «Year of Kindness and Mercy» served as a basis for the positive trends in the social sphere, increase in the social and political activity of women, training of the human resources.

The efforts towards increasing the share and significance of the private sector in the economy continued in 2004. One of the elements of this work is the acceleration of denationalization processes, as a result of which 1841 state-owned enterprises were privatized in 2004. Revenues from privatization totaled to 78.5 billion Soum, which is 1.4 times in excess of the 2003 figure. Sale of state-owned entities and stocks to foreign investors amounted to 46.3 million in US\$ equivalent with the investment obligations covering US\$ 24.7 million and 4.1 billion Soum. In 2004 foreign partners fulfilled their investment obligations in the amount of US\$ 16.5 million, or 103.4% of the annual forecast. In the structure of the investment obligations equipment procurements accounted for over 60%. By the decisions of territorial tender commissions 242 enterprises and entities were sold at zero redemption value conditional to investments to be made for the amount of 86.3 billion Soum and US\$ 9.5 million.

In 2004 large-scale work was carried out on implementation of the administrative reform stipulating realization of complex measures aimed to reduce the role of the state in governing the economy. In accordance with this reform, the process of revision of tasks and functions of the state and economic governance bodies was practically completed. The Government has adopted 49 decisions with respect to major ministries, authorities and economic associations. Over 20 state and economic governance bodies have been liquidated

to abolish excessive units in the management of economic entities activity. In the course of the administrative reform the number of management staff was reduced by about 40,000 , which saved the budget over 42 billion Soum.

Positive results in social and economic development of the Republic of Uzbekistan achieved in 2004 that have been appreciated by respectable international organizations and foreign analytical centres. The achievements of the country once again proved the correctness and efficiency of the policy pursued by the President of Uzbekistan I.Karimov directed towards further liberalization of the economy and acceleration of structural reforms ensuring macroeconomic stability and sustainable high rates of economic growth.

MAJOR RESULTS OF BANK'S PERFORMANCE IN 2004

In 2004 the Bank has shown demonstrated positive development dynamics of development and strengthened its position in the Republican country's financial market.

The clientele customer base has increased by **41%** and exceeded **602,000** thousands of corporate and retail customers.

The consolidated balance of the National Bank in terms of US dollars terms comprised amounted to **2,920** million.

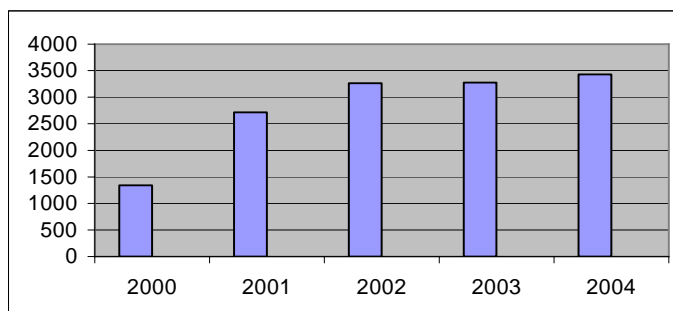
During the reporting financial year the Bank's capital of Bank has increased by US\$ **11** million and as of 01.01.2005 made up amounted to US\$ **485** million.

In 2004 credit portfolio increased by **123.3** billion Soum. At the same time, its structure is dominated by the long-term credits loans accounting for weighting 73.5%.

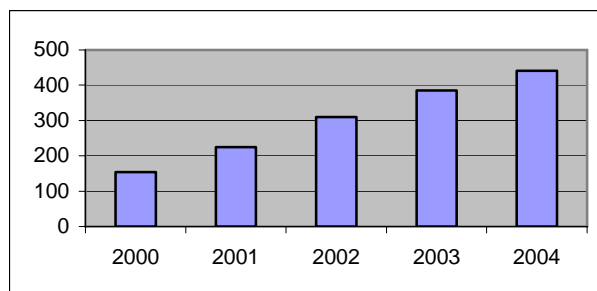
In 2004 the National Bank attracted foreign loans of over US\$ **368** million and EURO **100** million in foreign loans to finance priority sectors of the economy. Among them theThese include credit lines of the Export-iImport Bank of China, Islamic Development Bank and of a number of the European banks.

Besides thatMoreover, for the first time in the banking practices in the Republiccountry, the National Bank opened a revolving credit line totaling over for US\$ 60 million to its subsidiary JSC "Asia-Invest Bank" (Moscow) in Moscow to support exports of finished products goods from Uzbekistan to Russia.

Between 2000 and 2004 the consolidated balance sheet of the National Bank in terms of national currency – Soum - has increased by 3.5 times:



During the same period the capital of the National Bank in terms of national currency terms has increased by 3.6 times:



Operational The balance of the Bank's in terms of operations in the national currency is steadily constantly growing. For the period since From 2000 till to 2004 the growth made up was by 2.9 times, including 115% for year 2004.

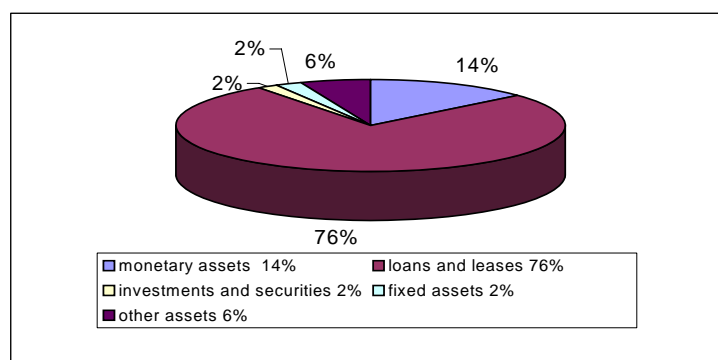
Despite the significant growth of transaction volumes in national currency, the National Bank, due to high level of capitalization, continues to keep maintain a significant reserve for the expansion of its clientele customer base.

From the organizational point of view assets and liability management is based on the split separation of the strategic and operativeonal management functions in the management of for attracted and placed allocated resources, including segregation of the analytical, supervisory and operational functions.

Strategic tasks of the Bank's asset/liability policy aim to provide reliability and yield profitability growth. To solve these problems one needs This requires flexibility and operative immediate response to the changes in the macroeconomic situation in the country and in the world global financial system of finance, within some cases a non-standard resolutions adopted in particular cases can be needed.

Asset/liability management through the balanced liquidity management of liquidity provides the Bank with the toolkits able to protect deposits and loans from the effect influence of fluctuations of business cycles and seasonal fluctuations; it and also provides allows to generate funds to form build the assets portfolio to promoting achievement realization of the Bank's goals.

Structure of assets of the National Bank for FEA RUz



A significant share in the structure of assets of the National Bank is occupied by lending operations , which accounted for 76% of total assets of the Bank in 2004 . This demonstrates the leading role of lending in the business of the Bank.

At the same time, the increasing number of people actively involved in business and development of private entrepreneurship, growth of welfare of the population and trust to the banking sector is reflected not only in the credit portfolio structure, but also in the structure of the resource base of the Bank. Both in the structure of credit portfolio and the resource base the share of private entrepreneurs and individual depositors has been growing.

Apart from the increased share of retail services, both in terms of foreign and national currencies, in the liabilities structure, a clear downward trend in the share of intergovernmental credits in Bank's liabilities in terms of foreign currencies starts to be observed.

The shift in the sources of funds is explained by the changes in the state policy on external borrowings (growth of the direct investments and borrowings from the IFI, reduction of borrowings guaranteed by the State), as well as the increase of the role of retail business. The trend of increasing of the share of customer deposits and simultaneous reduction of the share of intergovernmental credits in sources of funds will also be maintained in 2005.

One of the factors describing the quality of the National Bank's operations is **capital adequacy ratio** (ratio of bank's capital to the risk-weighted assets), which shows the reserves possessed by the Bank to protect interests of its depositors and adequacy of their size .

The national standards of capital adequacy ratio are much higher than the required minimum value (10 %) and in the period between 2000 and 2004 the ratio stood at:

2000	2001	2002	2003	2004
40,4%	34,8%	34,0%	31,0%	26,0%

National Bank's policy related to the high level of capital adequacy ratio is justified, as it secures the reputation of a stable financial institution and creates a sufficient reserve for the attraction of customers and expansion of the base to experience the balance sheet growth.

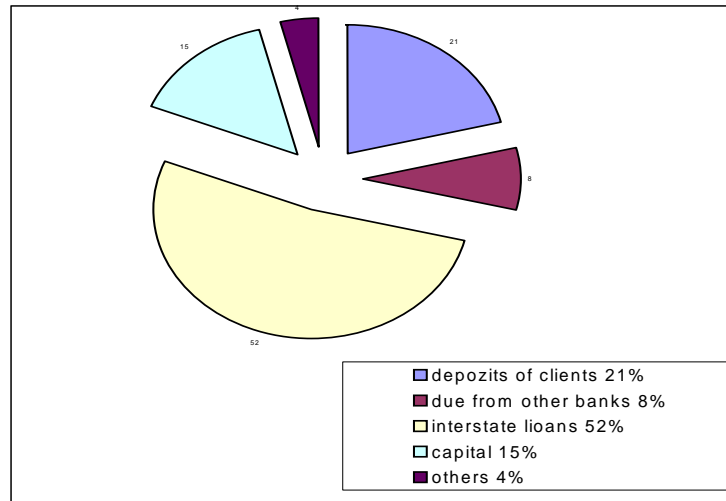
At the same time relative decrease in the capital adequacy ratio evidences the expansion of the Bank's operations businesses and increased efficiency in utilization of the Bank's equity.

The Bank has constantly maintained economic *standards for liquidity and capital adequacy set by the Central Bank of the Republic of Uzbekistan* (See Appendix).

The resources of the National Bank are comprised by equity and debt capital. Share of the equity capital in the consolidated balance sheet of the Bank in terms of national currency was 12% in 2004. During the period between 2000 and 2004 the share of the equity capital increased from 11% in 2001 to 13% in 2002 and 2003.

Capitalization ratio reflecting the relationship of equity to debt capital equalled to 14% in 2004.

Structure of liabilities in 2004

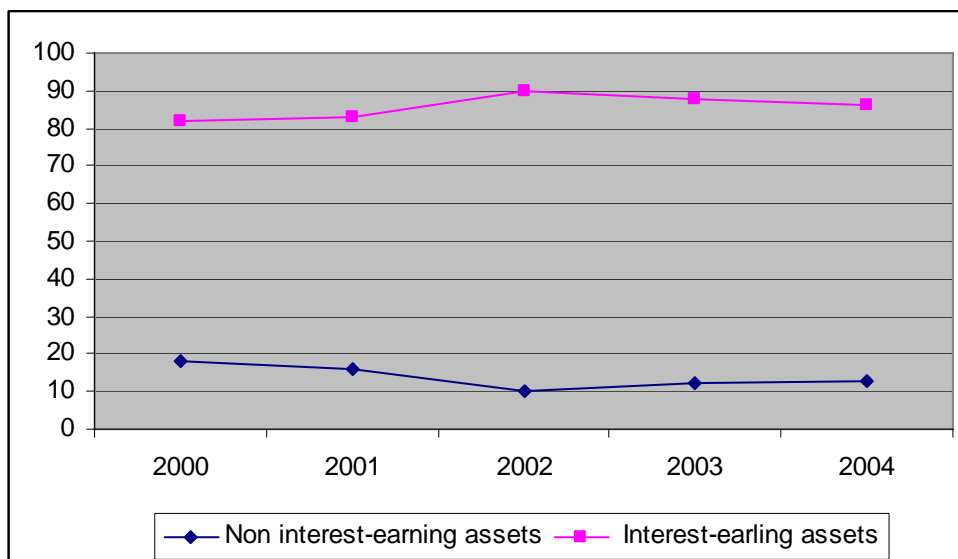


Distinctive feature of the liabilities structure of the Bank is related to its role of as the agent of the Government of the Republic in attracting foreign investments and loans into the economy of Uzbekistan. In this connection Due to this, a significant share belongs to the interstate loans take a significant weight.

Asset/liability management is inseparably connected linked with the pricing policy of the bBank. Decisions on sizes of base interest rates for deposits and credit loans interest rates are taken on the basis of a business- plan and consideration of the macroeconomic factors.

Share of interest-earning assets in the National Bank is traditionally high, and made up equaled to 87% of total assets in 2004. This reflects the policy of the Bank directed to the achievement of maximum profit under strict and unconditional observance maintenance of the necessary required level of to capital adequacy, liquidity and maintenance of development.

Change Dynamics of the share of interest-earning assets during 2000-2004 years is shown in the following graph:



Besides that Moreover, the Bank's activity is guided by the has its own internal systems of introduction of the for establishing and control supervision of risk exposure limits of risk exposure in such areas like as limits on one for a single borrower, correspondent banks, for operations in the open money market, open currency positions, operations with GKO (State Treasury Bonds), trade portfolio, investment portfolio, etc and others.

In the process of When considering fund allocation placement issues with development plans the Bank was taking took into account the regulatory requirements of the Central Bank of the Republic of Uzbekistan and credit agreements with the international financial institutions in addition to the development plans.

On the wholeIn general, the high weight large share of lending in the balance sheet of the National Bank testifies to a demonstrates the priority position of corporate operations directed towards the development of basic branches sectors of the national economy, increasing of the amount volume of export-oriented and import-substituting productions in its activity

Today, the corporate business of the National Bank is a complex ramified diversified system offering over a hundred of banking products and multitude of financial schedules schemes aiming to satisfy financial needs of all categories of corporate customers.

CORPORATE BANKING

Satisfaction of customers' interests, guaranteeing safety of their assets is achieved in our Bank through implementing policy of reasonable conservatism in the process of asset management and maintaining high level of liquidity.

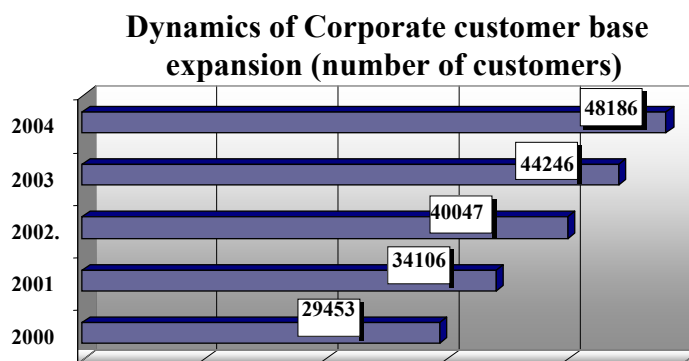
Bank's clientele is widely diversified with customers from various sectors of the economy, which allows us to maintain necessary stability of our liabilities and minimize risks of assets management.

M. Rakhimjanov
SENIOR EXECUTIVE DIRECTOR
HEAD OF CORPORATE BANKING GROUP

National Bank's customer relations policy in 2004 was directed towards increasing the volume and stability of business through expansion and diversification of the customer base and offering competitive banking services.

National Bank's customer relations policy in 2004 was directed towards increasing the volume and stability of business through expansion and diversification of the customer base and offering competitive banking services.

During the past years the Bank has moved to a new stage in development of relations with corporate customers based on principles of individual approach and offering structured banking products. As a result, the number of corporate customers of the National Bank has been constantly increasing, and in 2004 grew by 9% and reached 48,200 enterprises and organizations representing almost 1/6 of all corporate businesses entities in the country.



This became possible due to the establishment of long-term partnership relations with the corporate customers of the Bank based on the balanced tariff policy and strengthening of the authority of the National Bank.

В числе крупнейших клиентов Банка можно выделить предприятия:

- Ferrous and non-ferrous metallurgy;
- Mining industry;
- Electric power industry;
- Construction;
- Oil extraction, oil processing;
- Logistics;
- Textiles and food-processing industry; retail trade.

The structure of customer base attracted in 2004 demonstrates a clear tendency of increasing share of small business enterprises (57%). This sector of economy is the area of employment and source of income for a significant part of the population of Uzbekistan. By providing citizens with an opportunity to become property owners, including ownership of production facilities, small business and private entrepreneurship create a basis for the formation of the middle class – a social layer that ensures stability and development of the society.

A significant share of farm enterprises in the structure of the attracted customers is the result of realization of the Program of Measures related to Farm Enterprise Development Concept and the Program of Development of Industrial and Market Infrastructure in Rural Areas.

The Bank adheres to the concept of personal customer management which requires assignment of an individual manager responsible for efficient handling of customer's operations. In carrying out most complicated and complex operations such personal manager provides the customer with a comprehensive analysis of his project, gives qualified advice, attracting upon necessity experts from specialized divisions, and supervises fulfillment of

concrete financial transactions. By offering comprehensive service the Bank aims to strengthen and develop mutually advantageous partnership relations with its customers. The experience proves that accumulation of funds within a single bank contributes to their efficient management, immediacy in handling various financial transactions and minimization of risk exposure.

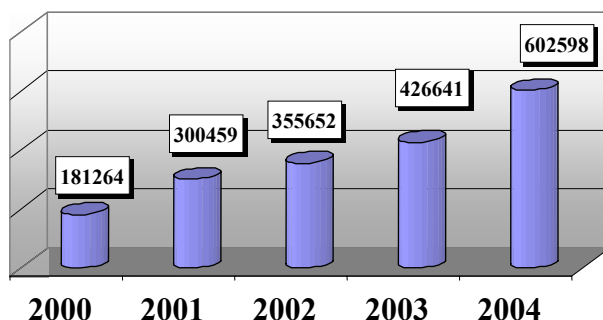
Branch network

The dynamic development and management of the branch network is a priority direction in the National Bank’s activity. Presently, 98 offices and branches located in all regions of the country provide a wide range of modern banking services.

The year 2004 became a period of further modernization and development of the branch network. Through introduction of new banking products, the Bank aimed to improve the quality of services rendered to the customers.

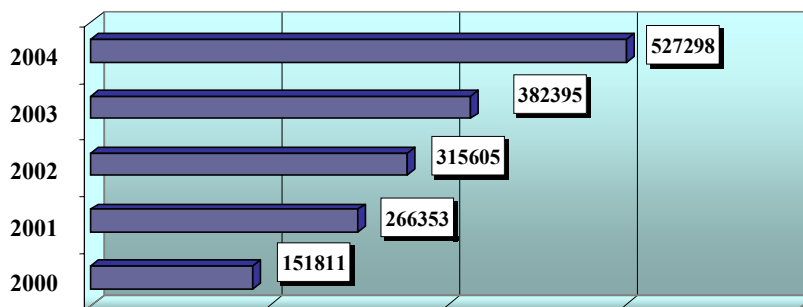
The continuous work of branches allowed to expand considerably the customer base, increasing the total number of customers to **602,600**, or by over **40%** in 2004.

Dynamics of total NBU Customer Base Expansion



Significant growth of the number of served clientele customers falls on the is generated by retail customers; whose during 2004 their number increased from 382,000 thousand in 2003 to **527.300 thousand in 2004**, or by **37%**.

Growth in the number of retail clients



The above-said reflects the fulfillment of one of the strategic tasks of the Bank - development of retail services.

Availability of own resource base, correct diversification of credit portfolio, deep investigation detailed study of perspective sources of the incomes and wide spectrum range of bank’sing products meeting the most exacting requirements of the customers, ensure the

Bank's leading position in the market of financial and lending services, promoting the development of the entire economic sector of the Republic.

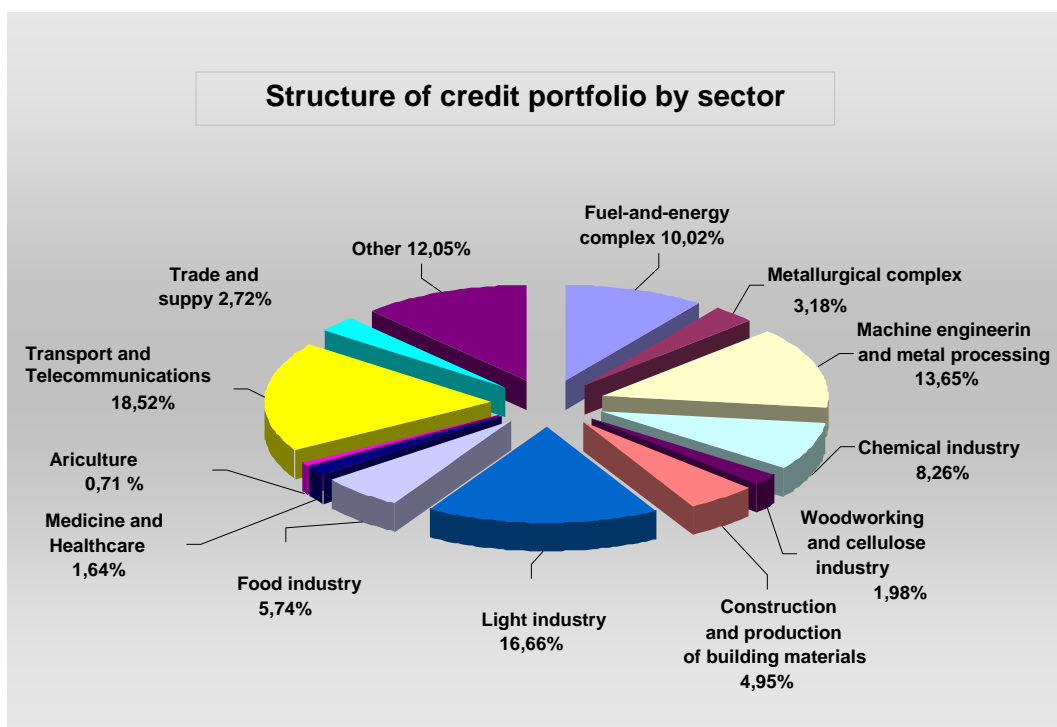
To satisfy the wide spectrum range of customer needs of the customers and create introduce additional comfort for them facilities, the Bank has continued to establishment and perfection enhance of a its mini-bank network. In addition to the existing mini-bank network (38), there have been were opened and are now in operation 89 specialized cash departments-desks receiving payments from the population, of which 29 are located in the Tashkent City. By Through their activity mini-banks promote creation assist to establish of a strong competitive position of the Bank and really affect rates have a practical influence on the pace of market transformations implemented in various regions of Uzbekistan, especially in those removed distantly located from the industrial centres.

In addition to this, branches of the Bank are taking care of widening expanding the foreign exchange offices network as one of the measures of assisting the development of the foreign currency exchange market in the conditions process of liberalization. Their number of these offices has already exceeded 240. Moreover, services of the exchange offices of the National Bank carry out include purchase- and- sale operations of not only in terms of the US dollars, but also in terms of other foreign currencies (British pound sterling GBP, EURO, Japanese Yen JPY and Swiss Frank CHF), as well as provide an opportunity to use the processing "American Express" traveler's cheques and foreign currency cash collections of cash foreign currency.

Lending activity

Lending of the to domestic enterprises was has been and remains the general major direction of the Bank's policy. Traditionally, the Bank adheres to the policy of reasonable conservatism in the field of credits in lending operations. The applied lending practice is based on the knowledge of the financial position of the borrower, his credit history, understanding of problems faced by him the borrower, interests, purposes objectives and strategy of the economic business activity and parity of the relationship between objective and subjective evaluation of risks.

Active work on the attraction of new borrowers, and expansion of lending volumes credits for permanently credited to customers receiving loans on a permanent basis was carried out throughout the year. In 2004, the measures were taken to minimize credit risks through the Bank engaged in diversification of credit portfolio by a branch attribute economic sectors with an aim to minimize credit risks. Credit investments Loans were made, mainly, in to the most profitable branches sectors and to projects of socially significant to the country for the Republic. In the Lending process preferences are given to the enterprises working operating in various sectors of industry manufacturing, trade and construction, in terms of both in foreign and national currencies.



Such enterprises and organizations like as the NAC ‘Uzbekiston Havo Yullari’, JSC ‘Uzneftmahsulot’, FPO ‘Nitrogen’, GAO SJSA ‘TAPOiCh’, Fergana Chemical Plant of Furan Compounds, Uzprommashimpex, Joint Venture ‘Hobas TAPO’ JV, and etc. became are among the largest borrowers in 2004.

Broadened Increasing the size of the credit portfolio with minimum credit risks was the Bank’s major task objective for 2004 in the lending area business for 2004. As for of January 1, 2005 the size of the credit portfolio volume totaled amounted to 2, 418.4 billion Soum (if compared with to 2,312.3 billion Soum on January 1, 2004 – 2,312.3 billion Soum).

Long-term loans dominate in the credit portfolio, accounting for 73.5% as for on January 1, 2005 they made up 73.5% against 84.5% for the similar period of in the previous year.

The Sstructure of credit operations, being dependedent on services rendered offered to the customers, therefore is mainly dominated by project finance, small business and private entrepreneurship lending finance turned out to be most significant and most recently by , followed by the expansion of increased consumer lending.

Project Finance

Long-term professional experience and competent training of specialists experts encourage allow the Bank to provide offer high level of service in to provide development financing the development for of the economic business entities of national significance.

The Bank makes much efforts Tto achieve the objectives set up by the leadership Government of the country, the Bank takes pains to financing projects on reconstruction, technical and technological refurbishment renovation of the acting existing productions sites and putting building new capacities into operation.

So far, during the period between 1993 – 2004, in the framework of foreign credit lines, centralized funding and own resources, the National Bank financed **171** investment projects

with a total cost of **US\$ 6.9 billion**, of which **4.9 billion** in US\$ equivalent are loans provided by the Bank . The structure of these projects by sector is as follows:

In 2004 the Project Finance Centre of the Bank had serviced 111 foreign refinanced loans for 97 investment projects for totaling amount of **3.44 billion** in US\$ equivalent.

The following could be distinguished Among the largest investment projects, financed in 2004, it is possible to name the following:

Construction of the a spinning mills at the joint venture OAO OJSC “Ya Dem. Tekstil” JV, which was financed the first time project in Central Asia, financed with the facilities of the Islamic Development Bank totaling the for a total amount of US\$ 20.0 million;

The National Bank signed the agreement on financing the contract for supply of technological equipment and input materials for a total amount of EUR 21.9 million for the glassware factory of the construction project of the container glassware factory at OOO ‘Asl Oyna’ LLC totaling EURO 21.9 million to supply technological equipment and input materials;

Financial leasing of two planes for the NAC ‘Uzbekiston Havo Yullari’ fr a totaling amount of US\$ 193.5 million. The first plane has been delivered to Uzbekistan and used for the international flights since October, 2003. The second plane was manufactured and delivered to Uzbekistan in the end of 2004.

Besides thatIn addition to these, the National Bank has concluded a number of the additional agreements with foreign banks under the for projects aimed for the development of municipal utility services, transportation, mining and metallurgical industries, agro-industrial complex and textile production.

Small business and private entrepreneurship lending

Banks are completely fairly named ‘catalysts of economy’ as their cooperation with entrepreneurs has a direct influence on the pace and quality of development of this sector of economy of the country.

The National Bank occupies an important place in the domestic entrepreneurship support programs . Through active attraction of foreign investments, the Bank stimulates modernization of production facilities, develops export and import-substituting capacities of domestic enterprises.

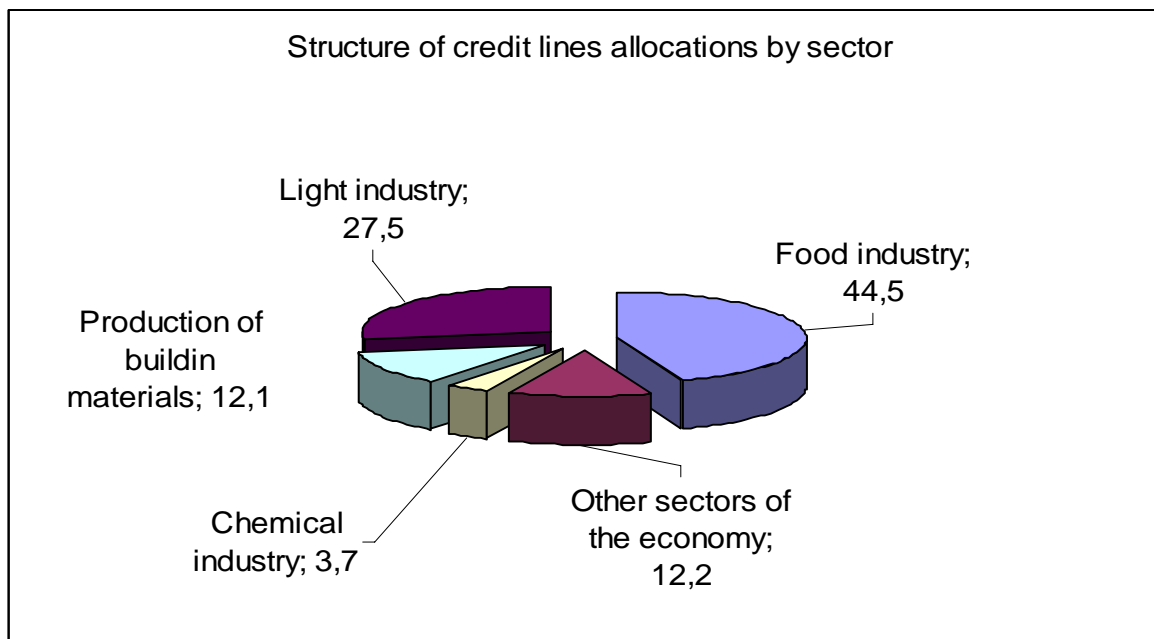
*M. Saidmuradov
Head of Small Business Projects Group*

Due to active measures undertaken by the Government, macroeconomic and business environment, where in which small business and private businesses entrepreneurs are functioning operate, has been considerably improved. It This is recognized both by domestic businessmen and foreign experts.

Small business support has always been among the priorities in the activity of the National Bank. In 2004 the Bank was actively implementing measures on involved in lending to crediting small, private enterprises and development of the enterprise entrepreneur initiative. As it has been was stated above, a large part the majority of the economic business entities are the – customers of the National Bank, - and they represent small and private enterprises enjoying the priority status in the credit portfolio of the Bank.

The National Bank serves as the major channel to in attracting foreign investments for the development of small and private businesses. Within In the framework of credit lines of

the EBRD, ADB, KfW, IFC, OPEC Fund and a number of export-credit agencies, the Bank has financed **141** small business investment project with a total costing of **US\$ 442,9 million**, of which loans credits amounted to about **US\$ 225.5 million**.



Speaking about new areas directions of cooperation with the foreign financial institutions regarding in the area of support of to small business in the Republiccountry, it is necessary to note the substantial expansion of partnership relations between the National Bank and the Islamic Development Bank (IDB) in 2004. The IDB provided the National Bank with the amounting to US\$ 15 million facility to finance investment projects implemented in the private sector of the country.

In Additionally, within in the framework of cooperation with IDB the National Bank provided the issued a guarantee for the amount of US\$ 7.6 million to finance procurement purchases of the processing technological equipment purchase for the textile project of joint venture «Alisher Navoi International» JV (Andijan province region).

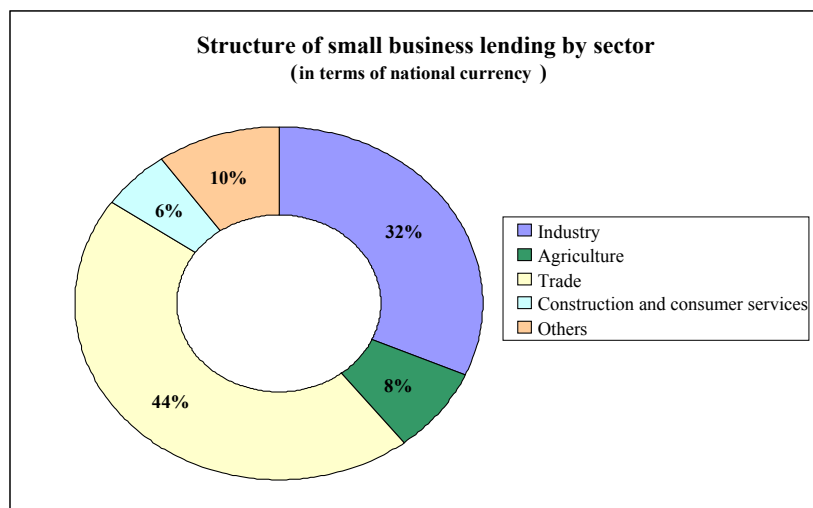
Uzbekistan's commitment on Adoption of Article VIII of the IMF Articles of Agreement Charter by Uzbekistan, ensuring conversion of the national currency on current accounts operations, promoted the essential significantly simplification simplified access to of foreign currency resources accessibility for the by economic business entities. The procedure of Foreign currency exchange operations procedure has been maximally simplified, and a number of restrictions concerning related to registration of contracts and customs control have been eliminated abolished.

Thereby, as for nowby the present day, favorable conditions have been created for the domestic producers of goods in the field of foreign currency exchange and economic relations, which is evidenced by the increased volumes of foreign trade operations carried out by small and private businesses of in the country.

By utilizing own and attracted resources, including those attracted on the preferential basis, the National Bank has provided support to entrepreneurship amounting to **105.8 billion** Soum, having created about **6 thousand** job places.

Micro-credits extended by the National Bank for development of production facilities, services and construction are particularly demanded by There is a special demand from the entrepreneurs for micro-credits issued by the National Bank for development of production facilities, services and construction. During In 2004, having attracted pooled all sources of finance, the Bank allocated 967 micro-credits amounting to **3.8** billion Soum. This type of services is particularly popular in the rural area where farmers and dekhkan entities enterprises willingly apply for them. So far during the indicated period the National Bank has granted micro-credits to this sector with the micro-credits amounting to **2.4** billion Soum.

TherebyThus, micro-credits promote development of market structure in the rural area and expand the class group of new proprietors property-owners.

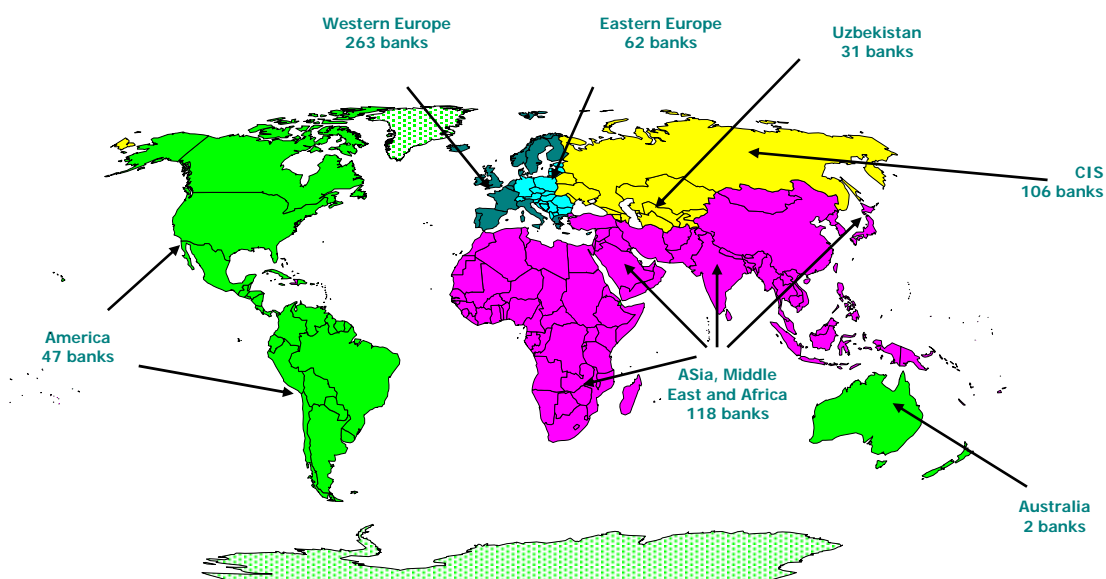


We observe the results of National Bank’s participation in the nationwide support program of small and private businesses development in our shops, where locally produced goods are easily replacing imported ones, and in the expanding sphere of first-class services.

BANK IN THE INTERNATIONAL SCENE

Through consistent development of cooperation with foreign banks and international financial institutions (IFI), the National Bank actively promotes integration of the Republic of Uzbekistan into the international finance community. The Bank aims to quickly identify business interests of the partners in cooperation with Uzbekistan and support them by all available means, seeking to balance these interests.

This is facilitated by an extensive correspondent network covering over 600 foreign banks and the long-standing high international reputation of the National Bank. Stable financial position of the Bank, its high reputation and leading position in the region are reflected in the fact that around 30 largest foreign banks have granted credits limits to the National Bank for short-term trade finance transactions for a total amount of over US\$ 500 million.



Commitment regarding Adoption of Article VIII of the IMF Articles of Agreement Charter taken by the Government of the Republic of Uzbekistan at the end of 2003 and, as a consequent, liberalization of the foreign exchange market and customs control, had a significantly affected influence on the expansion increase of in volumes of cooperation of the National Bank with the foreign banks and financial institutions. Thus, volume of payment operations through of the National Bank to the with foreign counterparties increased in 2004 by 1.8 times in 2004 in comparison with compared to 2003, and has made up an equivalent of the US\$ reached 53.4 billion in US\$ equivalent; volume of documentary operations carried out by of the customers of the Bank with their foreign partners has made amounted to over US\$ 1 billion.

Since 1993 the National Bank has been rated among the Top 1000 largest banks of in the world done by "The Banker". The "Global Finance" journal magazine has recognized the National Bank as the best bank of in Uzbekistan in 2004.

The National Bank is the member of intergovernmental commissions and represents the banking system of the Republic of Uzbekistan in the matters concerned with the discussions of issues related with attraction of foreign banks and financial institutions into the economy of the Republic country, perfection enhancement of banking operations, development of new areas of cooperation with foreign banks, etc and the like.

Only in Just during the year 2004 NBU signed framework loan agreements were signed with the Eximbank of China on the with respect to loans provided granted by the Government of People's Republic of China Government for the amount of US\$ 300 million and with the «Ceskoslovenska Obchodni Banka» (Czech Republic) for the amount of US\$ 20 million without the a sovereign guarantee; there was also signed the a Memorandum of Mutual Understanding signed between the National Bank and «Parex Bank» (Latvia).

During the meeting of the Vth Russian-Uzbek intergovernmental commission meeting (September 28-30, Moscow) the an agreement was signed, according to which the National Bank, for the first time in the banking practice of in Uzbekistan, opened the a credit line for the its affiliated AKB JSC «"Asia "-Invest Bank" (Russia) amounting to for the amount of US\$ 60 million. Credit line The facility is to shall be used to finance Russian businessmen importers' purchases of importing goods and service from Uzbekistan, including automobiles,

industrial equipment, textile and agricultural productions and other non-primary goods in non-raw area.

In 2004 cooperation between Uzbekistan and the Islamic Development Bank (IDB) became significantly active. It is worth noting that of all the Central Asian states it is the Republic of Uzbekistan that is in the most actively and fruitfully cooperates with the IDB; that which is proved evidenced by the establishment of the maximum largest level of the authorized financing limit and assistance in the attraction of the investments.

This is demonstrated by a number of A lot of the facts, unprecedented in the activity of this influential international financial organization testify to this. Thus, during in just one-year of Uzbekistan's membership with the in IDB, the Republic country was granted opened financing for 5 projects totaling the for a total amount of equivalent to US\$ 104 million in US\$ equivalent. For the first time in the IDB history a national institution of the member-state country, in the name of the – National Bank of Uzbekistan, has been was authorized for independent distribution of credit line facilities provided by the IDB.

The National Bank was the first among the regional banks to participate in the financing program of projects with the use of the external loans guaranteed by the IDB; it the Bank also represents the Republic country in the Islamic Corporation on the Development of Private Sector (ICDPS), an being the IDB division. Uzbekistan membership in this Corporation provides additional opportunities for the attraction of IDB investments for the development of the domestic business.

Moreover, within the framework of the 29th Annual Meeting of the IDB Board of Governors on September 14-15 in Teheran (Islamic Republic of Iran) the a financial agreement was signed on theon IDB opening a US\$ 15 million credit line amounting to US\$ 15 million by IDB to the National Bank to finance investment projects in the private sector of the Republiccountry.

So farPresently, the National Bank is the a member and active participant of the in regular forums of such large international financial institutions likeas the International Bank for Reconstruction and Development, Asian Development Bank, Islamic Development Bank, Islamic Corporation on the Development of Private Sector, Asian Banker's Association, Association of Development Financial Institutions of Development of Asia and the Pacific, Pacific Congress of Bankers;, etc., which once and again this reaffirms the status of the National Bank as an active participant in the international financial arena.

On the wholeOverall, in 2004 the National Bank signed bilateral loan agreements totaling for a total amount of **US\$ 368.8 million** and **EURO 100 million**.

Similar These agreements allow promote successful development of mutually advantageous beneficial cooperation between banks and support of export-import transactions operations within the framework of in project and trade finances transactions.

RETAIL BANKING

Increasing the volume of idle funds attracted from the population to bank deposits has become one of the key issues in the development of the entire financial sphere and economy.

Increase in the resources of the banking system, and respective growth of its investment opportunities, to a great extent depends on the solution of this problem.

Savings of the population are becoming the major potential source of investments to the real sector of economy, while their growth, as it is known, is the main condition of sustainable economic growth.

L. Bodyagina

Senior Executive Director Head of Retail Banking Group

The National Bank is a universal financial institution with retail market operations among major priorities in whose its activity operations in the retail market stand out among its main priorities.

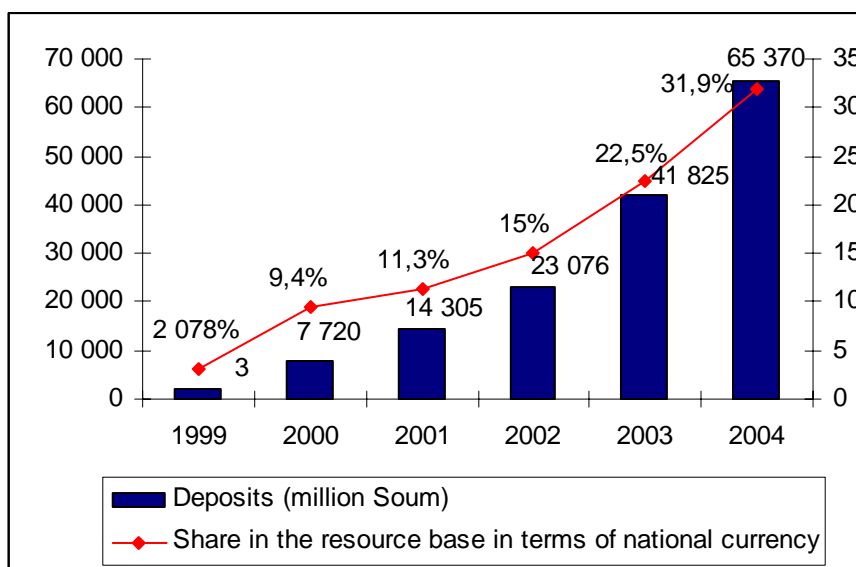
The wide spectrum range of retail services offered by of the National Bank includes attraction of national and foreign currency deposits in terms of national and foreign currencies, granting providing consumer credits loans, issuing and servicing of Soum and international plastic cards, foreign currency money transfers in terms of foreign exchange, reception of municipal and other kinds of utility and other payments collections, conduct of foreign exchange operations and many others. On the whole Overall, the National Bank renders offers over 70 kinds of services aimed for the to retail customers.

Actively involving Dynamically attracting idle savings free assets of the population, the Bank expands its resource base to lend provide loans tithe economic business entities and enhances facilitates the reduction of money circulation outside the non-banking system circulation of money.

Deposit operations

Bank deposits serve are the most attractive and reliable method of investing money monetary resources placement for the larger majority part of the population.

The Vvolume of means funds of the population attracted to the deposits with by the offices and branches and branch banks of the National Bank in 2004 reached the amount of **108.3** billion Soum that makes up accounts for **33.4%** of the total volume of the individual deposits of natural persons kept with in the country’s banks in the Republic.



Today, the Bank offers six types of national currency and eleven types of foreign currency deposits to the population; customers have an opportunity to choose a deposit on the most acceptable terms and rate of return.

During 7 years of operation with the retail customers (1998-2004) the Bank attracted savings to deposit accounts for the amount of **65** billion Soum in terms of national currency and **US\$ 40.6** million in terms of foreign currency.

Number of those who holding deposit accounts in national and foreign currencies has grown during 1998-2004 years by almost 18 times, including growth by 1.3 times in 2004, and on January 1, 2005 it reached the figure of about **550,000** thousand.

The average outstanding balance on Soum deposit accounts increased in the past year throughout the bank by 20% and made up equaled 168,000 thousand Soum.

Thereby, the National Bank continues to keep maintain its leading positions in the retail services market, maintaining preserving priority pricing conditions on the deposits and offering a wide spectrum range of the deposits, both in terms of national foreign currencies. The Bank guarantees its depositors safety of the assets, their significant augmentation growth and, undoubtedly, high culture of banking services.

Following Presidential the declaration of year 2004 as the Year of Kindness and Mercy by the President, a new kind type of medium-term deposit called "Mehribonlik" (Mercy) was developed introduced; which resulted in opening of over 1000 accounts that have received with over 1.7 billion Soum deposited were opened between February 5 and March 15.

On the eve of the spring holidays «March 8» and “Navruz” spring holidays citizens of the Republic country were offered a short-term deposit "Gulbakhor" since from February 24; it has which accumulated on its accounts over 3.7 billion Soum.

The policy of the National Bank in developing modern retail services is directed towards bringing such services maximally closer to the population. For this purpose, the Bank is expanding the network of specialized cash-desks and mini-banks, which provide such services as opening and maintaining deposit-accounts, collection of payments, including for public utility services, foreign exchange operations, etc.

Financial policy of the National Bank is directed to a maximum bringing of modern banking services to the population. To achieve this, we are widening the network of specialized cash departments and mini-banks providing such services as accounting-clearing servicing of corporate customers, opening and withdrawal of the deposits, reception of municipal and other payments and foreign exchange operations.

During In 2004 the volume of the municipal public utility service payments handled processed through the establishments offices of the National Bank reached 5 billion Soum, that it which is twice as much compared to 2003.

In the During the last past year the Bank continued its work on granting loans offering loans to individuals wishing willing to purchase automobiles produced by the joint-stock company JSC "UzDAEWOOauto". The issued amount totaled Total amount of car loans reached 6.0 billion Soum; with "Niyat" mortgage deposits, linked to these loans, opening of mortgage deposits "Niyat" attracted 4.0 billion Soum.

In 1999 the National Bank and the “American Express” company signed an the agreement on sale and acceptance for payment of traveler's cheques issued by the Ccompany. Since the beginning of the project implementation cheques for over US\$ 50.4 million have been sold through the branches of the Bank sold the cheques for over US\$ 50.4 million, including those sold in 2004 for US\$ 4.6 million sold in 2004.

Since 2004, the National Bank has been offering a new product - “American Express Cheques” for home storage, that during the year the number of sold was US\$ 2.8 mln.

Since 2002 the National Bank, in addition to interbank transfers, started to offer fast international money transfers services through the “Western Union” system. By the end of

2004 the number of the establishments offices of the National Bank switched linked onto this system has reached 57. The number of customers served through the Bank's outlets branches has made up about reached around 170,000, whereas, total volume of money transfer for 2002-2004 reached US\$ 100.7 mln thousand., including US\$ 57.7 mln. for 2004.

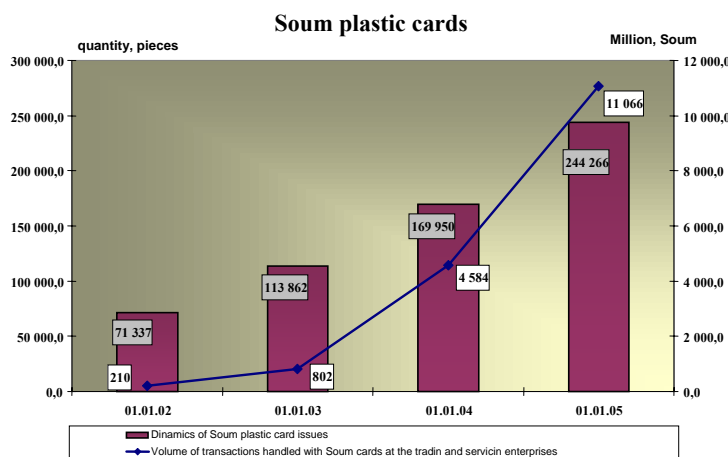
Card Business

The year 2004 turned out to be a crucial year in the development of non-cash card settlements in the country.

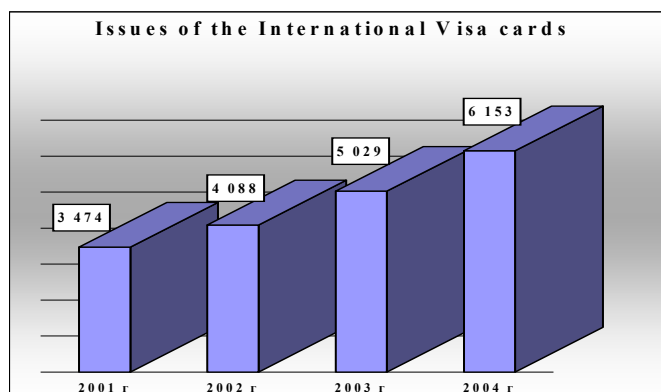
Decree of the Cabinet of Ministers dated September 24, 2004 became a very important factor in popularization of cards among the population.

The National Bank firmly maintains its dominant position in the cards market by increasing and improving the range of non-cash services. Every year the number of cards issued by the Bank grows by over one third. In 2004 this figure exceeded 74,000, and the total number of Soum plastic cards issued by the National Bank reached 244, 266. Due to this, 60% of the total number of cards belong to the National Bank.

Developing the cards business in the country, the National Bank continues to invest significant resources in the development of cards servicing infrastructure. In 2004 the Bank installed 629 terminals at 571 retail trade and services enterprises, including drugstores, mobile communication companies, refueling stations; volume of non-cash operations at these enterprises exceeded 2003 turnover volumes by almost by 2.5 times.



The Bank continues to issue and service international Visa Classic and Visa Electron cards to the customers . By January 1, 2005 the Bank has issued over 6,000 international Visa Electron and Visa Classic cards, and rendered services to the holders of cards both through trade and cash terminals and imprinters and through the ATM network.



The National Bank continues to introduction of new wage payment projects on wage and salary payments at large enterprises and organizations of in Uzbekistan by means of Soum cards. Total number of salary these projects has reached the figure of 381, of which 193 were implemented in 2004.

So far Presently, the Republic has the operating an interbank clearing settlement system comprising 7 member-banks: - the National Bank, Khalk Bank, Asaka Bank, Uzprivatbank, Uzjilsberbank, Pakhta Bank and Aloka Bank – operates in the country. About 14 banks plan to join this system in 2005. Enjoying an Aactively supported by from the Government, the Republican the country’s banks are introducing salary wage projects, expand the ATM network, and install electronic terminals at trade- and- service outlets. Up to 3 million cards are planned to be issued into circulation in the coming years along with the installation of the additional 10,000 thousand terminals.

INVESTMENT BANKING

With respect to development of the investment banking business, it is necessary to note the work of the National Bank in implementing the “Program of Denationalization and Privatization of Enterprises for 2003-2004”. The work was carried out by the National Bank based on the Agreement on Strategic Cooperation with the State Property Committee signed in 2003. Bank’s participation in the Program not only allowed to make a contribution to the execution of the Governmental decisions in the privatization area, but also to broaden the range of services offered to large customers.

It should be noted that in the process of economic development, real sector enterprises increasingly often apply to the securities market to attract additional financial resources with the role of this market growing substantially as the mass privatization of the state-owned enterprises continues in Uzbekistan. In this connection, activation and successful functioning of the stock market is one of the major objectives of economic reforms.

A. Samadov
Executive Director
Head of Investment Department

As an investment bank the National Bank is the largest institution in the country with a developed infrastructure, whose activity is directed towards development of the real and financial sectors in Uzbekistan.

The investment portfolio including equity investments in the industrial, financial, insurance, innovation, research and development, etc. organizations amounted to **US\$ 15.8 million** and **6,409.3 million Soum in 2004.**

As of January 1, 2005 the size of the investment limit equaled 25,405,867,000 Soum, size of the investment reserves equaled 61,613,000 Soum. Thus, the amount of funds available for investment on January 1, 2005 equaled 2,269,116,000 Soum.

In the framework of realization of its investment policy the National Bank is the founder and a long-term business partner of Uzbek Leasing International JSC, "Kurilishleasing" Leasing Company; actively participates in the development of the insurance services market ("Uzbekinvest" National Export-Import Insurance Company, "UzAIG" Insurance Company), and of various segments of the financial and banking market ("Uzbekistan Currency Exchange" CJSC, "Uzinvestproject" National Investment Company, "ABN Amro Bank NB Uzbekistan", "UzDaewoobank", "Asia-Invest Bank" (Moscow)); is a co-founder of organizations promoting the development of small business ("Madad" Insurance Company); is a shareholder of enterprises of the real sector economy ("TAPOiCh" SJSC, "Uzmetcombinat").

In view of development of the Uzbek-Russian relations, the National Bank became the largest founder of ZAO "Asia-Invest Bank". Being the authorized bank to conduct settlements in Uzbek Soums, «Asia-Invest Bank» does not limit its activity to offering settlement services. Correspondent banks can always obtain qualified advice on legal issues and information on the current situation and trends in the money and financial markets of Uzbekistan.

The Decree of the President of the Republic of Uzbekistan No. 1962 dated May 25, 2004 «On Measures Aimed to Expand Investment, Trade and Economic Cooperation with the Russian Federation» arranges for creation of a joint Russian-Uzbek insurance company. Following this and with an aim to develop interstate relations, a decision was taken on the participation of Asia-Invest Bank (ZAO) in the Russian-Uzbek insurance company with a capital contribution of US\$ 1 million.

National Bank's investments in the affiliated companies account for 13% of total investment portfolio of the Bank or 3,151 mln. Soum. Total amount of dividend payments by the affiliated companies during the whole investment period equaled 989,7 mln. Soum.

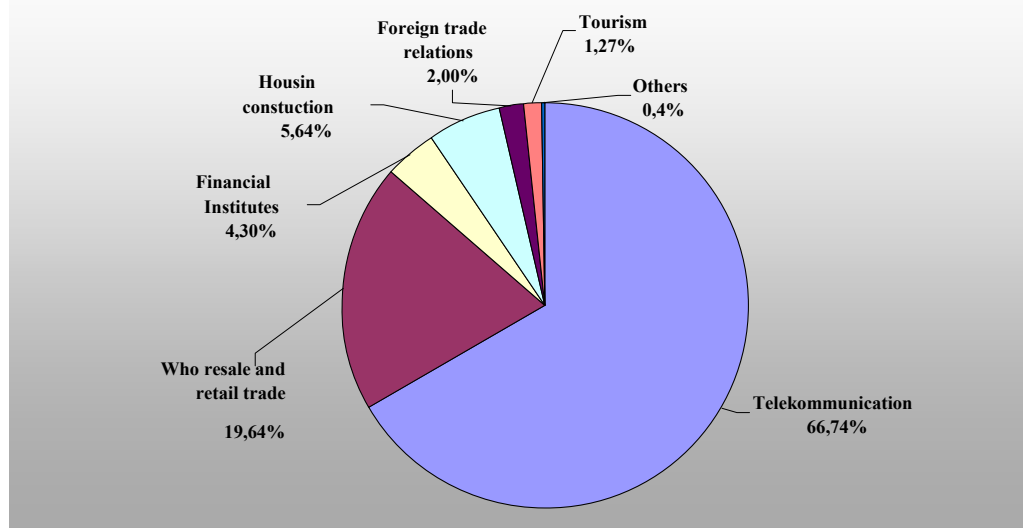
As a result of dynamic investment activity, total amount of dividends received by the National Bank grew by 1.4 times compared to 2003 (3,005 million Soum) and equaled to 4,122 million Soum in 2004.

The Bank also builds a short-term trade portfolio. With an aim to improve financial and business activity of joint-stock companies and introduce principles of corporate governance, the Bank takes active participation in the activity of joint-stock companies as a shareholder.

The 2004 results show the size of the short-term securities portfolio at 786.1 million Soum. Aiming to achieve efficient management and production capacities and increased profitability of joint-stock companies, the National Bank, actively participates in their activity as a shareholder, monitoring financial reporting of security issuers.

The structure of a the short-term securities portfolio looks as follows is shown below:

Trade portfolio structure



To attract wide range of investors, including small and medium ones, to the securities market the Bank continues to work on activation of ZAO "Elsys-Savdo" Electronic System for OTC Trading, inviting leading commercial banks in the country into the foundation process.

In the process of development of investment banking business the Bank has been actively involved in the implementation of the “State Program of Denationalization and Privatization of enterprises for 2003-2004». This work was carried out by the National Bank based on the Agreement on Strategic Cooperation with the State Property Committee of the Republic of Uzbekistan. Bank’s participation in this Program allowed to make a contribution to realization of governmental decisions in privatization area and to broaden the range of services offered to large customers.

In 2004 the National Bank strengthened its position in the investment banking services market, particularly, in the area of debt finance arrangements for issuers through bond placements. The Bank realized four corporate bond issue and underwriting projects for a total amount of 5,150 million Soum for the following issuers: OAO "Qoxiz" JV (350 million Soum), JV OOO "TS-Technology" (800 million Soum), OAO "Almalyk Mining Company" (3,000 million Soum), and OOO "POLISPEKTR" (1, 000 million Soum). For the first time in the domestic corporate bond market , a mechanism of tender-based determination of the cost of borrowing was introduced with the tender conducted among potential investors. The size of the coupon on the bonds issued by OOO "TS-Technology" JV and OAO "Almalyk Mining Company" was determined by the results of tenders. This mechanism objectively reflects realities of the debt market and provides an opportunity to investors to evaluate credit risk of the issuer.

An important event of signing the Agreement of Cooperation between the Republican Stock Exchange "Tashkent" and London Stock exchange (LSE) took place on July 23, 2004, the National Bank being among its initiators.

The purpose of the Agreement is to strengthen bilateral economic cooperation, provide support to Uzbek enterprises willing to access international capital markets and increase information support to companies listed on the LSE with regard to investment opportunities in Uzbekistan, as many of such companies are the global leaders in their market segments.

The fact, that signing of this Agreement became possible due to direct involvement of the National Bank of Uzbekistan, confirms the reputation and competence of the largest financial institution of the country in foreign markets.

To provide customers and partners with regular analytic information on local and foreign markets, experts of the Bank have been preparing analytic reviews of the stock and exchange markets, as well as strategic commodities markets since February 2003. The information and analytic products are regularly published with a special heading «Market prospects» in the weekly newspaper «News of Uzbekistan», on the web-site of the Bank, in the "Securities market" magazine, and are dispatched on an individual subscription to the internal and external subscribers.

The results of the last year place the National Bank into a leading position in the underwriting services sector ; and the Bank was fairly recognized as the Best Investment Intermediary in 2004.

DEVELOPMENT OF BANKING TECHNOLOGIES

The National Bank has established a developed information infrastructure meeting all modern international requirements and standards applicable to the information systems of such level. The automated banking system allows managing bank's resources, concentrating them in the required areas, managing efficiently all divisions of the Bank. The reliability of the main systems of the Bank is provided by the use of reservations based on cluster solutions. It ensures system's functionality even in case of failure of one or several servers.

In 2004 the process of implementation of the automated banking system "Globus" chosen by the Bank in an open international tender was completed. ABS "Globus" includes a number of essentially new opportunities providing a qualitatively new degree of service to the customers:

- management of customer relations
- market risk management
- credit risk management
- screen format designing
- database flexibility
- management of safety

As a financial institution specializing in foreign economic activity, the National Bank considers the implementation of modern internationally-recognized system "Globus" as an investment into future development, and also as an opportunity of closer integration with the global banking community.

Presently, 6 largest branches of the Bank operate with ABS "Globus" in Tashkent. The Bank continues the process of preparation and shift to "Globus" by other branches located in Tashkent, and regional offices and branches of the Bank.

At the same time, taking into account trends in the development of information technologies worldwide, Bank's experts carry out new projects on the enhancement of the information systems.

In 2004 the Bank started to develop the project on modernization of the active network equipment in the largest branches of the Bank. Its implementation will allow to ensure reliable work of the local computer network of the Bank at a qualitatively new level due to utilization of additional opportunities granted by network devices of new generation: maintenance of traffic control, due diligence diagnostics of failures and "bottleneck" places, increase of fault-

tolerance through introduction of mechanisms of automatic regulation of the network, integration at a network level with system of detection and prevention of the attacks.

BANK'S PERSONNEL

The National Bank gathered 6,080 qualified experts and managers to work with it. Bank's managers attach special attention to personnel selection. The system of competitive selection of the candidates on vacant positions proved to be efficient as it allows to carry out a comprehensive study of biographical, professional and personal qualities of the applicants and to reinforce the staff of the Bank with new employees capable of mastering modern bank technologies in a very short period of time.

Changing conditions of the market and high manufacturability of banking processes demand constant control over the quality of professional training of the employees of the Bank. Proceeding from this, special attention is given to issues of training and continuous improvement of professional skill of banking experts.

In 2004 these issues were resolved by training employees of the Bank at the Centre of Advanced Training, the Banking and Finance Academy, the Academy of State and Public Organization of the Republic of Uzbekistan, the Regional Banking Training Centre, and the largest foreign educational institutions. Besides, employees of the National Bank regularly participate in various international and national banking seminars, training courses and conferences, receive training at leading foreign banks.

Such system makes it possible to create opportunities to enhance professional level of the employees as the condition of their business career development, and, thereby, lay the basis for the accomplishment of strategic interests of the Bank.

Great attention is attached to the young generation of future bankers. The best students of the economic faculties of higher educational establishments come to the National Bank for professional and pre-diploma apprenticeship.

The current strategy of working with the staff implies creation of optimal conditions helping to identify gifted persons, optimize utilization of employee's abilities. Successful activity in many respects depends on the consistent, perspective- targeted work with the personnel and is required to guarantee the achievement of the strategic goals of the Bank with the high quality and optimal number of employees.

On the whole, the personnel policy of the Bank is guided by large-scale reforms in the system of vocational training implemented in the country in the framework of the National Program of Personnel Training.

CHALLENGES FOR 2005

Further liberalization of economic life and growing competition in the banking sector demand that the National Bank should take efficient measures needed for maintaining leading positions and provision of the continuous dynamic development.

This means in particular taking specific measures on capitalization of the Bank, increasing the authorized and working capital and investing the funds, first of all, into the real economy.

Today, very sensitive response is required to all changes in the financial and banking sector of the country with a necessity to trace and consider the growing needs of the Bank's customers.

Taking the above into account, the National Bank set up development priorities for 2005, some of which are stated below:

- Increase of the role of the Bank in financing investment projects determining the forward development of national economy, increasing its export capacities;
- Considerable expansion of volumes of services offered to small and private businesses;
- Broadening the range of services in the stock market, including advisory services and organization of security issues to customers;
- Realization of active marketing policy of the Bank, taking into account the customer needs.

Following this, an increased flexibility will be achieved in the management of the Bank, a rapid responsiveness to varying market conditions will be ensured, branch network will be optimized taking into consideration economic and social realia of the regions and introduction of advanced banking technologies will be intensified.

The National Bank will be efficiently utilizing its competitive advantages including positive reputation and traditionally quality services offered to corporate and individual customers.