JOINT STOCK COMMERCIAL BANK
“ASIA ALLIANCE BANK”

Consolidated financial statements and
Independent Auditor’s Report
For the year ended 31 December 2016

pwc

Independent auditor's report

To the Shareholders and Council of the Joint Stock Commercial Bank "Asia Alliance Bank":

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Joint Stock Commercial Bank "Asia Alliance Bank" (the Bank) and its subsidiary (the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Our audit approach

Overview

Materiality	Overall Group materiality: Uzbek Soums (the "UZS") 2,392,000 thousand, which represents 5% of profit before tax.
Group scoping	The Group consists of two reporting entities, which are located in Uzbekistan. We performed an audit of the complete financial information on both reporting entities.
Key audit matters	Impairment of loans and advances to customers.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of two entities, the parent – Joint Stock Commercial Bank "Asia Alliance Bank" and 100% owned subsidiary – Limited Liability Company "Absolute Leasing". The Group's financial statements are a consolidation of these two entities. We performed an audit of the complete financial information on both reporting entities. This together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	*UZS 2,392,000 thousand.*
How we determined it	*5% of profit before tax.*
Rationale for the materiality benchmark applied	- *the Group is a profit oriented entity with a history of profitable results;* - *the Group's profits are not volatile and the main users of the financial statements (shareholders, creditors, regulators) are primarily interested in profitability and liquidity.*

We agreed with management that we would report to them misstatements identified during our audit above UZS 119,000 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reason.

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.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers We focused on this area due to the size of the loans and advances to customers balance on the consolidated Statement of financial position (UZS 734,439,739 thousand as at 31 December 2016) and because there is significant judgement involved in assessing provisions for loan impairment. The determination of assumptions for the measurement of impairment is highly subjective due to the level of judgements applied by management over timing of impairment recognition and the estimation of the size of any such impairment. The accounting policies and critical judgements relative to the calculations of impairment provisions on loans and advances to customers are summarised in Notes 3 and 4 to the consolidated financial statements. The Bank uses two methods for calculation of impairment provisions on loans and advances to customers: *<u>Individually assessed loans</u>* These primarily represent corporate loans that are individually assessed by the Bank's Credit Committee in order to determine whether there is an objective evidence that the loan is impaired. Individually impaired loans are measured based on the present value of future cash flows discounted at the original effective interest rate; or at the fair value of the collateral if the recovery depends primarily on collateral. If an individually significant loan is impaired, the recoverable amount is determined on a loan-by-loan basis and provision is recognised as the difference between the carrying and the recoverable amount of the loan, if the recoverable amount is lower.	Our audit procedures over the loans and advances to customers primarily included: - the assessment of controls over the approval, recording and monitoring of loans and advances; - evaluation of the methodologies, inputs and assumptions used by the Bank in calculating impairments assessed on a portfolio basis; - the assessment of the adequacy of impairment allowances for individually assessed loans and advances. We also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to credit risk. We tested a sample of individually significant loans by focusing on cash flow expectations and forecasts, quality and valuation of collateral, accumulated history of defaults within specific industry sectors. Our selection was based on under-collateralized loans, since loans with good collateral will give sufficient future cash flows (even though they might be overdue). Our work included the following steps for the selected loans: 1. We tested whether the impairment event had been identified in a timely manner, tested discounted cash flow calculations, challenged the assumptions and expert judgements used and compared estimates to external evidence where available; 2. We assessed borrowers' collateral by reviewing internal and external valuation acts/reports and by obtaining understanding the Bank's policy related to monitoring and assessment of collateral and understanding of additional procedures performed by management, such as internal reassessment of collateral value or site visits. Since no individually significant impaired loans were identified based on our procedures performed, we applied collective pool provision rates for all loans, except for one month old loans to new borrowers, which are not considered to be impaired due to a short time since their origination. For impairment provision estimated collectively on a modelled basis, we tested the basis and operation of the model and the data and assumptions used. Our work included the following:

Impairment loss is calculated as the difference between the loan's carrying value and its present value of the recoverable amount calculated as described above.

Loans assessed on a portfolio basis (collective assessment)

The management of the Bank assesses, based on historic defaults, migration tables and the prevailing economical and credit conditions, loans which may be impaired but the impairment is not individually identified as of the reporting date.

3. We compared the principal assumptions made with our own knowledge and experience of the financial and banking industry;
4. We re-performed the calculation and checked correctness of the model used to calculate collective impairment;
5. We checked whether the potential indicators of impairment are included in the impairment analysis by the management.

The following additional procedures were performed for final provision for loans and advances impairment at 31 December 2016:

6. We developed independent expectations regarding the provision levels based on the results of our audit of the consolidated financial statements of the Group for the period of six months ended 30 June 2016;
7. We developed independent expectations in respect of collective assessment based on our understanding of the industry sectors and the banking market in Uzbekistan.

Our procedures did not lead to a material adjustment to the loan impairment provisions existing at 31 December 2016.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 Group 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 scepticism 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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.

Utkir Muhammadiyev
General Director/Engagement Partner
Certificate of Auditor No. 9/15
dated 16 August 2013

Audit Organization "PricewaterhouseCoopers" LLC

Audit Organization "PricewaterhouseCoopers" LLC
17 March 2017
Tashkent, Uzbekistan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

(in thousands of Uzbek Soums)

	Notes	31 December 2016	31 December 2015
ASSETS:			
Cash and cash equivalents	7	240,379,608	436,150,381
Due from other banks	8	119,402,742	117,893,195
Loans to customers	9,30	679,536,288	436,364,756
Finance lease receivables	10,30	54,903,451	35,408,473
Current income tax prepayment		1,076,516	5,055,841
Deferred income tax asset	23	254,790	-
Investment properties	12	8,569,425	9,202,395
Premises and equipment	11	31,534,276	25,612,713
Intangible assets	11	1,055,736	1,146,481
Other assets	13	18,727,539	6,351,520
TOTAL ASSETS		**1,155,440,371**	**1,073,185,755**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	14	151,675,999	42,701,791
Customer accounts	15,30	801,842,241	841,411,529
Deferred income tax liability	23		295,327
Other liabilities	16	8,487,233	34,118,862
Total liabilities		**962,005,473**	**918,527,509**
EQUITY:			
Share capital	17	124,166,125	99,007,947
Treasury shares	17	(7,646,750)	-
Share premium	17	3,075,267	2,374,809
Retained earnings		73,840,256	53,275,490
Total equity		**193,434,898**	**154,658,246**
TOTAL LIABILITIES AND EQUITY		**1,155,440,371**	**1,073,185,755**

On behalf of the Management Board

Mr. Abdukakhorov I.A.
Chairman of the Board

Mr. Sharipov D.P.
Chief Accountant

17 March 2017
Tashkent, Uzbekistan

(in thousands of Uzbek Soums)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	18	88,975,269	62,667,519
Interest expense	18	(26,039,323)	(16,206,854)
Net interest income		**62,935,946**	**46,460,665**
Provision for impairment of loans to customers and finance lease receivables	9,10	(2,337,326)	(460,664)
Net interest income after provision for impairment of loans to customers and finance lease receivables		**60,598,620**	**46,000,001**
Net gain on foreign exchange operations	19	4,690,863	10,240,732
Fee and commission income	20	55,439,534	56,732,414
Fee and commission expense	20	(23,401,686)	(16,077,723)
Provision for guarantees and other assets	13,16	(287,629)	459,532
Other income	21	3,986,924	1,103,865
Net non-interest income		**40,428,006**	**52,458,820**
Operating income		**101,026,626**	**98,458,821**
Operating expenses	22	(54,351,354)	(45,206,868)
Profit before income tax		**46,675,272**	**53,251,953**
Income tax expense	23	(9,596,910)	(10,495,241)
NET PROFIT FOR THE YEAR		**37,078,362**	**42,756,712**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**37,078,362**	**42,756,712**
Basic and diluted earnings per ordinary share	24	77	108

Mr. Abdukakhorov I.A.
Chairman of the Board

17 March 2017
Tashkent, Uzbekistan

Mr. Sharipov D.P.
Chief Accountant

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

ASIA ALLIANCE BANK

(in thousands of Uzbek Soums)

	Notes	Share capital	Treasury shares	Share premium	Retained earnings	Total equity
1 January 2015		**99,007,947**	**-**	**2,374,809**	**41,488,463**	**142,871,219**
Total comprehensive income for 2015		-	-	-	42,756,712	42,756,712
Dividends declared	17	-	-	-	(30,969,685)	(30,969,685)
31 December 2015		**99,007,947**	**-**	**2,374,809**	**53,275,490**	**154,658,246**
Total comprehensive income for 2016		-	-	-	37,078,362	37,078,362
Treasury shares acquisitions	17	-	(7,646,750)	(305,870)	-	(7,952,620)
Dividends declared	17	-	-	-	(16,513,596)	(16,513,596)
Capitalisation of dividends	17	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**

On behalf of the Management Board

Mr. Abdukakhorov I.A.
Chairman of the Board

Mr. Sharipov D.P.
Chief Accountant

17 March 2017
Tashkent, Uzbekistan

The notes on pages 6-67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

ASIA ALLIANCE BANK

(in thousands of Uzbek Soums)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		87,092,719	61,918,602
Interest paid		(25,984,515)	(15,813,774)
Fee and commission received		53,932,412	55,530,131
Fee and commission paid		(23,401,686)	(16,077,723)
Income received from trading in foreign currencies		895,473	3,645,996
Income received from derivatives		153,799	1,724,080
Other operating income received		3,986,924	800,168
Rental income on investment properties		-	303,697
Staff costs paid		(27,993,382)	(24,531,624)
Administrative and other operating expenses paid		(19,306,617)	(19,260,501)
Income tax paid		(6,167,702)	(12,186,683)
Cash flows from operating activities before changes in operating assets and liabilities		**43,207,425**	**36,052,369**
Change in operating assets and liabilities			
Net decrease in obligatory reserve deposit at the CBU		(3,245,546)	7,884,116
Net decrease in due from other banks		5,008,786	106,525,860
Net increase in loans to customers		(236,542,614)	(4,534,977)
Net increase in finance lease receivable		(19,374,693)	(10,466,836)
Net increase in other assets		(13,200,147)	(1,758,150)
Net increase / (decrease) in due to other banks		108,111,375	23,646,412
Net (decrease) / increase in customer accounts		(61,870,402)	(155,921,701)
Net decrease in other liabilities		874,535	(254,004)
Net cash from / (used in) operating activities		**(177,031,281)**	**1,173,089**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of premises and equipment		(10,019,973)	(4,892,511)
Purchase of investment properties		(1,604,320)	(4,848,239)
Purchase of intangible assets		(212,317)	(815,988)
Net cash used in investing activities		**(11,836,610)**	**(10,556,738)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares		(16,513,596)	(5,104,616)
Treasury shares purchased		(7,952,620)	-
Net cash used in financing activities		**(24,466,216)**	**(5,104,616)**

The notes on pages 6-67 form an integral part of these consolidated financial statements.

(in thousands of Uzbek Soums)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Effect of exchange rate changes on cash and cash equivalents		17,563,334	16,862,330
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**(195,770,773)**	**2,374,065**
CASH AND CASH EQUIVALENTS, beginning of year	7	**436,150,381**	**433,776,316**
CASH AND CASH EQUIVALENTS, end of year	7	**240,379,608**	**436,150,381**

On behalf of the Management Board

Mr. Abdukakhorov I.A.
Chairman of the Board

17 March 2017
Tashkent, Uzbekistan

Mr. Sharipov D.P.
Chief Accountant