

**The Joint-Stock Commercial Bank
«ASIA ALLIANCE BANK»
and its subsidiary**

Consolidated financial statements

*Year ended 31 December 2017
together with independent auditor's report*



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Independent auditor's report

To the Shareholders and Council of the Joint-Stock Commercial Bank "ASIA ALLIANCE BANK"

Opinion

We have audited the consolidated financial statements of the Joint-Stock Commercial Bank "ASIA ALLIANCE BANK" (the Bank) and its subsidiary (together referred as the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for impairment of loans to customers</i></p> <p>Adequate level of provision for impairment of loans and advances to customers is a key area of the Group's management judgment. Identification of impairment evidence and measurement of recoverable value of loans is a process involving a significant level of professional judgment, use of assumptions and analysis of various factors, including the financial conditions of the borrower, estimated future cash flows and value of the collateral. The use of various models and assumptions can significantly affect the amount of provisions for impairment of loans and advances to customers.</p> <p>Due to the significance of the carrying value of loans to customers, which aggregate amount to 61% of the total assets of the Group as at 31 December 2017, and due to significant judgment involved, assessment of provision for impairment was a key audit matter.</p>	<p>Our audit procedures included analysis of the methodology for assessing the impairment of loans to customers, as well as the analysis for testing of controls over the processes of identifying impairment evidence and calculation of the provision for impairment of loans. In assessing the collective impairment of loans to customers, we analysed assumptions and performed testing of inputs used by the Group, as well as loss transfer ratio models and recovery factors. We analysed the consistency of judgment used by the Group's management in assessing economic factors and statistical information and statistical information on the losses incurred and amounts reimbursed. As for the assessment of individual impairment of loans to customers, we analysed the expected future cash flows, including the case of foreclosure on the property, based on our professional judgment and available information in the market.</p> <p>We performed procedures in respect of the information disclosed in the Note 9 to the consolidated financial statements.</p>

Other matter

The consolidated financial statements of the Joint-Stock Commercial Bank "ASIA ALLIANCE BANK" as at 31 December 2016 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements in its audit report dated from 17 March 2017.

Responsibilities of management and Council of the Bank for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Council of the Bank is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with Council of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Council of the Bank with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Council of the Bank, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Audit company „Ernst & Young LLC“

16 March 2018
Tashkent, Uzbekistan

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

(in thousands of Uzbek Soums)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	322,617,067	240,379,608
Due from banks	8	134,093,112	119,402,742
Loans and advances to customers	9	852,442,950	734,439,739
Property and equipment	10	46,306,840	31,534,276
Intangible assets	10	1,096,419	1,055,736
Investment property	11	9,474,564	8,569,425
Current income tax prepayment		4,854,693	1,076,516
Deferred tax assets	22	1,437,502	254,790
Other assets	12	20,644,213	18,727,539
TOTAL ASSETS		1,392,967,360	1,155,440,371
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	13	87,627,435	151,675,999
Customer accounts	14	1,051,228,590	801,842,241
Other liabilities	15	12,432,633	8,487,233
TOTAL LIABILITIES		1,151,288,658	962,005,473
EQUITY			
Share capital	16	140,000,000	124,166,125
Treasury shares	16	-	(7,646,750)
Share premium	16	3,919,856	3,075,267
Retained earnings		97,758,846	73,840,256
TOTAL EQUITY		241,678,702	193,434,898
TOTAL LIABILITIES AND EQUITY		1,392,967,360	1,155,440,371

On behalf of the Management Board

Mr. Abdukakhorov I.A.
Chairman of the Board

16 March 2018
Tashkent, Uzbekistan



Mr. Sharipov D.P.
Chief Accountant

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017



(in thousands of Uzbek Soums)

	<i>Notes</i>	<i>For the year ended 31 December 2017</i>	<i>For the year ended 31 December 2016</i>
Interest income	17	131,799,930	88,975,269
Interest expense	17	<u>(40,325,053)</u>	<u>(26,039,323)</u>
Net interest income before impairment (losses)/recovery on interest bearing assets		91,474,877	62,935,946
Impairment (losses)/recovery on interest bearing assets	9	<u>(9,411,347)</u>	<u>(2,337,326)</u>
Net interest income after impairment (losses)/recovery on interest bearing assets		<u>82,063,530</u>	<u>60,598,620</u>
Fee and commission income	19	78,203,003	55,439,534
Fee and commission expense	19	(31,507,060)	(23,401,686)
Net gain on foreign exchange operations	18	21,691,460	4,690,863
Recovered provisions	12,15	2,589,828	(287,629)
Other income	20	<u>3,307,854</u>	<u>3,986,924</u>
Net non-interest income		<u>74,285,085</u>	<u>40,428,006</u>
Operating income		156,348,615	101,026,626
Operating expenses	21	<u>(82,364,715)</u>	<u>(54,351,354)</u>
Profit before income tax		73,983,900	46,675,272
Income tax expense	22	<u>(13,269,757)</u>	<u>(9,596,910)</u>
Net profit for the period		<u>60,714,143</u>	<u>37,078,362</u>
Other comprehensive income for the period		-	-
Total comprehensive income for the period		<u>60,714,143</u>	<u>37,078,362</u>
Basic and diluted earnings per ordinary share (in Uzbek soums)	23	<u>122</u>	<u>77</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Uzbek Soums)

	<i>Notes</i>	<i>Share capital</i>	<i>Treasury shares</i>	<i>Share premium</i>	<i>Retained earnings</i>	<i>Total equity</i>
1 January 2016		99 007 947	-	2 374 809	53 275 490	154 658 246
Total comprehensive income for the year ended 31 December 2016		-	-	-	37 078 362	37 078 362
Treasury shares	16	-	(7 646 750)	(305 870)	-	(7 952 620)
Dividends declared		-	-	-	(16 513 596)	(16 513 596)
Capitalisation of dividends	16	25 158 178	-	1 006 328	-	26 164 506
31 December 2016		124 166 125	(7 646 750)	3 075 267	73 840 256	193 434 898
Total comprehensive income for the year ended 31 December 2017		-	-	-	60 714 143	60 714 143
Dividends declared (for 2016)	16	-	-	-	(11 798 429)	(11 798 429)
Dividends declared (for 6 month 2017)	16	-	-	-	(8 529 894)	(8 529 894)
Capitalisation of dividends	16	15 833 875	-	633 355	(16 467 230)	-
Treasury shares	16	-	7 646 750	211 234	-	7 857 984
31 December 2017		140 000 000	-	3 919 856	97 758 846	241 678 702

The accompanying notes on pages 5-61 are an integral part of consolidated financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31
DECEMBER 2017**



(in thousands of Uzbek Soums)

	<i>Notes</i>	For the year ended 31 December 2017	For the year ended 31 December 2016
<i>Cash flows from operating activities</i>			
Interest received		120,670,072	87,092,719
Interest paid		(37,504,464)	(25,984,515)
Fee and commission received		77,617,990	53,932,412
Fee and commission paid		(30,919,443)	(23,401,686)
Income received from operations in foreign currencies		2,907,397	1,049,272
Other operating income received		3,097,203	3,986,924
Personnel expenses		(43,643,703)	(27,993,382)
Administrative and other operating expenses paid		(32,569,541)	(19,306,617)
Cash flows from operating activities before changes in operating assets and liabilities		59,655,511	49,375,127
<i>Net change in operating assets and liabilities</i>			
Obligatory reserve deposit at the Central Bank of the Republic of Uzbekistan		(6,295,165)	(3,245,546)
Due from other banks		(8,395,205)	5,008,786
Loans and advances to customers		(106,453,587)	(255,917,307)
Other assets		(339,241)	(13,200,147)
Due to other banks		(64,911,716)	108,111,375
Customer accounts		247,430,053	(61,870,402)
Other liabilities		(1,908,189)	874,535
Net cash used in operating activities before income tax		118,782,461	(170,863,579)
Income tax paid		(18,513,268)	(6,167,702)
Net cash used in operating activities		100,269,193	(177,031,281)
<i>Cash flows from investing activities</i>			
Purchase of property and equipment		(19,364,878)	(10,019,973)
Purchase of investment property		-	(1,604,320)
Purchase of intangible assets		(391,818)	(212,317)
Net cash used in investing activities		(19,756,696)	(11,836,610)
<i>Cash flows from financing activities</i>			
Proceeds from the sale of treasury shares	16	7,857,984	(7,952,620)
Dividends paid on ordinary shares	16	(20,328,323)	(16,513,596)
Net cash used in financing activities		(12,470,339)	(24,466,216)
Effect of exchange rate changes on cash and cash equivalents		14,195,301	17,563,334
Net increase / (decrease) in cash and cash equivalents		82,237,459	(195,770,773)
CASH AND CASH EQUIVALENTS, beginning of period	7	240,379,608	436,150,381
CASH AND CASH EQUIVALENTS, end of period	7	322,617,067	240,379,608