JOINT STOCK COMMERCIAL BANK “UZBEK INDUSTRIAL AND CONSTRUCTION BANK”

Consolidated Financial Statements and Independent Auditors’ Report for the year ended 31 December 2017

JOINT STOCK COMMERCIAL BANK
"UZBEK INDUSTRIAL AND CONSTRUCTION BANK"

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"UZBEK INDUSTRIAL AND CONSTRUCTION BANK"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Commercial Bank "Uzbek Industrial and Construction Bank" ("the Bank") and its subsidiaries ("the Group") as at 31 December 2017 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group 's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by the management on 25 May 2018.

On behalf of the Management Board:

Voitov Aziz	**Vokhidov Oybek**
Acting Chairman of the Management Board	**Chief Accountant**
25 May 2018	25 May 2018
Tashkent, Uzbekistan	Tashkent, Uzbekistan

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Joint Stock Commercial Bank "Uzbek Industrial and Construction Bank"

Opinion

We have audited the consolidated financial statements of Joint Stock Commercial Bank "Uzbek Industrial and Construction Bank" and its subsidiaries ("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 (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of 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.

Emphasis of Matter

We draw attention to Note 5 to the consolidated financial statements which describes the restatement of corresponding figures in the consolidated statement of cash flows for the year ended 31 December 2016. Our opinion is not modified in respect of this matter.

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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Loans and advances to customers – credit risk Refer to Note 2 for the summary of significant accounting policies and Note 3 for critical accounting estimates and judgements. The Group has a greater exposure to credit risk on loans to state entities not secured by the Government and loans to corporate clients. The management regularly reviews the loan portfolio to assess whether impairment provision should be recognized, if any. Judgement is applied to determine if an impairment event that led to a decrease in the expected future cash flows has occurred. The management's estimation of the expected timing and amount of future cash flows is based on the analysis of borrowers' financial position, quality of available collateral, historical loss experience.	We obtained an understanding of the management's process of identifying impairment of loans to customers. We selected a sample of loans for testing the sufficiency of loan impairment provisions recognized as at the reporting date. As part of our testing, we reviewed the indicators of impairment and challenged the assumptions made in respect of the expected future cash flows including those from the sale of collateral. We also analyzed the financial position of the borrowers and available independent valuation reports.

Due to the subjectivity involved in determining the carrying value of loans this matter was identified as a key audit matter.	
Recognition of loan origination fees Refer to Note 2 for the accounting policy for loan origination fees recognized in the consolidated financial statements. The total fees that the Group has recognized in the statement of profit or loss and other comprehensive income for issuance of loans during the year ended 31 December 2017 amounted to UZS 53,409,460 thousand. The Group's policy is to recognize loan origination fees as a lump sum in the period when the cash is received, and to subsequently amortize them over the life of the loan when the management determines them as integral to the loan issuance. As this is a manual process and subject to Management judgement, we consider this a key audit matter.	We obtained an understanding of the loan origination process and the policy in relation to the recognition of fees and commissions and interest income. We assessed whether the methodology used complies with the requirements of the IFRS. We analyzed the nature of fees charged during loan origination to determine whether they relate to up front service fees or the provision of the loan and thus should be accounted as interest income and recognized over the life of the loan. We also tested the arithmetical accuracy of the amortization schedule used by Management to recognize the loan origination fees over the term of the loan. We found no material exceptions in those tests.

Other Information – Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance 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.

Those charged with governance are 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 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.

Deloitte & Touche

Deloitte va Touche

"Deloitte & Touche" Audit Organisation LLC

License authorizing audit of companies registered by the Ministry of Finance of the Republic of Uzbekistan under #00500 dated 8 February 2008

Certificate authorizing audit of banks registered by the Central Bank of the Republic of Uzbekistan under #3 dated 14 October 2013

25 May 2018

Tashkent, Uzbekistan

Erkin Ayupov

Qualified Auditor/Engagement Partner
Auditor qualification certificate authorizing audit of companies, #04830 dated 22 May 2010 issued by the Ministry of Finance of the Republic of Uzbekistan

Auditor qualification certificate authorizing audit of banks, #6/8 dated 30 June 2015 issued by the Central Bank of the Republic of Uzbekistan

Director
"Deloitte & Touche" Audit Organisation LLC

JOINT STOCK COMMERCIAL BANK
"UZBEK INDUSTRIAL AND CONSTRUCTION BANK"

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	3,059,367,064	959,585,935
Due from other banks	8	669,374,890	535,769,139
Loans and advances to customers	9,33	20,360,591,498	8,568,524,783
Investment securities available for sale	10	19,863,986	14,483,955
Investment securities held to maturity	11	-	13,209,288
Investment in associates	12	839,765	3,471,066
Premises, equipment and intangible assets	13	146,933,312	112,615,316
Deferred income tax asset	26	-	28,943,479
Other assets	14,33	31,694,038	26,407,722
Non-current assets held for sale	15	17,895,458	45,997,136
TOTAL ASSETS		**24,306,560,011**	**10,309,007,819**
LIABILITIES			
Due to other banks	16	376,560,347	193,968,707
Customer accounts	17,33	3,900,333,795	2,568,972,209
Debt securities in issue	18,33	68,885,487	78,884,584
Other borrowed funds	19,33	17,380,160,493	6,572,294,779
Other liabilities	20,33	52,398,700	40,638,613
Deferred income tax liability	26	62,849,181	-
Liabilities directly associated with disposal groups held for sale	15	1,991,428	587,110
TOTAL LIABILITIES		**21,843,179,431**	**9,455,346,002**
EQUITY			
Share capital	21	1,460,035,541	706,384,958
Treasury shares	21	(2,476,996)	(4,331,577)
Retained earnings		996,126,102	150,121,554
Revaluation reserve for investment securities available for sale		4,219,782	1,486,882
Net assets attributable to the Bank's owners		2,457,904,429	853,661,817
Non-controlling interest	29	5,476,151	-
TOTAL EQUITY		**2,463,380,580**	**853,661,817**
TOTAL LIABILITIES AND EQUITY		**24,306,560,011**	**10,309,007,819**

Approved for issue and signed on behalf of the Management Board on 25 May 2018.

Voitov Aziz
Acting Chairman of the Management Board

Vokhidov Oybek
Chief Accountant

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Uzbek Soums, except for earnings per share which are in Soums)

	Notes	2017	2016
Continuing operations			
Interest income	22,33	736,086,220	466,889,056
Interest expense	22,33	(381,282,266)	(228,357,992)
Net interest income before provision on interest bearing assets		354,803,954	238,531,064
Recovery of / (provision for) impairment on interest bearing assets	9	50,731,760	(66,637,944)
Initial recognition adjustment on interest bearing assets		(3,995,432)	(1,518,324)
Net interest income		**401,540,282**	**170,374,796**
Fee and commission income	23,33	201,658,244	146,910,684
Fee and commission expense	23,33	(38,645,213)	(32,477,020)
Net gain on foreign exchange translation		759,801,357	57,000,388
Net gain from trading in foreign currencies		9,191,464	4,122,524
Dividend income		1,973,049	1,743,383
Other operating income	24	14,171,644	12,574,154
Provision for impairment of other assets		(5,887,566)	(11,853,172)
Provision for impairment of investment securities available for sale		(5,000,000)	-
Administrative and other operating expenses	25,33	(338,217,982)	(246,907,990)
Share of result from associates		(2,631,301)	68,307
Profit before tax		**997,953,978**	**101,556,054**
Income tax expense	26	(99,446,224)	(12,420,536)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**898,507,754**	**89,135,518**
Discontinued operations			
Profit / (loss) for the period from discontinued operations	15	828,789	(2,580,839)
NET PROFIT FOR THE YEAR		**899,336,543**	**86,554,679**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Uzbek Soums, except for earnings per share which are in Soums)

	Notes	2017	2016
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss:			
Investment securities available for sale:			
Gains less losses arising during the year		3,503,718	199,387
Income tax relating to components of other comprehensive income		(770,818)	(43,466)
Other comprehensive income for the year		**2,732,900**	**155,921**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**902,069,443**	**86,710,600**
Profit attributable to:			
- Owners of the Bank		896,663,404	86,554,679
- Non-controlling interest		2,673,139	-
Profit for the year		**899,336,543**	**86,554,679**
Total comprehensive income attributable to:			
- Owners of the Bank		899,396,304	86,710,600
- Non-controlling interest		2,673,139	-
Total comprehensive income for the year		**902,069,443**	**86,710,600**
Total basic and diluted EPS per ordinary share in UZS	27	**19**	**2**
Total basic and diluted EPS per equity component of preference share in UZS	27	**19**	**4**

Approved for issue and signed on behalf of Management Board on 25 May 2018.

Voitov Aziz
Acting Chairman of the Management Board

Vokhidov Oybek
Chief Accountant

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

(in thousands of Uzbek Soums)

	Notes	Share capital (in thousands)	Treasury shares	Revaluation reserve for investment securities available for sale	Retained earnings	Non-controlling interest	Total equity
31 December 2015		**706,982,981**	**(5,027,013)**	**1,330,961**	**83,576,644**	**-**	**786,863,573**
Net profit for the year		-	-	-	86,554,679	-	86,554,679
Other comprehensive income		-	-	155,921	-	-	155,921
Total comprehensive income for 2016		-	-	155,921	86,554,679	-	86,710,600
Disposal of treasury shares		-	695,436	-	-	-	695,436
Effect of change in present value of preference shares		(598,023)	-	-	-	-	(598,023)
Dividends declared		-	-	-	(20,009,769)	-	(20,009,769)
31 December 2016		**706,384,958**	**(4,331,577)**	**1,486,882**	**150,121,554**	**-**	**853,661,817**
Net profit for the year		-	-	-	896,663,404	2,673,139	899,336,543
Other comprehensive income		-	-	2,732,900	-	-	2,732,900
Total comprehensive income for 2017		-	-	2,732,900	896,663,404	2,673,139	902,069,443
Share issued	21	753,916,583			(27,446,563)	-	726,470,020
Disposal of treasury shares		-	1,854,581	-	-	-	1,854,581
Non-controlling interests arising on the acquisition of subsidiary		-	-	-	-	2,803,012	2,803,012
Effect of change in present value of preference shares		(266,000)	-	-	-	-	(266,000)
Dividends declared		-	-	-	(23,212,293)	-	(23,212,293)
31 December 2017		**1,460,035,541**	**(2,476,996)**	**4,219,782**	**996,126,102**	**5,476,151**	**2,463,380,580**

Approved for issue and signed on behalf of Management Board on 25 May 2018.

Voitov Aziz
Acting Chairman of the Management Board

Vokhidov Oybek
Chief Accountant

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Uzbek Soums)

	Notes	2017	2016 (restated)
Cash flows from operating activities			
Interest received		267,031,711	362,494,991
Interest paid		(22,289,930)	(155,279,181)
Fee and commission received		207,338,309	142,828,673
Fee and commission paid		(38,645,213)	(32,477,020)
Net gain from trading in foreign currencies		9,191,464	4,122,524
Other operating income received		10,823,456	11,516,628
Staff costs paid		(194,083,474)	(150,945,461)
Administrative and other operating expenses paid		(116,131,756)	(70,142,692)
Income tax paid		(25,087,807)	(22,471,101)
Cash flows from operating activities before changes in operating assets and liabilities		**98,146,760**	**89,647,361**
Net decrease in due from other banks		994,760,995	113,146,944
Net increase in loans and advances to customers		(804,242,487)	(604,357,501)
Net decrease in other assets		41,818,016	7,696,750
Net increase/(decrease) in due to other banks		116,084,150	(137,340,392)
Net (decrease)/increase in customer accounts		(360,745,607)	325,955,442
Net decrease in other liabilities		(307,639,867)	(879,720)
Net increase in liabilities directly associated with assets held for sale (or disposal group)		-	26,922
Net cash used in operating activities		**(221,818,040)**	**(206,104,194)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(6,552,374)	-
Proceeds at maturity of investment securities held to maturity		13,000,000	1,000,000
Acquisition of premises and equipment		(37,361,058)	(31,263,638)
Proceeds from disposal of premises and equipment		4,788,904	1,127,336
Proceeds from disposal of subsidiary, net of disposed cash		-	7,048,121
Net cash outflow on acquisition of subsidiary		(3,500,000)	-
Dividend income received		1,973,049	1,743,383
Net cash used in investing activities		**(27,651,479)**	**(20,344,798)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Uzbek Soums)

	Notes	2017	2016 (restated)
Cash flows from financing activities			
Proceeds from other borrowed funds		1,843,358,501	557,085,788
Repayment of other borrowed funds		(1,499,851,097)	(197,873,111)
Proceeds from debt securities in issue		-	19,810,000
Repayment of debt securities in issue		(10,080,000)	(4,000,000)
Issue of ordinary shares	21	726,470,020	-
Dividends paid		(22,913,238)	(20,009,769)
Treasury shares sold		1,854,581	695,436
Net cash from financing activities		**1,038,838,767**	**355,708,344**
Effect of exchange rate changes on cash and cash equivalents		1,310,411,881	23,983,222
Net increase/(decrease) in cash and cash equivalents		**2,099,781,129**	**153,242,574**
Cash and cash equivalents at the beginning of the year	7	959,585,935	806,343,361
Cash and cash equivalents at the end of the year	7	**3,059,367,064**	**959,585,935**

Non-cash transactions	31 December 2017	31 December 2016
Sale of subsidiaries on deferred terms	-	35,025,339
Sale of repossessed assets on deferred terms	30,334,785	-

Approved for issue and signed on behalf of the Management Board on 25 May 2018.

Voitov Aziz
Acting Chairman of the Management Board

Vokhidov Oybek
Chief Accountant

(in thousands of Uzbek Soums, unless otherwise indicated)

1. INTRODUCTION

The Bank is a Joint Stock Company limited by shares and was set up in accordance with Uzbekistan legislation.

The Bank was incorporated in 1991 and is domiciled in the Republic of Uzbekistan. It is registered in Uzbekistan to carry out banking and foreign exchange activities and has operated under the banking license #17 issued by the Central Bank of Uzbekistan ("CBU") on 21 October 2017 (succeeded the licenses #17 issued on 25 January 2003 and #25 issued on 29 January 2005 by the CBU for full banking operations and general license for foreign currency operations, respectively).

Principal activity. The Bank's principal activity is commercial banking, retail banking, operations with securities, foreign currencies and origination of loans and guarantees. The Bank accepts deposits from legal entities and individuals and extends loans and transfers payments. The Bank conducts its banking operations from its head office in Tashkent and 45 branches within Uzbekistan as of 31 December 2017 (31 December 2016: 44 branches).

The Bank participates in the state deposit insurance scheme, which was introduced by the Uzbek Law #360-II "Insurance of Individual Bank Deposit" on 5 April 2002. On 28 November 2008, the President of Uzbekistan issued the Decree #УП-4057 stating that in case of the withdrawal of a license of a bank, the State Deposit Insurance Fund guarantees repayment of 100% of individual deposits regardless of the deposit amount.

As at 31 December 2017, the number of Bank's employees was 3,850 (31 December 2016: 3,674).

Registered address and place of business. 3, Sharisabzskaya Street, Tashkent, 100000, Uzbekistan

At 31 December 2017 and 2016, the Group consolidated the following companies (together referred to as "Group") in these consolidated financial statements:

		The Bank's ownership		
Name	**Country of incorporation**	**2017 %**	**2016 %**	**Type of operation**
PSB Industrial Investments, LLC	Uzbekistan	100	100	Asset management
Asset Invest Trust, LLC	Uzbekistan	100	100	Consulting
Ferghana Ceramics Industry, LLC	Uzbekistan	100	100	Manufacturing
Xorazm Nasli Parranda, LLC	Uzbekistan	57	-	Poultry farming

Shareholders	**2017**	**2016**
The Fund of Reconstruction and Development of the Republic of Uzbekistan	63.5%	48.1%
The Ministry of Finance of the Republic of Uzbekistan	18.7%	16.2%
The National Holding Company "Uzbekneftegaz"	8.2%	15.8%
Tashmuxamedov Ravshan Irkinovich	1.5%	3.0%
Joint Stock Company "Uzbekenergo"	1.4%	5.4%
Joint Stock Company "Uzbekistan Railway"	0.8%	1.6%
LLC "Absolute Investments Trust"	0.6%	1.2%
Treasury shares	0.6%	0.7%
Other legal entities (individually hold less than 1%)	4.0%	7.0%
Other shareholders (individually hold less than 1%)	0.7%	1.0%
Total	**100%**	**100%**

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of available for sale financial assets. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Group is required to maintain its records and prepare its consolidated financial statements for regulatory purposes in Uzbek Soums in accordance with Uzbekistan Accounting Legislation and related instructions. These consolidated financial statements are based on the Group's Uzbekistan Accounting Legislation books and records, adjusted and reclassified in order to comply with IFRS.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiaries use uniform accounting policies.

Non-controlling interest. Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interest are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Accounting for the effects of hyperinflation. The Republic of Uzbekistan has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the statement of financial position date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money losses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of Uzbekistan indicated that hyperinflation had ceased effective from 1 January 2007. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, which are effectively share capital and premises and equipment, the amounts expressed in the measuring unit current as at 31 December 2006 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Uzbekistan Consumer Price Index ("CPI"), provided by the State Committee on Statistics of the Republic of Uzbekistan, and from indices obtained from other sources for years prior to 1994.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate

Initial recognition of financial instruments. The Group's financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include deposits with the Central bank of Uzbekistan (the "CBU") and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the CBU. Mandatory cash balances with the CBU are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Due from the CBU include non-interest bearing mandatory reserve deposit held with the CBU against credit losses and deposits. This deposit is not available to finance the Group's day to day operations, and hence is not considered as part of cash and cash equivalents for the purposes of these consolidated financial statements. This deposit is calculated in accordance with the current regulations of the CBU based on overdue status of the borrowers which is out of Group's control in order to manage the amount of mandatory reserve deposit. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") occur after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

The Group applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Uzbekistan Soum at 31 December 2006 for assets acquired prior to 1 January 2007, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount and are recognised in profit and loss.

Depreciation. Land and construction in progress are not depreciated. Depreciation of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Building and leasehold improvements	50
Office and computer equipment	5-10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the reporting period.

Intangible assets. The Group's intangible assets have finite useful lives and primarily comprise capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of five years.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the statement of financial position.

Discontinued operations. A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost.

Other borrowed funds. Other borrowed funds include borrowings from government and non-government funds and financial institutions. Other borrowed funds are carried at amortised cost

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

In accordance with the Order of the President of the Republic of Uzbekistan #P-5214 dated 13 February 2018 "On organizational measures on fundamental development of tax legislation", Republican committee and work groups were established to develop (i) draft Concept on development of tax legislation until 1 April 2018 and (ii) draft Tax Code in new edition until 1 July 2018. Respectively, the tax environment in the Republic of Uzbekistan remains volatile and subject to significant changes in the foreseeable future. No provision or adjustments have been made in relation to these developments as they were neither enacted nor substantially enacted as at year end.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade payable and other liabilities. Trade payables and other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Preference shares which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised as interest expense on an amortised cost basis, using the effective interest method.

Treasury shares. Where the Group or its subsidiaries purchase the Group's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Group until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Group are the basis for profit distribution and other appropriations. Uzbek legislation identifies retained earnings as the basis for profit distribution.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When collection of loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Foreign currency translation. The functional currency of the Group, which is the currency of the primary economic environment in which the Group operates and the Group's presentation currency is the national currency of the Republic of Uzbekistan, Uzbek Soum ("UZS").

Monetary assets and liabilities are translated into Group's functional currency at the official exchange rate of the Central Bank of Uzbekistan at the end of respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Group's functional currency at year-end official exchange rates of the CBU are recognised in profit or loss. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

As at 31 December 2017 the principal rate of exchange used for translating foreign currency balances was USD 1 = UZS 8,120.07 (2016: USD 1 = UZS 3,231.48) and EUR 1 = UZS 9,624.72 (2016: EUR 1 = UZS 3,419.23).

On September 2017 in accordance with the Decree of the President of the Republic of Uzbekistan #UP-5177 "On priority measures for liberalization of monetary policy" dated 2 September 2017, the official rate of UZS were devalued from 4,210.35 per dollar to 8,100 representing 92% decrease.

In accordance with the above-mentioned Decree foreign exchange gains arising from devaluation will not be taxed until 1 July 2018.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Earnings per share. Preference shares are not redeemable, and are considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Held to maturity financial assets. The Group management has reviewed the Group's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables. The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers.

Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Uzbekistan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Borrowings from financial institutions. The Group obtains long term financing from government, state and international financial institutions at interest rates at which such institutions ordinarily lend in emerging markets and which may be lower than rates at which the Group could source the funds from local lenders. As a result of this financing, the Group is able to advance funds to specific customers at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of these instruments and its judgment is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgment management also considered that these instruments are a separate market sector.

Recoverability of deferred tax assets. The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more than likely that the deferred tax asset will be fully realized.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements

The following amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group:

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

Amendments to IAS 7 *Disclosure Initiative*

The amendments require the Group to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group has no major liabilities arising from financing activities. The main source of financing activities arise form issuing additional share capital.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that the Gorup need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRS 16 Leases[2];
- IFRS 17 Insurance Contracts[3];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 40 – *Transfers of Investment Property*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

As at 31 December 2017, the Group has started the process of IFRS 9 implementation, but not yet completed. A preliminary assessment indicates that these amendments, will have a significant impact on the amounts recognised in the Group's consolidated financial statements and the management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

- Interest income from interest bearing assets as disclosed in note 22;
- Commission income as disclosed in note 23;

The management does not anticipate that the application of IFRS 15 will have a significant impact on the consolidated financial position and/or financial performance of the Group.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for non-cancellable operating leases. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, and in cases where the Group is a lessor (for both operating and finance leases), the management of the Company does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

IFRS 17 *Insurance Contracts*

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*:

- IFRS 17 outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.
- The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty; it takes into account market interest rates and the impact of policyholders' options and guarantees.
- Profit from selling insurance policies is deferred in a separate liability component on day 1 and aggregated in groups of insurance contracts; it is then reported systematically through profit or loss over the period during which insurers provide cover after making adjustments from changes in assumptions relating to future coverage.
- Considering scope, some fixed fee service contracts meeting specified criteria will be able to be accounted under IFRS 15 Revenue from Contracts with Customers instead of applying the requirements in IFRS 17.

The new standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted for entities that apply IFRS 9 and IFRS 15 at or before the date of initial application of IFRS 17. Entities should apply IFRS 17 retrospectively, unless impracticable, in which case the modified retrospective approach of the fair value approach is applied.

The management does not anticipate that the application of this standard will have a material impact on the Group's consolidated financial statements as the Group does not have any insurance contracts.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
    a. the original liability is derecognised;
    b. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
    c. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The management of the Company does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- if yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- if no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments provide entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current IFRS accounting and to defer the application of IFRS 9 until the earlier of the application of the new insurance Standard or periods beginning on or after 1 January 2021 (the "sunset clause"). The assessment of predominance has to be made at the reporting entity level and at the annual reporting date immediately preceding 1 April 2016. Thereafter it should not be reassessed, unless there is a significant change in the entity's activities that would trigger a mandatory reassessment. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from IFRS 9, for annual periods beginning on or after 1 January 2018.

Separately, the amendments provide all entities with contracts within the scope of IFRS 4 with an option to apply IFRS 9 in full but to make adjustments to profit or loss to remove the impact of IFRS 9, compared with IAS 39, for designated qualifying financial assets. This is referred to as the 'overlay approach' and is available on an asset-by asset basis with specific requirements around designations and de-designations. An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements as the Group does not have any insurance contracts to which IFRS 4 applies.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The narrow-scope amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management anticipates that the application of these amendments will have a material impact on the Group's consolidated financial statements as the Group has several financial liabilities for which there were non-substantial modifications in the past, which were accounted for prospectively through revision of the effective interest rate. The

Group is in process of assessing the quantitative impact of adoption of these amendments on the Group consolidated financial statements.

Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures*

The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements, as the Group does not have any other long-term interests in associates and joint ventures, except for the equity investments accounted for using the equity method.

Annual Improvements to IFRSs 2014-2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Group. The package also includes amendments to IFRS 12 which is mandatorily effective for the Group in the current year – see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

The management of the Company does not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements as the Group is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Group does not have any associate or joint venture that is an investment entity.

Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after 1 January 2019.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

5. RESTATEMENTS AND RECLASSIFICATIONS

During preparation of these consolidated financial statements, the Group management identified that foreign exchange losses on loans and advances to customers, due to other banks and other borrowed funds were erroneously recorded as cash inflows or cash outflows in the consolidated financial statements for the year ended 31 December 2016.

(in thousands of Uzbek Soums, unless otherwise indicated)

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" these consolidated financial statements have been restated as detailed below.

The effect of the adjustments made to the consolidated statement of cash flows for the year ended 31 December 2016 is as follows:

	As previously reported	Adjustment	As restated
Net increase in loans and advances to customers	(1,400,079,765)	795,722,264	(604,357,501)
Net (decrease)/increase in due to other banks	(129,533,382)	(7,807,010)	(137,340,392)
Net cash used in operating activities	**(994,019,448)**	**787,915,254**	**(206,104,194)**
Proceeds from other borrowed funds	1,345,001,042	(787,915,254)	557,085,788
Net cash from financing activities	**1,143,623,598**	**(787,915,254)**	**355,708,344**

6. SEGMENT REPORTING

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of three segments, as follows:

- Retail banking – principally handling individual customers deposits, and providing consumer loans, overdrafts, plastic cards facilities and funds transfer facilities.
- Corporate banking – principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
- Group function – treasury, finance and other central functions.

(b) Factors that management used to identify the reportable segments

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured based on profit or loss in the consolidated financial statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on IFRS, and evaluates performance of each segment based on net income.

(in thousands of Uzbek Soums, unless otherwise indicated)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information about these businesses comprises:

As at 31 December 2017	Retail banking	Corporate banking	Group function	Elimination	Total
Cash and cash equivalents	885,269,719	2,174,097,345	-	-	3,059,367,064
Due from other banks	-	669,374,890	-	-	669,374,890
Loans and advances to customers	946,266,130	19,414,325,368	-	-	20,360,591,498
Investment securities available for sale	-	-	19,863,986	-	19,863,986
Investment securities held to maturity	-	-	-	-	-
Investment in associates	-	-	839,765	-	839,765
Premises, equipment and intangible assets	-	-	146,933,312	-	146,933,312
Other assets	1,022,403	2,100,396	28,571,239	-	31,694,038
Non-current assets held for sale	-	-	17,895,458	-	17,895,458
Interbranch transactions	-	-	2,954,141,728	(2,954,141,728)	-
Total reportable segment assets	**1,832,558,252**	**22,259,897,999**	**3,168,245,488**	**(2,954,141,728)**	**24,306,560,011**
Due to other banks	-	(376,560,347)	-	-	(376,560,347)
Customer accounts	(938,877,679)	(2,961,456,116)	-	-	(3,900,333,795)
Debt securities in issue	-	(68,885,487)	-	-	(68,885,487)
Other borrowed funds	-	(17,380,160,493)	-	-	(17,380,160,493)
Other liabilities	-	-	(52,398,700)	-	(52,398,700)
Deferred income tax liability	-	-	(62,849,181)	-	(62,849,181)
Liabilities directly associated with assets held for sale	-	-	(1,991,428)	-	(1,991,428)
Interbranch transactions	-	-	(2,954,141,728)	2,954,141,728	-
Total reportable segment liability	**(938,877,679)**	**(20,787,062,443)**	**(3,071,381,037)**	**2,954,141,728**	**(21,843,179,431)**

(in thousands of Uzbek Soums, unless otherwise indicated)

For the year ended 31 December 2017	Retail banking	Corporate banking	Group function	Elimination	Total
Interest income	77,643,520	658,442,700	84,575,681	(84,575,681)	736,086,220
Fee and commission income	54,325,654	147,332,590	-	-	201,658,244
Recovery of impairment on loans and advances to customers	24,938	50,706,822	-	-	50,731,760
Net gain on foreign exchange translation	-	-	759,801,357	-	759,801,357
Net gain from trading in foreign currencies	2,659,676	6,531,788	-	-	9,191,464
Dividend income	-	-	1,973,049	-	1,973,049
Other operating income	3,203,122	7,866,414	3,102,108	-	14,171,644
Share of result of associates	-	-	(2,631,301)	-	(2,631,301)
Total revenues	**137,856,910**	**870,880,314**	**846,820,894**	**(84,575,681)**	**1,770,982,437**
Interest expense	(55,645,621)	(325,636,645)	(84,575,681)	84,575,681	(381,282,266)
Fee and commission expense	(10,713,785)	(27,931,428)	-	-	(38,645,213)
Initial recognition adjustment on interest bearing assets	-	(3,995,432)	-	-	(3,995,432)
Provision for impairment of other assets	-	(5,061,689)	(825,877)	-	(5,887,566)
Provision for impairment of investment securities available for sale	-	-	(5,000,000)	-	(5,000,000)
Administrative and other operating expenses	-	-	(338,217,982)	-	(338,217,982)
Total expenses	**(66,359,406)**	**(362,625,194)**	**(428,619,540)**	**84,575,681**	**(773,028,459)**
Segment result	**71,497,504**	**508,255,120**	**418,201,354**	**-**	**997,953,978**

(in thousands of Uzbek Soums, unless otherwise indicated)

As at 31 December 2016	Retail banking	Corporate banking	Group function	Elimination	Total
Cash and cash equivalents	140,944,657	818,641,278	-	-	959,585,935
Due from other banks	-	535,769,139	-	-	535,769,139
Loans and advances to customers	448,336,890	8,120,187,893	-	-	8,568,524,783
Investment securities available for sale	-	-	14,483,955	-	14,483,955
Investment securities held to maturity	-	-	13,209,288	-	13,209,288
Investment in associates	-	-	3,471,066	-	3,471,066
Deferred income tax asset	-	-	28,943,479	-	28,943,479
Premises, equipment and intangible assets	-	-	112,615,316	-	112,615,316
Other assets	7,791,109	8,816,196	9,800,417	-	26,407,722
Non-current assets held for sale	-	-	45,997,136	-	45,997,136
Interbranch transactions	-	-	1,653,336,312	(1,653,336,312)	-
Total reportable segment assets	**597,072,656**	**9,483,414,506**	**1,881,856,969**	**(1,653,336,312)**	**10,309,007,819**
Due to other banks	-	(193,968,707)	-	-	(193,968,707)
Customer accounts	(601,672,212)	(1,967,299,997)	-	-	(2,568,972,209)
Debt securities in issue	-	(78,884,584)	-	-	(78,884,584)
Other borrowed funds	-	(6,572,294,779)	-	-	(6,572,294,779)
Other liabilities	-	-	(40,638,613)	-	(40,638,613)
Liabilities directly associated with assets held for sale	-	-	(587,110)	-	(587,110)
Interbranch transactions	-	-	(1,653,336,312)	1,653,336,312	-
Total reportable segment liability	**(601,672,212)**	**(8,812,448,067)**	**(1,694,562,035)**	**1,653,336,312**	**(9,455,346,002)**

(in thousands of Uzbek Soums, unless otherwise indicated)

For the year ended 31 December 2016	Retail banking	Corporate banking	Group function	Elimination	Total
Interest income	35,627,435	431,261,621	59,133,305	(59,133,305)	466,889,056
Fee and commission income	21,578,345	125,332,339	-	-	146,910,684
Net gain on foreign exchange translation	-	-	57,000,388	-	57,000,388
Net gain from trading in foreign currencies	605,519	3,517,005	-	-	4,122,524
Dividend income	-	-	1,743,383	-	1,743,383
Other operating income	1,759,897	10,221,915	592,342	-	12,574,154
Share of result of associates	-	-	68,307	-	68,307
Total revenues	**59,571,196**	**570,332,880**	**118,537,725**	**(59,133,305)**	**689,308,496**
Interest expense	(49,019,137)	(179,338,855)	(59,133,305)	59,133,305	(228,357,992)
Fee and commission expense	(4,770,248)	(27,706,772)	-	-	(32,477,020)
Provision for impairment of loans and advances to customers	374,611	(67,012,555)	-	-	(66,637,944)
Initial recognition adjustment on interest bearing assets	-	(1,518,324)	-	-	(1,518,324)
Provision for impairment of other assets	-	(5,017,837)	(6,835,335)	-	(11,853,172)
Administrative and other operating expenses	-	-	(246,907,990)	-	(246,907,990)
Total expenses	**(53,414,774)**	**(280,594,343)**	**(312,876,630)**	**59,133,305**	**(587,752,442)**
Segment result	**6,156,422**	**289,738,537**	**(194,338,905)**	**-**	**101,556,054**

7. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	527,257,969	368,778,932
Cash balances with the CBU (other than mandatory cash balances)	582,230,560	244,537,173
Correspondent accounts and overnight placements with other banks	1,949,878,535	346,269,830
Total cash and cash equivalents	**3,059,367,064**	**959,585,935**

As at 31 December 2017, cash balances with the CBU (other than mandatory cash balances) include an overnight deposit of UZS nil (31 December 2016: UZS 189,000,000 thousand at fixed interest rate of 0.02% per annum).

(in thousands of Uzbek Soums, unless otherwise indicated)

The credit quality of cash and cash equivalents balances is as follows at 31 December 2017:

	Cash balances with the CBU	Correspondent accounts and overnight placements	Total
Neither past due nor impaired			
- Central bank of Uzbekistan	582,230,560	-	**582,230,560**
- Rated A- to A+	-	1,291,509,373	**1,291,509,373**
- Rated below A-	-	658,369,162	**658,369,162**
Total cash and cash equivalents, excluding cash on hand	**582,230,560**	**1,949,878,535**	**2,532,109,095**

The credit quality of cash and cash equivalents balances is as follows at 31 December 2016:

	Cash balances with the CBU	Correspondent accounts and overnight placements	Total
Neither past due nor impaired			
- Central bank of Uzbekistan	244,537,173	-	**244,537,173**
- Rated A- to A+	-	283,083,435	**283,083,435**
- Rated below A-	-	63,186,395	**63,186,395**
Total cash and cash equivalents, excluding cash on hand	**244,537,173**	**346,269,830**	**590,807,003**

8. DUE FROM OTHER BANKS

	31 December 2017	31 December 2016
Mandatory cash balances with CBU	378,551,250	227,164,574
Mandatory reserve with CBU against credit losses	-	74,319,121
Placements with other banks with original maturities of more than three months	89,447,981	10,314,158
Restricted cash	201,375,659	223,971,286
Total due from other banks	**669,374,890**	**535,769,139**

Restricted cash represents balances on correspondent accounts with foreign banks placed by the Group on behalf of its customers. The Group does not have the right to use these funds for the purpose of funding its own activities.

Analysis by credit quality of due from other banks outstanding at 31 December 2017 is as follows:

	Mandatory cash balances with CBU	Mandatory reserve with CBU against credit losses	Placements with other banks	Restricted cash	Total
Neither past due nor impaired					
- Central bank of Uzbekistan	378,551,250	-	-	-	**378,551,250**
- Rated A- to A+	-	-	89,447,981	39,252,922	**128,700,903**
- Rated below A-	-	-	-	162,122,737	**162,122,737**
Total due from other banks	**378,551,250**	**-**	**89,447,981**	**201,375,659**	**669,374,890**

(in thousands of Uzbek Soums, unless otherwise indicated)

Analysis by credit quality of due from other banks outstanding as at 31 December 2016 is as follows:

	Mandatory cash balances with CBU	Mandatory reserve with CBU against credit losses	Placements with other banks	Restricted cash	Total
Neither past due nor impaired					
- Central Bank of Uzbekistan	227,164,574	74,319,121	-	-	**301,483,695**
- Rated A- to A+	-	-	-	35,291,938	**35,291,938**
- Rated below A-	-	-	10,314,158	188,679,348	**198,993,506**
Total due from other banks	**227,164,574**	**74,319,121**	**10,314,158**	**223,971,286**	**535,769,139**

Mandatory deposits with the CBU include non-interest bearing reserves against client deposits. The Group does not have the right to use these deposits for the purposes of funding its own activities.

According to the Decree of the President of the Republic of Uzbekistan #PP-3270 dated 12 September 2017 the requirement for mandatory reserves with CBU against impaired assets was terminated.

9. LOANS AND ADVANCES TO CUSTOMERS

The Bank uses the following classification of loans:

- Loans to state and municipal organisations - loans issued to clients wholly owned by the Republic of Uzbekistan and budget organisations;
- Corporate loans - loans issued to clients other than government entities and private entrepreneurs;
- Loans to individuals - loans issued to individuals for consumption purposes, for the purchase of residential houses and flats and loans issued to private entrepreneurs without forming legal entity;

Loans and advances to customers comprise:

	31 December 2017	31 December 2016
State and municipal organisations	18,092,488,786	7,553,315,947
Corporate loans	2,084,143,273	1,031,318,749
Loans to individuals	722,239,061	269,528,103
Total loans and advances to customers, gross	**20,898,871,120**	**8,854,162,799**
Less: Provision for loan impairment	(538,279,622)	(285,638,016)
Total loans and advances to customers	**20,360,591,498**	**8,568,524,783**

As at 31 December 2017, loans and advances include finance lease receivable of UZS 3,337,782 thousand (31 December 2016: UZS 10,191,874 thousand) before impairment provision.

(in thousands of Uzbek Soums, unless otherwise indicated)

The movement in the provision for impairment of loans and advances to customers is presented in the below table:

	State and municipal organisations	Corporate loans	Loans to individuals	Total
31 December 2015	**142,258,951**	**42,104,551**	**6,713,265**	**191,076,767**
Provision for impairment during the year	21,276,217	45,736,338	(374,611)	**66,637,944**
Amounts written off during the year as uncollectible	-	(20,981,380)	(45,105)	**(21,026,485)**
Recovery of assets previously written off	-	25,982,185	-	**25,982,185**
Effect of foreign exchange translation difference	17,099,658	5,061,006	806,941	**22,967,605**
31 December 2016	**180,634,826**	**97,902,700**	**7,100,490**	**285,638,016**
Recovery of impairment during the year	(43,642,599)	(7,064,223)	(24,938)	**(50,731,760)**
Amounts written off during the year as uncollectible	-	(4,909,890)	-	**(4,909,890)**
Recovery of assets previously written off	7,891,397	-	-	**7,891,397**
Effect of foreign exchange translation difference	204,866,208	80,191,938	15,333,713	**300,391,859**
31 December 2017	**349,749,832**	**166,120,525**	**22,409,265**	**538,279,622**

Economic sector risk concentrations within the loans and advances to customer are as follows:

	31 December 2017		31 December 2016	
	Amount	**%**	**Amount**	**%**
Oil & gas	9,745,201,276	46%	3,833,018,675	43%
Manufacturing	4,361,198,537	21%	2,024,878,232	23%
Energy	2,945,790,795	14%	1,190,832,980	13%
Transport & communication	1,319,423,694	6%	775,849,967	9%
Construction	931,012,974	5%	256,119,476	3%
Loans to individuals	722,239,061	4%	269,528,103	3%
Trading & services	581,283,631	3%	357,439,469	4%
Agriculture	292,721,152	1%	146,495,897	2%
Total loans and advances to customers, gross	**20,898,871,120**	**100%**	**8,854,162,799**	**100%**
Less: Provision for loan impairment	(538,279,622)		(285,638,016)	
Total loans and advances to customers	**20,360,591,498**		**8,568,524,783**	

As at 31 December 2017, the Group granted loans to 7 (31 December 2016: 9) entities in the amount of UZS 16,224,781,005 thousand (31 December 2016: UZS 6,813,490,843 thousand), which individually exceeded 10% (31 December 2016: 10%) of the Group's equity.

(in thousands of Uzbek Soums, unless otherwise indicated)

Information about collateral as at 31 December 2017 and 2016 are as follows:

	State and municipal organisations	Corporate loans	Loans to individuals	31 December 2017
Loans collateralised by:				
- state guarantee	12,125,898,027	-	-	**12,125,898,027**
- letters of surety	2,033,131,128	538,117,240	269,441,021	**2,840,689,389**
- real estate	1,435,371,538	1,041,521,212	439,766,444	**2,916,659,194**
- equipment	1,846,942,536	244,219,442	4,830	**2,091,166,808**
- shares	604,198,297	-	-	**604,198,297**
- transport	7,700,863	156,050,837	3,487,343	**167,239,043**
- insurance policy	-	93,629,702	6,456,041	**100,085,743**
- inventory and other receivables	35,224,404	5,982,667	-	**41,207,071**
- cash deposit	4,021,993	4,622,173	3,083,382	**11,727,548**
Total loans and advances to customers, gross	**18,092,488,786**	**2,084,143,273**	**722,239,061**	**20,898,871,120**
Less: Provision for loan impairment	(349,749,832)	(166,120,525)	(22,409,265)	(538,279,622)
Total loans and advances to customers	**17,742,738,954**	**1,918,022,748**	**699,829,796**	**20,360,591,498**

	State and municipal organisations	Corporate loans	Loans to individuals	31 December 2016
Loans collateralised by:				
- state guarantee	4,814,775,232	5,026,792	-	**4,819,802,024**
- letters of surety	1,075,329,601	273,853,103	111,712,786	**1,460,895,490**
- real estate	576,449,449	458,792,254	147,443,980	**1,182,685,683**
- equipment	701,708,768	158,310,640	-	**860,019,408**
- shares	236,381,890	-	-	**236,381,890**
- transport	9,061,053	65,570,921	4,677,072	**79,309,046**
- insurance policy	-	63,059,378	1,618,600	**64,677,978**
- inventory and other receivables	136,423,614	1,767,922	-	**138,191,536**
- cash deposit	3,186,340	4,937,739	4,075,665	**12,199,744**
Total loans and advances to customers, gross	**7,553,315,947**	**1,031,318,749**	**269,528,103**	**8,854,162,799**
Less: Provision for loan impairment	(180,634,826)	(97,902,700)	(7,100,490)	(285,638,016)
Total loans and advances to customers	**7,372,681,121**	**933,416,049**	**262,427,613**	**8,568,524,783**

Letters of surety were not included in computation of discounted cash flows in calculation of provision for impairment of loans and advances to customers.

(in thousands of Uzbek Soums, unless otherwise indicated)

Analysis of the quality of loans to customers:

	State and municipal organisations	Corporate loans	Loans to individuals	Total 31 December 2017
Loans assessed for impairment on a portfolio basis				
Neither past due nor impaired	**17,509,692,513**	**1,710,615,755**	**721,311,791**	**19,941,620,059**
Past due but not impaired:				
- less than 30 days overdue	-	5,786,079	759,284	**6,545,363**
- 31 to 90 days overdue	11,198,066	3,380,071	-	**14,578,137**
- 91 to 180 days overdue	811,315	15,305,597	89,730	**16,206,642**
- 181 to 360 days overdue	-	99,979	78,256	**178,235**
- over 360 days overdue	-	8,492,531	-	**8,492,531**
Total loans assessed for impairment on a portfolio basis	**17,521,701,894**	**1,743,680,012**	**722,239,061**	**19,987,620,967**
Loans individually determined to be impaired (gross)				
- less than 30 days overdue	505,250,883	146,379,577	-	**651,630,460**
- 31 to 90 days overdue	65,536,009	169,304,822	-	**234,840,831**
- 91 to 180 days overdue	-	11,509,250	-	**11,509,250**
- 181 to 360 days overdue	-	13,269,612	-	**13,269,612**
- over 360 days overdue	-	-	-	-
Total individually impaired loans (gross)	**570,786,892**	**340,463,261**	**-**	**911,250,153**
- Impairment provisions for individually impaired loans	(148,433,432)	(106,004,328)	-	**(254,437,760)**
- Impairment provisions assessed on portfolio basis	(201,316,400)	(60,116,197)	(22,409,265)	**(283,841,862)**
Less total impairment provisions	**(349,749,832)**	**(166,120,525)**	**(22,409,265)**	**(538,279,622)**
Total loans and advances to customers	**17,742,738,954**	**1,918,022,748**	**699,829,796**	**20,360,591,498**

(in thousands of Uzbek Soums, unless otherwise indicated)

	State and municipal organisations	Corporate loans	Loans to individuals	Total 31 December 2016
Loans assessed for impairment on a portfolio basis				
Neither past due nor impaired	**7,519,087,351**	**952,423,813**	**269,130,227**	**8,740,641,391**
Past due but not impaired:				
- less than 30 days overdue	1,226,300	13,438,752	332,407	**14,997,459**
- 31 to 90 days overdue	896,041	3,495,520	65,469	**4,457,030**
- 91 to 180 days overdue	14,566,114	933,527	-	**15,499,641**
- 181 to 360 days overdue	-	267,446	-	**267,446**
- over 360 days overdue	-	25,539	-	**25,539**
Total loans assessed for impairment on a portfolio basis	**7,535,775,806**	**970,584,597**	**269,528,103**	**8,775,888,506**
Loans individually determined to be impaired (gross)				
- less than 30 days overdue	17,540,141	33,383,201	-	**50,923,342**
- 31 to 90 days overdue	-	27,350,951	-	**27,350,951**
- 91 to 180 days overdue	-	-	-	**-**
- 181 to 360 days overdue	-	-	-	**-**
- over 360 days overdue	-	-	-	**-**
Total individually impaired loans (gross)	**17,540,141**	**60,734,152**	**-**	**78,274,293**
- Impairment provisions for individually impaired loans	(3,735,816)	(54,184,240)	-	**(57,920,056)**
- Impairment provisions assessed on portfolio basis	(176,899,010)	(43,718,460)	(7,100,490)	**(227,717,960)**
Less total impairment provisions	**(180,634,826)**	**(97,902,700)**	**(7,100,490)**	**(285,638,016)**
Total loans and advances to customers	**7,372,681,121**	**933,416,049**	**262,427,613**	**8,568,524,783**

The Bank applies a portfolio provisioning methodology which assesses impairment losses on homogeneous loans which are not individually assessed. The Group's policy is to classify each loan as "neither past due nor impaired" until specific objective evidence of impairment of the loan is identified. "Past due but not impaired" classification includes loans with heightened credit risk due to payment delays and not determined to be individually significant. Loans classified into these two categories of loans are assessed for impairment on a collective basis. The impairment provisions may therefore exceed the total gross amount of individually impaired loans as a result of this policy. The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired and of those past due and collectively assessed.

(in thousands of Uzbek Soums, unless otherwise indicated)

The components of net investment in finance lease as at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Not later than one year	2,371,360	10,281,965
From one year to five years	1,910,773	2,807,406
More than five years	-	653,666
Minimum lease payments	**4,282,133**	**13,743,037**
Less: unearned finance income	(944,351)	(3,551,163)
	3,337,782	**10,191,874**
Less: Provision for impairment loss	(606,009)	(2,288,367)
Net investment in finance lease	**2,731,773**	**7,903,507**
Current portion	1,335,267	6,941,326
Long-term portion	1,396,506	962,181
Net investment in finance lease	**2,731,773**	**7,903,507**

10. INVESTMENT SECURITIES AVAILABLE FOR SALE

Name	Ownership	31 December 2017	31 December 2016
At cost			
JSCB "Microcreditbank"	1.5%	3,206,400	3,206,400
JSC "Tashkent" Stock Exchange	6.3%	3,043,360	3,043,360
LLC "Ishonch"	14.1%	1,681,181	1,598,458
JSC "Qurilishmashlizing"	8.8%	1,500,000	1,500,000
JSC "Chilonzor buyum bozori"	5.5%	1,522,714	1,522,714
JSCB "Agrobank"	0.1%	1,353,978	-
JSC "Qizilqumsement"	0.1%	706,500	706,500
JSC "Republican Currency Exchange"	11.1%	495,970	495,970
JSC "Republican Commodity Exchange"	2.4%	393,392	393,392
JSC "UzMed-Leasing"	16.7%	275,410	337,952
Other	-	288,299	209,602
At fair value			
Visa Inc.	0%	5,396,782	1,469,607
Total investment securities availabe for sale		**19,863,986**	**14,483,955**

Investment securities available for sale other than Visa Inc., include equity securities and equity investments, registered in Uzbekistan and not actively traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. Some of the investees have not published recent financial information about their operations, recent trade prices of their shares are not publicly accessible. These investments are carried at cost less any identified impairment losses.

During 2017, the Group acquired shares of the Guarantee Fund for Development of Small Business for the amount of UZS 5,000,000 thousand with full subsequent impairment during the year.

(in thousands of Uzbek Soums, unless otherwise indicated)

11. INVESTMENT SECURITIES HELD TO MATURITY

	Maturity	Nominal interest rate	2017	2016
JSC "Asaka bank"	4-Feb-2017	8%	-	10,000,000
JSC "Trast bank"	8-Dec-2017	9%	-	2,000,000
JSC "Ipoteka bank"	21-Dec-2017	11%-12%	-	1,209,288
Total investment securities held to maturity			**-**	**13,209,288**

The debt securities are not collateralised. The primary factor the Group considers in determining whether a debt security is impaired is the overdue status of coupon payments.

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2016 is as follows:

	Total
Neither past due nor impaired	
- B+ (S&P)	11,209,288
- B (Fitch)	2,000,000
Total	**13,209,288**

12. INVESTMENT IN ASSOCIATES

Name	Principal activity	Country	Ownership interest and carrying amount of investment			
			31 December 2017		31 December 2016	
LLC "Qurilish Lizing"	Leasing	Uzbekistan	46.77%	839,765	46.77%	3,471,066
Total investment in associates				**839,765**		**3,471,066**

Summarized financial information in respect of the Group's associate is set out below.

LLC "Qurilish Lizing"	**31 December 2017**	**31 December 2016**
Current assets	1,625,575	3,763,544
Non-current assets	4,380,774	7,033,826
Current liabilities	(265,906)	(1,492,202)
Non-current liabilities	(3,944,821)	(1,883,177)
	2017	**2016**
Revenue	2,347,868	2,493,069
Net (loss)/ profit for the year	(5,626,368)	146,057
Total comprehensive (loss)/ income for the year	(5,626,368)	146,057
Dividends received from the associate during the year	-	-

(in thousands of Uzbek Soums, unless otherwise indicated)

Reconciliation of the above summarised financial information to the carrying amount of the interest in "Qurilish Lizing" LLC recognised in the consolidated financial statements:

	31 December 2017	31 December 2016
Net assets of the associate	1,795,622	7,421,991
Proportion of the Group's ownership interest	46.77%	46.77%
Carrying amount of the Group's interest in LLC "Qurilish Lizing"	**839,765**	**3,471,066**

During 2017 the share of results from associates in the Group's statement of profit or loss comprise loss of UZS 2,631,451 UZS thousand (2016: gain of UZS 68,307 thousand).

(in thousands of Uzbek Soums, unless otherwise indicated)

13. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and premises	Office and computer equipment	Construction in progress	Total premises and equipment	Intangible assets	Total
Cost as at 31 December 2015	65,584,682	72,722,028	16,475,464	154,782,174	9,830,173	164,612,347
Accumulated depreciation/ amortisation	(18,278,262)	(47,969,432)	-	(66,247,694)	(7,241,520)	(73,489,214)
Carrying amount as at 31 December 2015	**47,306,420**	**24,752,596**	**16,475,464**	**88,534,480**	**2,588,653**	**91,123,133**
Additions	2,439,888	20,736,387	12,282,854	35,459,129	33,559	35,492,688
Disposals (net of depreciation)	(7,032)	(55,096)	(7,683)	(69,811)	-	(69,811)
Reclassification	3,520,304	(28,881)	(3,318,845)	172,578	(172,578)	-
Depreciation/ amortization charge	(3,885,221)	(9,193,716)	-	(13,078,937)	(851,757)	(13,930,694)
Carrying amount as at 31 December 2016	**49,374,359**	**36,211,290**	**25,431,790**	**111,017,439**	**1,597,877**	**112,615,316**
Cost as at 31 December 2016	71,482,479	91,418,328	25,431,790	188,332,597	9,336,458	197,669,055
Accumulated depreciation/ amortisation	(22,108,120)	(55,207,038)	-	(77,315,158)	(7,738,581)	(85,053,739)
Carrying amount as at 31 December 2016	**49,374,359**	**36,211,290**	**25,431,790**	**111,017,439**	**1,597,877**	**112,615,316**
Additions	25,530,830	18,386,625	10,090,746	54,008,201	114,747	54,122,948
Disposals (net of depreciation)	(1,275,266)	(378,495)	(25,071)	(1,678,832)	(7,966)	(1,686,798)
Transfers	15,568,906	2,758,726	(18,336,526)	(8,894)	8,894	-
Depreciation/ amortization charge	(4,511,764)	(12,891,399)	-	(17,403,163)	(714,991)	(18,118,154)
Carrying amount as at 31 December 2017	**84,687,065**	**44,086,747**	**17,160,939**	**145,934,751**	**998,561**	**146,933,312**
Cost as at 31 December 2017	110,988,072	109,748,348	17,160,939	237,897,359	9,429,991	247,327,350
Accumulated depreciation/ amortisation	(26,301,007)	(65,661,601)	-	(91,962,608)	(8,431,430)	(100,394,038)
Carrying amount as at 31 December 2017	**84,687,065**	**44,086,747**	**17,160,939**	**145,934,751**	**998,561**	**146,933,312**

As at 31 December 2017 and 2016, included in property and equipment were fully depreciated assets totaling UZS 29,453,985 thousand and UZS 20,983,913 thousand, respectively.

(in thousands of Uzbek Soums, unless otherwise indicated)

14. OTHER ASSETS

	31 December 2017	31 December 2016
Other financial assets		
Commission income receivable	2,958,963	8,639,028
Other receivables	167,143	-
Total other financial assets	**3,126,106**	**8,639,028**
Other non-financial assets		
Prepaid income tax	21,939,366	5,275,941
Prepaid expenses and advances	4,125,630	1,342,586
Repossessed collateral	2,722,775	7,724,816
Prepayment for construction of building	350,698	692,520
Inventory	255,551	1,559,748
Prepayments for equipment and property	204,327	2,656,467
Other	71,129	1,539,073
Total other non-financial assets	**29,669,476**	**20,791,151**
Less: Provision for impairment	(1,101,544)	(3,022,457)
Total other assets	**31,694,038**	**26,407,722**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and those assets were initially recognised at fair value when acquired.

15. NON-CURRENT ASSETS HELD FOR SALE

	31 December 2017	31 December 2016
Assets related to subsidiary companies	14,341,751	12,108,644
Repossessed assets:		
- Buildings held for sale	2,420,328	30,651,076
- Others assets held for sale	1,133,379	3,063,134
- Equipment held for sale	-	174,282
Total non-current assets (or disposal groups) held for sale	**17,895,458**	**45,997,136**
Liabilities directly associated with disposal groups held for sale	**1,991,428**	**587,110**

Assets related to subsidiary company comprise assets of LLC Fergana Ceramics. The Group acquired the company based on agreement signed on 13 September 2010 between the State Competition Committee and the Bank in accordance with the Decree of the President of the Republic of Uzbekistan #UP-4053 "On measures to further enhance the financial stability of the real sector of the economy" dated 18 November 2008.

As at 31 December 2017, assets related to subsidiary company include plant, property and equipment in the amount of UZS 13,850,172 thousand.

Further, the management of the Group approved a plan to dispose the subsidiary and the repossessed assets in the near future. The Group expects that the fair value less costs to sell of the subsidiaries and the repossessed assets will be higher than the aggregate carrying amount of the related assets and liabilities.

(in thousands of Uzbek Soums, unless otherwise indicated)

There was no disposal of subsidiaries in 2017. Major classes of assets and liabilities of subsidiaries disposed in 2016 are as follows:

	2017	2016
Non-current assets	-	71,159,756
Current assets	-	8,622,121
Total assets of subsidiary companies disposed	**-**	**79,781,877**
Current liabilities	-	24,711,861
Total liabilities directly associated with disposed groups	**-**	**24,711,861**
Net assets of subsidiary companies disposed	**-**	**55,070,016**

	2017	2016
Consideration received in cash and cash equivalents during 2016	-	8,925,798
Less: cash and cash equivalent of disposed balances	-	1,877,677
Total cash	**-**	**7,048,121**

The combined results of the discontinued operations included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 and 31 December 2016 are set out below.

	2017	2016
Consideration received in cash and cash equivalents	-	8,925,798
Deferred sales proceeds		35,025,339
Total consideration	**-**	**43,951,137**

Loss for the period from discontinued operations was as follows:

	2017	2016
Consideration for disposal of the subsidiary	-	43,951,137
Carrying amount of disposed net assets, net of non-controlling interest	-	55,070,016
Loss from disposal of subsidiary	-	(11,118,879)
Total revenue	833,519	19,322,790
Total expenses	(4,730)	(10,784,750)
Profit from discontinued operations	828,789	8,538,040
Loss on disposal	-	(11,118,879)
Gain/(Loss) for the period from discontinued operations	**828,789**	**(2,580,839)**

(in thousands of Uzbek Soums, unless otherwise indicated)

16. DUE TO OTHER BANKS

	31 December 2017	31 December 2016
Short term placements of other domestic banks	107,644,780	55,499,496
Long term placements of other domestic banks	168,527,372	65,922,133
Correspondent accounts and overnight placements of foreign banks	100,388,195	72,547,078
Total due to other banks	**376,560,347**	**193,968,707**

17. CUSTOMER ACCOUNTS

	31 December 2017	31 December 2016
State and public organisations		
- Current/settlement accounts	820,226,682	155.575,406
- Term deposits	41,803,736	46,072,993
Other legal entities		
- Current/settlement accounts	2,027,022,662	1,513,025,058
- Term deposits	72,403,036	252,626,540
Individuals		
- Current/demand accounts	329,734,867	371,789,935
- Term deposits	609,142,812	229,882,277
Total customer accounts	**3,900,333,795**	**2,568,972,209**

Economic sector concentrations within customer accounts are as follows:

	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Manufacturing	1,573,122,463	40.3%	1,100,706,751	42.8%
Individuals	938,877,679	24.1%	601,433,744	23.4%
Oil and gas	435,182,790	11.2%	9,725,166	0.4%
Construction	164,780,382	4.2%	76,170,793	3.0%
Public administration	160,972,032	4.1%	205,352,189	8.0%
Mining	146,175,309	3.7%	43,935,765	1.7%
Trade	107,558,638	2.8%	131,002,078	5.1%
Agriculture	79,308,108	2.0%	40,486,419	1.6%
Communication	58,208,894	1.5%	179,484,179	7.0%
Services	56,937,673	1.5%	23,115,530	0.9%
Finance	46,586,636	1.2%	33,456,003	1.3%
Engineering	18,397,885	0.5%	14,935,237	0.6%
Energy	14,402,479	0.4%	9,209,126	0.4%
Transportation	6,868,701	0.2%	11,364,609	0.4%
Medicine	5,314,960	0.1%	25,773,099	1.0%
Other	87,639,166	2.2%	62,821,521	2.4%
Total customer accounts	**3,900,333,795**	**100%**	**2,568,972,209**	**100%**

As at 31 December 2017, the Group had 1 (31 December 2016: 6) customer with a total balance in the amount of UZS 237,801,066 thousand (31 December 2016: UZS 895,498,599 thousand), which individually exceeded 10% (31 December 2016: 10%) of the Group's equity.

(in thousands of Uzbek Soums, unless otherwise indicated)

18. DEBT SECURITIES IN ISSUE

	31 December 2017	31 December 2016
Non-documentary bonds issued	42,374,144	44,442,019
Deposit certificates	26,511,343	34,442,565
Total debt securities issued	**68,885,487**	**78,884,584**

19. OTHER BORROWED FUNDS

	31 December 2017	31 December 2016
International financial institutions:		
The Export-Import Bank of China	4,272,246,186	1,618,314,828
International Development Association of World Bank	365,089,801	113,234,926
China Development Bank	347,849,856	143,418,343
Commerzbank AG	142,666,856	33,603,543
Asian Development Bank	123,504,681	-
Raiffeisen Bank International AG	80,741,782	31,007,379
International Bank for Reconstruction and Development	40,828,453	16,157,400
The Export-Import Bank of Korea	35,038,640	10,172,053
Landesbank Baden-Wurttemberg	30,641,415	-
KfW	11,394,411	5,586,637
International Fund for Agricultural Development	2,609,489	2,677,094
Financial institutions of Uzbekistan		
Fund for Reconstruction and Development of Uzbekistan	11,639,214,463	4,592,499,826
Long term borrowings from CBU	250,179,596	247,912
Long term borrowings from Ministry of Finance	30,511,518	1,820,293
Other	2,405,834	-
Preference shares	5,237,512	3,554,545
Total other borrowed funds	**17,380,160,493**	**6,572,294,779**

Since 2008, the Group signed four memorandums with the Export-Import Bank of China on loan facility to finance oil & gas and energy sectors of the Republic of Uzbekistan. The financing is provided on the basis of mutual agreements on each individual project and under a separate President's Decree or Decree of the Ministry of Finance. All loan disbursements are subject to the State guarantee. Loans are granted at the interest rate of 2% per annum with maturity of up to 20 years. Principal amount and interest are repayable on a semi-annual basis with a grace period of 5 years.

On 19 August 2009, the Ministry of Finance concluded a loan agreement with the Group to provide financing through the International Development Association's loan facility amounting to USD 1,000,000 and UZS 1,490,540 thousand. The financing is aimed to support agricultural sector of Uzbekistan. The loan was granted for 20 years at the interest rate of 6-month Libor for USD part and CBU refinancing rate less 3% for UZS part. On 24 June 2014, the International Development Association granted additional loan facility under the same project for the amount not exceeding USD 5,000,000 or its UZS equivalent with maturity of 20 years at an interest rate of 4% per annum.

On 9 December 2011, the Group has concluded refinancing agreement with the Ministry of Finance to obtain loan facility granted by the International Development Association of the World Bank for enhancement of energy efficiency of manufacturing entities. The loan amount comprised USD 8,000,000 with maturity of 15 years at the interest rate of 6-month Libor + refinancing margin rate. On 28 October 2013, the International Development Association granted additional loan facility under the same project for the amount of USD 33,000,000 for 25 years at the interest rate of 6-month Libor +1.5%. The principal amount and interest under four loan agreements are repayable on a semi-annual basis.

The Group was granted a loan facility by the China Development Bank Corporation on the basis of three loan agreements dated 23 June 2008, 29 November 2013 and 9 November 2015 for the amount of USD 8,489,500, USD 10,000,000 and USD 40,000,000, respectively. The funds are provided to the Group for financing of SME and industrial sectors at the interest rates of Libor+1.5% and Libor+4.7% with maturity directly linked to maturity of individual project. There are geographical limits requiring that funds can only be provided to purchase technological equipment from China. The minimum contract amount should be not less than USD 100,000, and loan period is limited to 7 years. The interest and principal amounts are repayable on a semi-annual basis.

On 30 October 2017, the Group signed an additional agreement with China Development Bank for the amount of USD 40,000,000 for financing On-lending Customer for importing equipment, goods and/or service from PRC (People's Republic of China). As at 31 December 2017 no funds were received by the Group.

In accordance with the Loan Agreement #081/008 between Commerzbank AG and the Group signed on 21 July 2010, the Group was granted 25,000,000 EUR in order to support trade relations between the Republic of Uzbekistan and the Federal Republic of Germany. On the basis of the Loan Agreement signed on 7 November 2017, the Commerzbank AG made available to the Bank up to 200,000,000 EUR (in EUR and USD equivalent). The interest rate and loan periods are specified in Individual Loan Agreements being up to 5 years with interest rate from 6-month EURIBOR+1.75% to 6-month LIBOR+2.15%. During 2017, the Group received 6,621,760 EUR and 1,771,400 USD from granted amount.

In accordance with the refinancing agreement #3471 UZS(SF) dates 5 April 2017, concluded between the Ministry of Finance of the Republic of Uzbekistan, Asian Development Bank and the Group, the Group was granted the amount of SDR 10,868,669 (USD 15,163,026 equivalent) within the project "Development of value chain in the fruit and vegetable sector" for a period of 20 years, including a 3-year grace period, at the rate of 3% per annum.

In accordance with the Loan agreement dated 31 March 2016 signed between Raiffeisen Bank International AG and the Group, the Group was granted EUR 70,000,000 for the financing of projects involving the export of goods and services from European countries. The interest rate and loan periods are specified in the Individual Loan agreement being up to 5 years with interest rate of 6-month EURIBOR+1.6%. During 2017, the Group received 190,124 EUR from granted amount.

In accordance with the refinancing agreement #8393 dated 15 January 2016, concluded between the Ministry of Finance of the Republic of Uzbekistan, International Bank of Reconstruction and Development and the Group, the Group was granted the amount of USD 5,012,500 for the development of the fruit and vegetable growing sector in the Republic of Uzbekistan, for a period of 20 years, including a 5-year grace period, at the rate of 3% per annum. As at 31 December 2017, the Group received all granted amount.

In accordance with the Loan Agreement #2 dates 21 November 2017, concluded between the Export-Import Bank of Korea and the Group, the Group was granted amount of 30,000,000 USD for the development of Small business in the Republic of Uzbekistan, for the period of 8 years, at the rate of 6-month LIBOR+3%. During 2017, the Group received 2,774,694 USD from granted amount.

In accordance with basic loan agreement signed between Landesbank Baden-Wurttemberg and the Group, the Group was granted EUR 60,000,000 for the import of technological equipment from European countries. The interest rate and loan periods are specified in the Individual Loan agreements being up to 5 years with interest rate up to EURIBOR+1.95%.

The borrowing from the Fund for Reconstruction and Development of Uzbekistan are provided on the basis of General agreement concluded on 19 April 2013 for financing of investment projects related to large strategic companies of the Republic of Uzbekistan. The funds are granted in foreign currencies at the interest rate of 0.5-6% per annum with maturity directly linked to maturity of each individual project. All projects are approved by separate President's Decree and Decree of Ministry of Finance of the Republic of Uzbekistan. The principal amount and interests are repayable on a semi-annual and quarterly basis.

The Group was granted a loan facility by the CBU based on loan agreements dated 9 October 2017 for the amount of UZS 250,000,000 thousand for a period of 22 months, including 16 months grace period at the rate of 2%. The funds are provided to the Group for financing of NHC Uzbekneftegaz companies with maturity directly linked to maturity set by the agreement with the CBU. The interest and principal amounts are repayable on a monthly basis

The Group was granted a loan facility by the Ministry of Finance of the Republic of Uzbekistan based on loan agreement #03-05-17/5 signed on 29 September 2017 for the amount of UZS 30,000,000 thousand for a period of 1 year, including 6 months grace period at the rate of 2%. The funds are provided to the Group for oil refining companies financing with maturity directly linked to maturity set by the agreement with the Ministry of Finance of the Republic of Uzbekistan. The interest and principal amounts are repayable on a monthly basis.

(in thousands of Uzbek Soums, unless otherwise indicated)

20. OTHER LIABILITIES

	31 December 2017	31 December 2016
Other financial liabilities		
Payable to employees	23,567,379	14,719,302
Trade payables	2,638,867	7,287,599
Payable to creditors	-	588,950
Dividends payable	1,023,989	724,934
Total other financial liabilities	**27,230,235**	**23,320,785**
Other non-financial liabilities		
Taxes payable other than income tax	13,061,661	8,679,838
Prepayments received and payables to Guarantee Fund	11,015,934	7,213,087
Other	1,090,870	1,424,903
Total other non-financial liabilities	**25,168,465**	**17,317,828**
Total other liabilities	**52,398,700**	**40,638,613**

(in thousands of Uzbek Soums, unless otherwise indicated)

21. SHARE CAPITAL

	Number of outstanding shares in thousand	Ordinary and preference shares	Share premium	Treasury shares	Total
1 January 2016	**36,376,970**	**706,286,860**	**696,121**	**(5,027,013)**	**701,955,968**
Effect of change in present value of preference shares	-	(598,023)	-	-	**(598,023)**
Disposal of treasury shares	-	-	-	695,436	**695,436**
31 December 2016	**36,376,970**	**705,688,837**	**696,121**	**(4,331,577)**	**702,053,381**
Issue of new shares	39,665,844	753,916,583	-	-	**753,916,583**
Effect of change in present value of preference shares	-	(266,000)	-	-	**(266,000)**
Disposal of treasury shares	-	-	-	1,854,581	**1,854,581**
31 December 2017	**76,042,814**	**1,459,339,420**	**696,121**	**(2,476,996)**	**1,457,558,545**

The nominal registered amount of the Bank's issued share capital, prior to restatement of capital contributions to the purchasing power of the UZS and adjustment for liability component of preference shares as at 31 December 2006, was UZS 1,451,843,470 thousand as at 31 December 2017 (31 December 2016: UZS 697,926,887 thousand).

In accordance with the Shareholders' resolution #35 dated 28 April 2017, in relation to share split (1/178), ordinary and preference shares have been issued to existing shareholders for no additional consideration. The number of ordinary and preference shares outstanding before the share split is adjusted as if the share split has occurred at the beginning of the earliest period presented.

As at 31 December 2017, the total authorised number of ordinary shares is 76,042,814 thousand (31 December 2016: 36,376,970 thousand shares) with a par value of UZS 19 per share (31 December 2016: UZS 19 per share). Each share carries one vote. Dividends on preference shares will not be less than dividends on ordinary shares.

Share premium represents the excess of contributions received over the nominal value of shares issued.
The number of ordinary shares issued but not fully paid in was Nil (2016: Nil).

The total authorised number of preference shares is 370,000 thousand shares (2016: 356,000 thousand shares), with a par value of UZS 19 per share (2016: UZS 19 per share). All issued preference shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Group's liquidation. The preference shares give the holders the right to participate in general shareholders' meetings without voting rights, except in instances where decisions are made in relation to reorganisation and liquidation of the Group, and where changes and amendments to the Group's charter which restrict the rights of preference shareholders are proposed. Preference share rank above ordinary shares and if preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

During 2017, the Group decreased its preference share par value to UZS 19 with the minimum rate unchanged of 20% (2016: 20%).

At 31 December 2017, treasury shares include ordinary shares in the amount of UZS 2,476,996 thousand (2016: 4,331,577 thousand ordinary shares) owned by wholly owned subsidiary of the Group, Asset Invest Trust LLC. These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Group held by the entities within the Group are effectively controlled by the management of the Group.

The table below details changes in the Group's equity and liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

(in thousands of Uzbek Soums, unless otherwise indicated)

			Non-cash changes					
	31 December 2016	Financing cash inflows/ (outflow)	Effect of exchange rate changes	Dividends declared	Interest accrued	Effect of change in present value of preference shares	Capitalization	31 December 2017
Debt securities in issue	78,884,584	(10,080,000)	-	-	80,903	-	-	68,885,487
Other borrowed funds	6,572,294,779	343,507,404	10,091,227,616	-	372,864,694	266,000	-	17,380,160,493
Dividends payable	724,934	(22,913,238)	-	23,212,293	-	-	-	1,023,989
Share capital	706,384,958	726,470,020	-	-	-	(266,000)	27,446,563	1,460,035,541
Treasury shares	(4,331,577)	1,854,581	-	-	-	-	-	(2,476,996)

(in thousands of Uzbek Soums, unless otherwise indicated)

22. INTEREST INCOME AND INTEREST EXPENSE

	2017	2016
Interest income		
Interest income on assets recorded at amortized cost comprises:		
Interest on loans and advances to customers	721,405,974	462,025,305
Interest investment securities held to maturity	295,781	1,133,938
Interest on balances due from other banks	14,384,465	3,729,813
Total interest income	**736,086,220**	**466,889,056**
Interest expense		
Interest expense on liabilities recorded at amortized cost comprises:		
Interest on other borrowed funds	(293,998,617)	(156,400,227)
Interest on customer accounts	(64,423,795)	(55,867,733)
Interest on balances due to banks	(15,736,961)	(10,847,327)
Interest on debt securities in issue	(7,122,893)	(5,242,705)
Total interest expense	**(381,282,266)**	**(228,357,992)**
Net interest income before provision on interest bearing assets	**354,803,954**	**238,531,064**

23. FEE AND COMMISSION INCOME AND EXPENSE

	2017	2016
Fee and commission income		
Settlement transactions	130,466,183	115,933,593
Foreign currency exchange	37,236,639	11,140,656
International money transfers	14,815,537	8,505,517
Guarantees and letters of credit issued	6,432,375	4,482,022
Services of engineers for conducting control measurements	6,139,126	3,509,231
Letters of credit	2,602,165	2,102,271
Other	3,966,219	1,237,394
Total fee and commission income	**201,658,244**	**146,910,684**
Fee and commission expense		
Cash collection	(18,832,779)	(14,958,388)
Settlement transactions	(11,394,294)	(9,746,194)
Foreign currency exchange	(4,270,855)	(1,530,463)
Loan commission expenses	(771,840)	(1,919,684)
Other	(3,375,445)	(4,322,291)
Total fee and commission expense	**(38,645,213)**	**(32,477,020)**
Net fee and commission income	**163,013,031**	**114,433,664**

(in thousands of Uzbek Soums, unless otherwise indicated)

24. OTHER OPERATING INCOME

	2017	2016
Fine and penalties	9,886,318	9,156,401
Gain on disposal of property and equipment	3,102,106	1,057,525
Gain from disposal of repossessed assets	-	1,050,914
Rental income from renting POS terminals	533,824	303,517
Other	649,396	1,005,797
Total other operating income	**14,171,644**	**12,574,154**

25. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Notes	2017	2016
Staff costs		202,931,551	152,792,182
Taxes other than income tax		43,270,414	31,900,050
Security services		16,631,167	14,895,632
Depreciation and amortisation	13	18,118,154	13,930,694
Membership fees		11,118,411	7,905,285
Stationery and other low value items		10,272,264	5,240,547
Charity expenses		6,310,224	6,084,789
Repair and maintenance of buildings		5,023,753	1,725,360
Communication expenses		2,952,562	2,224,568
Legal and Audit Fees		2,755,076	148,205
Rent expenses		2,276,595	1,914,253
Travel expenses		2,105,724	1,783,279
Utilities expenses		1,999,588	1,599,308
Fuel		1,418,544	1,088,778
Consultancy fee		1,125,563	1,120,754
Representation and Entertainment		1,908,916	737,994
Other operating expenses		7,999,476	1,816,312
Total administrative and other operating expenses		**338,217,982**	**246,907,990**

26. INCOME TAXES

Income tax expense comprises of the following:

	2017	2016
Current income tax expense	8,424,382	19,327,426
Deferred tax expense/(benefit):		
-Deferred tax expense/ (benefit)	91,021,842	(6,906,890)
-Deferred tax expense relating to the components of other comprehensive income	770,818	43,466
Total income tax expense through profit and loss and other comprehensive income	**100,217,042**	**12,464,002**

(in thousands of Uzbek Soums, unless otherwise indicated)

In accordance with Presidential Decree #PP-3454 dated 29 December 2017 corporate income tax and infrastructure development tax were combined. The enacted income tax rate for 2017 is 22%. Previously, the income tax rate was comprised of corporate income tax (15%) and infrastructure development tax (8%) with tax base for infrastructure development tax being accounting profit after corporate income tax charge. Effectively, statutory income tax rate was 21.8%.

Reconciliation between the expected and the actual taxation charge is provided below.

	2017	2016
IFRS profit before tax (including discontinued operations)	**998,782,767**	**98,975,215**
Theoretical tax charge at the applicable statutory rate - 22% (2016: 21.8%)	219,116,702	21,576,545
- Foreign exchange gain not subject to deferred tax	(107,548,980)	(9,188,700)
- Non deductible expenses (employee compensation, representation and other non-deductible expenses)	3,604,385	3,296,906
- Tax rate difference	(754,868)	(2,328,142)
- Tax incentives	(10,930,201)	(996,901)
- Tax exempt income	(427,581)	(471,405)
- Other	(3,613,233)	532,233
Income tax expense for the year through profit and loss	**99,446,224**	**12,420,536**
Income tax expense for the year through other comprehensive income	**770,818**	**43,466**
Income tax expense through profit or loss and other comprehensive income	**100,217,042**	**12,464,002**

Differences between IFRS and statutory taxation regulations in Uzbekistan give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements on these temporary differences is detailed below.

(in thousands of Uzbek Soums, unless otherwise indicated)

	2017	(Debited)/ credited to profit or loss	Charged to other comprehensive income	2016	(Debited)/ credited to profit or loss	Charged to other comprehensive income	2015
Tax effect of deductible/ (taxable) temporary differences							
Loans and advances to customers	(59,887,034)	(88,866,091)	-	28,979,057	6,696,555	-	22,282,502
Property, equipment and intangible assets	(327,768)	(237,393)	-	(90,375)	(271,314)		180,939
Investment securities available for sale	219,098	1,196,134	(770,818)	(206,218)	(80,323)	(43,466)	(82,429)
Investment in associates and subsidiaries	(3,662,594)	(3,701,121)	-	38,527	293,619	-	(255,092)
Accrued interest income	-	-		-	21,674	-	(21,673)
Other	809,117	586,629	-	222,488	246,679	-	(24,192)
Net deferred tax (liability)/asset	**(62,849,181)**	**(91,021,842)**	**(770,818)**	**28,943,479**	**6,906,890**	**(43,466)**	**22,080,055**
Recognised deferred tax asset	1,028,215	(92,804,605)	(770,818)	29,240,072	7,236,853	(43,466)	22,463,441
Recognised deferred tax liability	(63,877,396)	1,782,763	-	(296,593)	(329,963)	-	(383,386)
Net deferred tax (liability)/asset	**(62,849,181)**	**(91,021,842)**	**-**	**28,943,479**	**6,906,890**	**(43,466)**	**22,080,055**

(in thousands of Uzbek Soums, unless otherwise indicated)

27. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shares by the weighted average number of ordinary shares.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

According to the charter of the Group, and as described in Note 21, dividend payments per ordinary share cannot exceed the dividends per share on preferred shares for the same period and the minimum dividends payable to the owners of preference shares comprise not less than 20%. Therefore, net profit for the period is allocated to the ordinary shares and the preferred shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

	2017	**2016**
Profit for the year attributable to ordinary shareholders attributable to the owners	891,326,460	86,554,679
Profit for the year attributable to preference shareholders attributable to the owners	6,742,944	1,352,800
Profit/(loss) for the year from discontinued operations attributable to ordinary shareholders attributable to the owners	828,789	(2,580,839)
Profit/(loss) for the year from discontinued operations attributable to preference shareholders attributable to the owners	-	-
Earnings used in calculation of earnings per ordinary share from continued operations	**890,497,671**	**89,135,518**
Earnings used in calculation of earnings per preference share from continued operations	**6,742,944**	**1,352,800**
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	47,832,020,370	36,376,994,030
Weighted average number of preference shares for the purpose of basic and diluted earnings per share	361,852,438	356,000,000
From continuing operations		
Basic and diluted EPS per ordinary share in UZS	19	2
Basic and diluted EPS per equity component of preference share in UZS	19	4
From discontinued operations		
Basic and diluted EPS per ordinary share in UZS	-	-
Basic and diluted EPS per equity component of preference share in UZS	-	-
Total basic and diluted EPS per ordinary share in UZS	**19**	**2**
Total basic and diluted EPS per equity component of preference share in UZS	**19**	**4**

(in thousands of Uzbek Soums, unless otherwise indicated)

28. COMMITMENTS AND CONTINGENCIES

Operating lease commitments. As at 31 December 2017 and 2016, the Group had no material operating lease commitments outstanding.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements

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

Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained. Accordingly, as at 31 December 2017, no provision for potential tax liabilities had been recorded (2016: Nil). The Group estimates that it has no potential obligations from exposure to other than remote tax risks.

Capital expenditure commitments. As at 31 December 2017, the Group had contractual capital expenditure commitments for the total amount of UZS 3,061,134 thousand in respect of premises and equipment (2016: Nil).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

	2017	2016
Guarantees issued	1,009,579,671	300,014,320
Letters of credit, non post-financing	708,527,568	326,234,405
Letters of credits, post-financing with commencement after reporting period end	961,176,282	4,699,868
Undrawn credit lines	176,035,142	118,569,157
Total gross credit related commitments	**2,855,318,663**	**749,517,750**
Less - Cash held as security against letters of credit	(708,662,190)	(480,740,670)
Total credit related commitments	**2,146,656,473**	**268,777,080**

The total outstanding contractual amount of letters of credit, guarantees issued and undrawn credit lines does not necessarily represent future cash requirements as these financial instruments may expire or terminate without being funded.

Operating Environment. Emerging markets such as Uzbekistan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. During 2017, the government of Uzbekistan remained committed to carry out social-economic reforms started in 2016 and liberalization of the market with an emphasis predominantly on broadening the export potential and improvement of business climate of Uzbekistan to attract foreign direct investment. As a result, laws and regulations, including tax and regulatory frameworks, affecting businesses in Uzbekistan started to change rapidly. The future economic direction of the Republic of Uzbekistan heavily depends on the new fiscal and monetary policies the government plans to adopt during the on-going reforms, together with developments in the legal, regulatory, and political environment.

(in thousands of Uzbek Soums, unless otherwise indicated)

Management of the Company is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Company's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Company is at this stage difficult to determine.

In accordance with the Order of the President of the Republic of Uzbekistan #P-5214 dated 13 February 2018 "On organizational measures on fundamental development of tax legislation", Republican committee and work groups were established to develop (i) draft Concept on development of tax legislation until 1 April 2018 and (ii) draft Tax Code in new edition until 1 July 2018. Respectively, the tax environment in the Republic of Uzbekistan remains volatile and subject to significant changes in the foreseeable future. No provision or adjustments have been made in relation to these developments as they were neither enacted nor substantially enacted as at year end.

29. NON-CONTROLLING INTEREST

The following table provides information about subsidiary LLC "Xorazm Nasli Parranda" that has non-controlling interest that is material to the Group:

	31 December 2017	31 December 2016
Information about subsidiary:		
Place of business (and counry of incorporation if different)	Uzbekistan	-
Proportion of non-controlling interest	42.8%	-
Proportion of non-controlling interest's voting rights held	42.8%	-
Profit or loss attributable to non-controlling interest	2,673,139	-
Accumulated non-controlling interest in the subsidiary	5,476,151	-
Dividends paid to non-controlling interest during the year	-	-
Summarised fiancial information:		
Current assets	4,178,748	-
Non-current assets	14,908,913	-
Current liabilities	75,170	-
Non-current liabilities	6,217,744	-
Revenue	-	-
Profit/ (Loss)	6,245,653	-
Total comprehensive income	-	-

30. FAIR VALUE

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

As at 31 December 2017 and 2016, equity investments available-for-sale other than Visa Inc. in the amount of UZS 14,467,204 thousand and UZS 13,014,327 thousand, respectively that do not have a quoted market price in an active market and whose fair value cannot be reliably measured were carried at cost less any identified impairment losses. Group's investments in shares of Visa Inc. are categorized within level 1.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except for long term financial instruments, the management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair value. Due to increasing market interest rates fair value of long term financial instruments are assessed to be higher than their carrying values.

The Group determines the fair value of financial assets and financial liabilities using the discounted cash flows model based on the rates of the deals concluded towards the end of the reporting period. Due to the absence of an active market or observable inputs for assets with characteristics similar to the Bank's financial assets and financial liabilities, the Management considered the latest rates as the most appropriate input from all available data for calculation of the fair value of financial assets and financial liabilities. Therefore, these long term financial assets and financial liabilities that are not measured at fair value on a recurring basis but where fair value disclosures are required, are categorised within Level 3.

(in thousands of Uzbek Soums, unless otherwise indicated)

31. CAPITAL RISK MANAGEMENT

The Group manages regulatory capital as Group's capital. The Group's objectives when managing capital are to comply with the capital requirements set by the CBU, and to safeguard the Group's ability to continue as a going concern. Compliance with capital adequacy ratios set by the CBU is monitored monthly with reports outlining their calculation reviewed and signed by the Chairman and Chief Accountant.

Under the current capital requirements set by the CBU, banks have to maintain ratios of:

- Ratio of regulatory capital to risk weighted assets ("Regulatory capital ratio") above a prescribed minimum level of 14.5% (31 December 2016: 11.5%);
- Ratio of Group's tier 1 capital to risk weighted assets ("Capital adequacy ratio") above a prescribed minimum level of 11% (31 December 2016: 8.5%); and
- Ratio of Group's tier 1 capital to total assets less intangibles ("Leverage ratio") above a prescribed minimum level of 6% (31 December 2016: 6%).

Total capital is based on the Group's reports prepared under Uzbekistan Accounting Legislation and related instructions and comprises:

	2017 (unaudited)	2016 (unaudited)
Tier 1 capital	2,127,372,427	888,887,010
Tier 2 capital	101,751,499	86,348,045
Less: Deductions from capital	(7,609,308)	(31,836,678)
Total regulatory Capital	**2,221,514,618**	**943,398,377**

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, preference shares, retained earnings excluding current year profit and less intangible assets. The other component of regulatory capital is Tier 2 capital, which includes current year profit.

32. RISK MANAGEMENT POLICIES

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

Clients of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

Group's internal ratings scale:

Standard	1	Timely repayment of these loans is not in doubt. The borrower is a financially stable company, which has an adequate capital level, high level profitability and sufficient cash flow to meet its all existing obligations, including present debt. When estimating the reputation of the borrower such factors as the history of previous repayments, marketability of collateral (movable and immovable property guarantee) are taken into consideration.
Sub-standard	2	"Sub-standard" loans are loans, secured with a reliable source of secondary repayment (guarantee or collateral). On the whole, the financial situation of borrower is stable, but some unfavourable circumstances or tendencies are on the present, which raise doubts on the ability of the borrower to repay on time. "Standard" loans with insufficient information in the credit file or missed information on collateral could be also classified as "sub-standard" loans.

Unsatisfactory	3	Unsatisfactory loans have obvious deficiencies, which make for doubtful repayment of the loan on the conditions, envisaged by the initial agreement. As for "unsatisfactory" loans, the primary source of repayment is not sufficient and the Group has to seek additional loan repayment sources, which in case of non-repayment is a sale of collateral.
Doubtful	4	Doubtful loans are those loans, which have all the weaknesses inherent in those classified as "unsatisfactory" with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable.
Loss	5	Loans classified as "loss" are considered uncollectible and have such little value that their continuance as bankable assets of the Group is not warranted. This classification does not mean that the loans have absolutely no likelihood of recovery, but rather means that it is not practical or desirable to defer writing off these essentially worthless assets even though partial recovery may be effected in the future and the Group should make efforts on liquidation such debts through selling collateral or should apply all forces for its repayment.

Risk limits control and mitigation policies. The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries.
The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Bank Council.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Limits. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

(b) Collateral. The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

Collateral before being accepted by the Group is thoroughly analysed and physically verified, where applicable. Debt securities, treasury and other eligible bills are generally unsecured.

The Group is eligible to lend to customers via blank (unsecured) loans for the period not exceeding 1 year.

The principal collateral types for loans and advances as well as finance lease receivables are:

- State guarantees
- Cash deposits;
- Motor vehicle;
- Inventory;
- Letter of surety;
- Residential house;
- Equipment;
- Building; and
- Other assets.

(c) Concentration of risks of financial assets with credit risk exposure. The Group's management focuses on concentration risk:

- The maximum risk to single borrower or group of affiliated borrowers shall not exceed 25 percent of the Group's tier 1 capital;
- Total amount of unsecured credits shall not exceed 5 percent of Group's tier 1 capital;
- Total amount of all large credits shall not exceed Group's tier 1 capital by more than 8 times; and
- Total loan amount to related party shall not exceed Group's tier 1 capital.

In order to monitor credit risk exposures, weekly reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance, which includes overdue balances, disbursements and repayments, outstanding balances and maturity of loan and as well as grade of loan and collateral. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the management daily. Management monitors and follows up past due balances.

Impairment and provisioning policies. The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings; and
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above certain materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available empirical data, experienced judgment and statistical techniques.

Maximum exposure of credit risk. The Group's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

(in thousands of Uzbek Soums, unless otherwise indicated)

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	31 December 2017 Net exposure after offset and collateral
Cash and cash equivalents less cash on hand	3,059,367,064	(527,257,969)	2,532,109,095	-	2,532,109,095
Due from banks	669,374,890	-	669,374,890	-	669,374,890
Loans to customers	20,360,591,498	(11,727,548)	20,348,863,950	(20,348,863,950)	-
Investment securities available for sale	19,863,986	-	19,863,986	-	19,863,986
Investment securities held to maturity	-	-	-	-	-
Other financial assets	3,126,106	-	3,126,106	-	3,126,106
Off-balance sheet items:					
Letters of credits and guarantees issued	2,679,283,521	(708,662,190)	1,970,621,331	(1,009,445,049)	961,176,282

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	31 December 2016 Net exposure after offset and collateral
Cash and cash equivalents less cash on hand	959,585,935	(368,778,932)	590,807,003	-	590,807,003
Due from banks	535,769,139	-	535,769,139	-	535,769,139
Loans to customers	8,568,524,783	(12,199,744)	8,556,325,039	(8,556,325,039)	-
Investment securities available for sale	14,483,955	-	14,483,955	-	14,483,955
Investment securities held to maturity	13,209,288	-	13,209,288	-	13,209,288
Other financial assets	8,639,028	-	8,639,028	-	8,639,028
Off-balance sheet items:					
Letters of credits and guarantees issued	630,948,593	(480,740,670)	150,207,923	(145,508,055)	4,699,868

Off-balance sheet risk. The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages its market risk through risk-based limits established by the Bank Supervisory Board on the value of risk that may be accepted. The risk-based limits are subject to review by the Bank Council on a quarterly basis. Overall Group's position is split between Corporate and Retail banking positions. The exposure of Corporate and Retail banking operations to market risk is managed through the system of limits monitored by the Treasury Department on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(in thousands of Uzbek Soums, unless otherwise indicated)

Currency risk. the Group takes on exposure to the effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In respect of currency risk, the Council sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's Treasury Department measures its currency risk by matching financial assets and liabilities denominated in same currency and analyses effect of actual annual appreciation/depreciation of that currency against Uzbekistan Soum to the profit and loss of the Group.

The Group measures its currency risk by:

- Net position on each currency should not exceed 10 percent of Group's total equity;
- Total net position on all currencies should not exceed 20 percent of Group's total equity.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of reporting period:

Non-derivative financial assets and financial liabilities:

	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
2017			
US Dollars	20,653,308,645	(18,414,020,904)	2,239,287,741
Euros	692,445,631	(638,741,097)	53,704,534
Other	162,348,759	(5,368,108)	156,980,651
Total	**21,508,103,035**	**(19,058,130,109)**	**2,449,972,926**
2016			
US Dollars	7,718,525,758	(7,306,579,526)	411,946,232
Euros	309,264,193	(227,940,823)	81,323,370
Other	12,369,446	(9,611,178)	2,758,268
Total	**8,040,159,397**	**(7,544,131,527)**	**496,027,870**

The CBU sets a number of requirements for foreign currency position. As at 31 December 2017, the Bank has a long position in respect of one currency above statutory requirements. Taking into account changes in exchange rates the management believes this does not bear significant risks. The CBU may take measures to regulate the foreign currency position in accordance with the established order on the foreign currency position.

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the end of reporting period, with all other variables held constant:

	At 31 December 2017 Impact on profit or loss	At 31 December 2016 Impact on profit or loss
US Dollars strengthening by 15% (2016: 15%)	335,893,161	61,791,935
US Dollars weakening by 15% (2016: 15%)	(335,893,161)	(61,791,935)
EUR strengthening by 11.2% (2016: 11.2%)	6,014,908	9,108,217
EUR weakening by 11.2% (2016: 11.2%)	(6,014,908)	(9,108,217)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group. Impact on equity would be the same as impact on statement of comprehensive income.

(in thousands of Uzbek Soums, unless otherwise indicated)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
31 December 2017					
Total interest bearing financial assets	1,221,452,871	795,601,148	906,930,387	18,530,326,529	**21,454,310,935**
Total interest bearing financial liabilities	(205,173,148)	(606,894,973)	(752,617,446)	(16,884,807,510)	**(18,449,493,077)**
Net interest sensitivity gap at 31 December 2017	**1,016,279,723**	**188,706,175**	**154,312,941**	**1,645,519,019**	**3,004,817,858**
31 December 2016					
Total interest bearing financial assets	1,627,672,694	1,055,954,379	841,348,142	6,552,113,930	**10,077,089,145**
Total interest bearing financial liabilities	(2,115,765,141)	(178,531,047)	(320,691,377)	(6,799,132,714)	**(9,414,120,279)**
Net interest sensitivity gap at 31 December 2016	**(488,092,447)**	**877,423,332**	**520,656,765**	**(247,018,784)**	**662,968,866**

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

		2017		
In % p.a.	**UZS**	**USD**	**EUR**	**Other**
Assets				
Cash and cash equivalents	0%-14.5%	0%-1.3%	-	-
Due from other banks	5%	0%	-	-
Loans and advances to customers	0%-24%	0%-16%	1-10%	-
Liabilities				
Due to other banks	0%-13.5%	-	-	-
Customer accounts:				
-term deposits	0-22%	0-17%	5%	5%
Other borrowed funds:				
-International Financial Institutions	-	2%-Libor+4.7%	Euribor+1.66-5%	
-Local Financial Institutions	2-4.3%	0.5-6%	0.5-1%	

(in thousands of Uzbek Soums, unless otherwise indicated)

	2016			
In % p.a.	UZS	USD	EUR	Other
Assets				
Cash and cash equivalents	0-0.22%	-	-	-
Due from other banks	5-7%	0-0.24%	-	-
Loans and advances to customers	0-24%	1-16%	1-10%	-
Liabilities				
Due to other banks	0-10%	-	-	-
Customer accounts:				
-term deposits	0-22%	5-17%	5%	5%
Other borrowed funds:				
-International Financial Institutions	-	Libor+1.5% - Libor+4.7%	Euribor+1.95	-
-Local Financial Institutions	0-9%	0.5-6%	0.5-2%	-

Other price risk. The Group is exposed to prepayment risk through providing loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity at the current reporting date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2016: no material impact). The Group has no significant exposure to equity price risk.

Geographical risk concentration. The geographical concentration of the Group's financial assets and liabilities at 31 December 2017 is set out below:

	Uzbekistan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1,133,210,960	1.922.129,349	4.026.755	3,059,367,064
Due from other banks	472,059,266	197,313,513	2.111	669,374,890
Loans and advances to customers	20,360,591,498	-	-	20,360,591,498
Investment securities available for sale	14,467,204	5,396,782	-	19,863,986
Other financial assets	3,126,106	-	-	3,126,106
Total financial assets	**21,983,455,034**	**2,124,839,644**	**4,028,866**	**24,112,323,544**
Liabilities				
Due to other banks	376.053.778	-	506,569	376.560.347
Customer accounts	3.900.333.795	-	-	3.900.333.795
Debt securities in issue	68.885.487	-	-	68.885.487
Other borrowed funds	11.927.548.922	832,515.528	4,620,096,043	17.380.160.493
Other financial liabilities	27.230.235	-	-	27.230.235
Total financial liabilities	**16,300,052,217**	**832,515,528**	**4,620,602,612**	**21,753,170,357**
Net balance sheet position as 31 December 2017	**5,683,402,817**	**1,292,324,116**	**(4,616,573,746)**	**2,359,153,187**
Credit related commitments (Note 28)	**2,146,656,473**	**-**	**-**	**2,146,656,473**

(in thousands of Uzbek Soums, unless otherwise indicated)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2016 is set out below:

	Uzbekistan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	631,219,932	321,537,487	6,828,516	959,585,935
Due from other banks	312,660,495	222,454,525	654,119	535,769,139
Loans and advances to customers	8,568,524,783	-	-	8,568,524,783
Investment securities available for sale	13,014,347	1,469,608	-	14,483,955
Investment securities held to maturity	13,209,288	-	-	13,209,288
Other financial assets	8,639,028	-	-	8,639,028
Total financial assets	**9,547,267,873**	**545,461,620**	**7,482,635**	**10,100,212,128**
Liabilities				
Due to other banks	185,160,428	8,516,431	291,848	193,968,707
Customer accounts	2,568,972,209	-	-	2,568,972,209
Debt securities in issue	78,884,584	-	-	78,884,584
Other borrowed funds	4,598,122,577	212,439,031	1,761,733,171	6,572,294,779
Other financial liabilities	23,320,785	-	-	23,320,785
Total financial liabilities	**7,454,460,583**	**220,955,462**	**1,762,025,019**	**9,437,441,064**
Net balance sheet position as 31 December 2016	**2,092,807,290**	**324,506,158**	**(1,754,542,384)**	**662,771,064**
Credit related commitments (Note 28)	**268,777,080**	**-**	**-**	**268,777,080**

(in thousands of Uzbek Soums, unless otherwise indicated)

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Resources Management Committee of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invest the funds in inter-bank placements of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Group calculates liquidity ratios on a monthly basis in accordance with the requirement of the Central Bank of Uzbekistan. These ratios are calculated using figures based on National Accounting Standards.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. These undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the statement of financial position date.

The undiscounted maturity analysis of financial instruments at 31 December 2017 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Liabilities					
Due to other banks	101,471,776	127,585	120,961,922	213,673,090	**436,234,373**
Customer accounts	3,214,980,194	424,791,807	311,917,666	1,717,990	**3,953,407,657**
Debt securities in issue	654,852	4,668,629	1,135,152	76,315,604	**82,774,237**
Other borrowed funds	146,777,809	219,633,047	374,699,275	17,558,715,343	**18,299,825,474**
Other financial liabilities	27,230,235	-	-	-	**27,230,235**
Undrawn credit lines	68,553,488	22,115,274	11,684,502	73,681,878	**176,035,142**
Guarantees issued	110,262	13,236,804	34,629,555	961,468,428	**1,009,445,049**
Letters of Credit	-	21,419,708	92,427,196	847,329,378	**961,176,282**
Total potential future payments for financial obligations	**3,559,778,616**	**705,992,854**	**947,455,268**	**19,732,901,711**	**24,946,128,449**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement.

(in thousands of Uzbek Soums, unless otherwise indicated)

The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The undiscounted maturity analysis of financial instruments at 31 December 2016 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Liabilities					
Due to other banks	82,904,807	-	49,775,511	78,071,562	**210,751,880**
Customer accounts	2,033,034,309	79,907,618	267,158,346	237,758,578	**2,617,858,851**
Debt securities in issue	2,802,228	2,013,187	21,994,231	62,345,302	**89,154,948**
Other borrowed funds	6,716,675	100,089,812	1,209,333	6,819,368,981	**6,927,384,801**
Other financial liabilities	23,320,785	-	-	-	**23,320,785**
Undrawn credit lines	20,696,730	1,419,117	959,721	95,493,589	**118,569,157**
Guarantees issued	3,013,954	-	12,879,094	129,615,007	**145,508,055**
Letters of Credit	4,699,868	-	-	-	**4,699,868**
Total potential future payments for financial obligations	**2,177,189,356**	**183,429,734**	**353,976,236**	**7,422,653,019**	**10,137,248,345**

(in thousands of Uzbek Soums, unless otherwise indicated)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities which may be summarised as follows at 31 December 2017:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	3.059.367.064	-	-	-	3.059.367.064
Due from other banks	5,945,491	177,859.838	99,455,811	386,113,750	669,374,890
Loans and advances to customers	231,098.980	715,086,709	884,079,279	18,530,326,530	20,360,591,498
Investment securities available for sale	19.863,986	-	-	-	19,863,986
Other financial assets	3,126,106	-	-	-	3,126,106
Total financial assets	**3,319,401,627**	**892,946,547**	**983,535,090**	**18,916,440,280**	**24,112,323,544**
Liabilities					
Due to other banks	100,486.825	120,254	107,425,896	168.527,372	376,560.347
Customer accounts	3,214,134,676	395.069.906	289.665.036	1.464,177	3,900,333,795
Debt securities in issue	649,610	4,446,466	1,029,411	62,760,000	68,885,487
Other borrowed funds	146.458.362	216,749,068	364.897.102	16.652.055.961	17.380.160.493
Other financial liabilities	27,230,235	-	-	-	27,230,235
Undrawn credit lines	68.553.488	22,115,274	11,684,502	73,681,878	176,035,142
Guarantees issued	110.262	13,236,804	34.629.555	961.468.428	1.009.445.049
Letters of Credit	-	21.419.708	92.427.196	847,329,378	961,176,282
Total financial liabilities	**3,557,623,458**	**673,157,480**	**901,758,698**	**18,767,287,194**	**23,899,826,830**
Net liquidity gap	**(238,221,831)**	**219,789,067**	**81,776,392**	**149,153,086**	**212,496,714**
Cumulative liquidity gap at 31 December 2017	**(238,221,831)**	**(18,432,764)**	**63,343,628**	**212,496,714**	

The above analysis is based on remaining contractual maturities. The entire portfolio of investment securities available for sale is classified within demand and less than one month based on management's assessment of the portfolio's realisability.

Although the Group does not have the right to use the mandatory deposits held in Central bank of Uzbekistan for the purposes of funding its operating activities, the management classifies them as demand deposits in the liquidity gap analysis on the basis that their nature is inherently to fund sudden withdrawal of customer accounts.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, the fact that significant portion of these customer accounts are of large state controlled telecommunication entities which are either the Group's shareholders or its entities under common control and the past experience of the Group, indicate that these customer accounts provide a long-term and stable source of funding for the Group.

(in thousands of Uzbek Soums, unless otherwise indicated)

The analysis by remaining contractual maturities may be summarised as follows at 31 December 2016:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	959,585,935	-	-	-	959,585,935
Due from other banks	301,860,352	21,765,150	28,198,617	183,945,020	535,769,139
Loans and advances to customers	366,017,119	1,024,189,229	810,149,525	6,368,168,910	8,568,524,783
Investment securities available for sale	14,483,955	-	-	-	14,483,955
Investment securities held to maturity	209,288	10,000,000	3,000,000	-	13,209,288
Other financial assets	8,639,028	-	-	-	8,639,028
Total financial assets	**1,650,795,677**	**1,055,954,379**	**841,348,142**	**6,552,113,930**	**10,100,212,128**
Liabilities					
Due to other banks	82,307,758	-	45,738,816	65,922,133	193,968,707
Customer accounts	2,023,970,991	77,821,594	253,355,010	213,824,614	2,568,972,209
Debt securities in issue	2,784,584	1,940,000	20,420,000	53,740,000	78,884,584
Other borrowed funds	6,701,808	98,769,453	1,177,551	6,465,645,967	6,572,294,779
Other financial liabilities	23,320,785	-	-	-	23,320,785
Undrawn credit lines	20,696,730	1,419,117	959,721	95,493,589	118,569,157
Guarantees issued	3,013,954	-	12,879,094	129,615,007	145,508,055
Letters of Credit	4,699,868	-	-	-	4,699,868
Total financial liabilities	**2,167,496,478**	**179,950,164**	**334,530,192**	**7,024,241,310**	**9,706,218,144**
Net liquidity gap	**(516,700,801)**	**876,004,215**	**506,817,950**	**(472,127,380)**	**393,993,984**
Cumulative liquidity gap at 31 December 2016	**(516,700,801)**	**359,303,414**	**866,121,364**	**393,993,984**	

33. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Details of transactions between the Group and related parties are disclosed below:

(in thousands of Uzbek Soums, unless otherwise indicated)

31 December 2017	Significant shareholders	Entities under common control	Total
Loans and advances to customers	12,527,213,493	-	12,527,213,493
Other assets	-	-	-
Customer accounts	1,122,517,224	126,007	1,122,643,231
Other borrowed funds	11,097,869,605	-	11,097,869,605
Other liabilities	80,366	-	80,366

31 December 2016	Significant shareholders	Entities under common control	Total
Loans and advances to customers	5,132,532,869	-	5,132,532,869
Other assets	882,300	-	882,300
Customer accounts	444,403,858	3,403,421	447,807,279
Other borrowed funds	4,504,806,900	-	4,504,806,900
Other liabilities	79,535	-	79,535

2017	Significant shareholders	Entities under common control	Senior management	Total
Interest income	400,392,365	-	-	400,392,365
Interest expense	260,486,005	-	-	260,486,005
Commission income	35,163,546	19,948	-	35,183,494
Administrative expenses	-	-	1,381,651	1,381,651

2016	Significant shareholders	Entities under common control	Senior management	Total
Interest income	262,352,651	-	-	262,352,651
Interest expense	135,125,000	-	-	135,125,000
Commission income	17,162,651	20,221	-	17,182,872
Administrative expenses	-	-	944,046	944,046

The Group enters into transaction with other government related entities in the normal course of business.

Key management compensation is presented below:

	2017	2016
Salaries and other benefits	1,066,479	1,048,352
Social security contributions	315,172	303,384
Total	**1,381,651**	**1,351,736**

34. EVENTS AFTER THE END OF THE REPORTING PERIOD

The management is not aware of any material events subsequent to the reporting date.