IPOTEKA BANK

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors' Report

31 December 2017

Joint-Stock Commercial Mortgage Bank "Ipoteka Bank" and Its Subsidiaries

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Independent auditor's report

To the Shareholders and Board of Directors of Joint Stock Commercial Mortgage Bank "Ipoteka-Bank":

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Joint Stock Commercial Mortgage Bank "Ipoteka-Bank" (the "Bank") and its subsidiaries (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 ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements of the Code of Professional Ethics for Auditors of Uzbekistan and auditor's independence requirements that are relevant to our audit of the financial statements in the Republic of Uzbekistan. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview

Materiality	Overall Group materiality: Uzbek Soums ("UZS") 6,800,000 thousand.
Group scoping	We performed full scope audit procedures on the financial statements of the Bank and on the material balances and transactions of the subsidiaries included in the consolidated financial statements of the Group.
Key audit matter	Impairment of loans and advances to customers

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

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

Materiality

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

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

Overall Group materiality	UZS 6,800,000 thousand.
How we determined it	We determined overall materiality as being 5% of profit before tax, adjusted for one-off material foreign exchange gain that resulted from overnight devaluation of local currency on 5 September 2017.
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is most commonly measured by users, and it is a generally accepted benchmark. In calculation of materiality, we eliminated gain arising from one-off devaluation of local currency to arrive to the measure that in our opinion better represents the size of the Group's activities and financial results. We chose 5%, as in our professional experience, this is the widely accepted quantitative measure for this benchmark.

We agreed with management that we would report to them misstatements identified during our audit above UZS 340,000 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reason.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers We considered impairment of loans and advances to customers as a key audit matter due to: i) the fact that loans and advances to customers of UZS 10,563,180,000 thousand as at 31 December 2017 represent approximately 80% of the Group's total assets, and ii) the significance of judgements involved in making estimates for loan impairment. The judgements and decisions made by management in estimating loan impairment are highly subjective due to the uncertainties over timely identification of loss events and amounts of losses incurred. Management assesses provisions for impairment of loans and advances to customers on the following basis: *Individually significant loans* These are loans to legal entities that the Group's Credit Committee assesses individually in order to determine whether there is an objective evidence that the loan is impaired. If individually assessed loans have no signs of impairment, they are assessed on a collective basis. *Collectively assessed loans* Management groups loans by similar credit risk characteristics that are indicative of the borrowers' ability to pay all amounts due according to the contractual terms. Group assesses these loans based on historical default rates and prevailing economic and credit conditions and peer group experience for loans with similar credit risk characteristics. The assessment also covers loans, which may be impaired, but the impairment is not individually identified as of the reporting date. Significant accounting policies, critical accounting estimates and judgements relative to the loans and	We tested overall provisioning methodology for the compliance with IAS 39 "Financial instruments: recognition and measurement". For individually significant loans, we tested a sample of loans focusing on the identification of default or delinquency, considering the timing of identification of impairment events, the amounts and timing of estimated future cash flows and the quality and valuation of collateral. Our selection was focused on under-collateralized loans, since loans with excessive collateral are expected to generate sufficient future cash flows (even though they might be overdue). For impairment estimated collectively on a portfolio basis, we tested the operation of the model and the data and assumptions used. Our work included the following steps: 1. We compared the principal assumptions made by the management with our own knowledge and experience of the banking industry and the specifics of the Bank. 2. We re-performed the calculation of collective impairment provisions. The following additional procedures were performed for final provision for loans and advances impairment at 31 December 2017: 1. We re-performed the Group's back testing exercise to ensure that the estimate of provision is appropriate and judgements have been applied consistently; 2. We checked that the calculation of provision for loan impairment is mathematically accurate, including movement for the period; 3. We compared the impairment provision levels to other banks in Uzbekistan and investigated reasons for any major differences, based on our understanding of the industry sectors and the banking market in Uzbekistan. Based on the audit procedures performed, we found the management's judgment used in the estimating

advances to customers and calculations of impairment is provided in the Notes 3, 4 and 9, respectively, to the consolidated financial statements.	impairment provisions on loans and advances to customers to be supported by the available evidence.

Other information

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, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the 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 the Council of the Group for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Audit Organization "PricewaterhouseCoopers" LLC

Audit Organization "PricewaterhouseCoopers" LLC
15 May 2018
Tashkent, Uzbekistan

In thousands of Uzbekistan Soums	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	1,374,091,094	531,431,619
Due from other banks	8	1,249,251,006	449,519,825
Loans and advances to customers	9	10,563,180,000	4,637,308,140
Investment securities available for sale	10	5,820,700	5,289,143
Investment in associates	11	2,299,741	-
Premises, equipment and intangible assets	12	138,300,144	92,934,180
Current income tax prepayment		17,890	4,335,335
Deferred income tax asset	26	9,294,096	8,730,032
Other financial assets	13	17,514,579	729,234
Other non-financial assets	14	23,880,205	17,490,182
TOTAL ASSETS		**13,383,649,455**	**5,747,767,690**
LIABILITIES			
Due to other banks	16	851,699,277	248,626,433
Customer accounts	17	5,648,433,204	3,050,058,055
Debt securities in issue	18	12,795,510	28,652,397
Borrowings from government, state and international financial institutions	19	5,452,334,544	1,989,579,694
Other financial liabilities	20	9,861,722	4,498,377
Other non-financial liabilities	20	44,498,444	12,327,029
TOTAL LIABILITIES		**12,019,622,701**	**5,333,741,985**
EQUITY			
Share capital	21	844,421,142	269,421,142
Share subscription reserve	21	109,476,554	-
Share premium	21	754,434	754,434
Share capital reserve	21	31,427,547	-
Retained earnings		368,472,517	143,850,129
Net assets attributable to the Bank's owners		1,354,552,194	414,025,705
Non-controlling interest	34	9,474,560	-
TOTAL EQUITY		**1,364,026,754**	**414,025,705**
TOTAL LIABILITIES AND EQUITY		**13,383,649,455**	**5,747,767,690**

Approved for issue and signed on behalf of the Board of Management on 11 May 2018

Musaev O.M.
Chairman of the Board

Normetov E.Z.
Chief Accountant

In thousands of Uzbekistan Soums	**Note**	**2017**	**2016**
Interest income	22	582,492,130	378,907,394
Interest expense	22	(284,910,739)	(178,975,131)
Net interest income		**297,581,391**	**199,932,263**
Provision for impairment of loans and advances to customers	9	(45,236,392)	(976,370)
Net interest income after provision for loan impairment		**252,344,999**	**198,955,893**
Fee and commission income	23	205,201,147	181,042,621
Fee and commission expense	23	(34,506,036)	(35,633,075)
Gains less losses from trading in foreign currencies		59,535,822	8,598,669
Foreign exchange translation gains less losses		206,990,609	29,994,097
Loss from impairment of investment securities available for sale		(2,967,147)	(125,238)
Dividend income		481,868	181,478
Other operating income	24	10,905,834	7,467,612
Other impairment provision	15	(104,172)	(251,824)
Administrative and other operating expenses	25	(391,362,930)	(298,873,639)
Share of result of associates	11	(259)	-
Profit before tax		**306,519,735**	**91,356,594**
Income tax expense	26	(25,569,649)	(19,294,488)
PROFIT FOR THE PERIOD		**280,950,086**	**72,062,106**
Other comprehensive income for the period		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**280,950,086**	**72,062,106**
Profit is attributable to:			
- Owners of the Bank		282,347,657	72,062,106
- Non-controlling interest		(1,397,571)	**-**
Profit for the period		**280,950,086**	**72,062,106**
Total comprehensive income is attributable to:			
- Owners of the Bank		282,347,657	72,062,106
- Non-controlling interest		(1,397,571)	-
Total comprehensive income for the period		**280,950,086**	**72,062,106**
Basic and diluted earnings per share per ordinary share in UZS	27	**0.589**	**0.971**
Basic and diluted earnings per share per equity component of preference share in UZS	27	**0.821**	**0.895**

In thousands of Uzbekistan Soums	**Note**	**Attributable to owners of the Bank** **Share capital**	**Share premium**	**Share subscription reserve**	**Share capital reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2015		**242,501,121**	**754,417**	**-**	**-**	**75,757,331**	**319,012,869**	**-**	**319,012,869**
Net profit for the period		-	-	-	-	72,062,106	72,062,106	-	72,062,106
Total comprehensive income for the period		-	-	-	-	72,062,106	72,062,106	-	72,062,106
Ordinary shares issued	21	26,920,021	17	-	-	-	26,920,038	-	26,920,038
Dividends declared - ordinary shares	29	-	-	-	-	(3,969,308)	(3,969,308)	-	(3,969,308)
Balance at 31 December 2016		**269,421,142**	**754,434**	**-**	**-**	**143,850,129**	**414,025,705**	**-**	**414,025,705**
Net profit for the period		-	-	-	-	282,347,657	282,347,657	(1,397,571)	280,950,086
Total comprehensive income for the period		-	-	-	-	282,347,657	282,347,657	(1,397,571)	280,950,086
Capitalisation of retained earnings		33,826,553	-	-	-	(33,826,553)	-	-	-
Recognition of liability component of preference shares	21	(896,000)	-	-	-	(224,000)	(1,120,000)	-	(1,120,000)
Share subscription deposit - ordinary shares	21	-	-	109,476,554	31,427,547	-	140,904,101	-	140,904,101
Ordinary shares issued	21	542,069,447	-	-	-	-	542,069,447	-	542,069,447
Dividends declared - ordinary shares	29	-	-	-	-	(23,674,716)	(23,674,716)	-	(23,674,716)
Establishment of subsidiaries with non-controlling interest		-	-	-	-	-	-	10,872,131	10,872,131
Balance at 31 December 2017		**844,421,142**	**754,434**	**109,476,554**	**31,427,547**	**368,472,517**	**1,354,552,194**	**9,474,560**	**1,364,026,754**

Cash flows from operating activities			
Interest received		531,837,226	360,951,481
Interest paid		(294,387,156)	(177,068,706)
Fees and commissions received		216,525,768	180,713,414
Fees and commissions paid		(34,506,036)	(35,633,075)
Income received from trading in foreign currencies		44,404,027	8,598,669
Other operating income received		10,905,834	6,973,035
Staff costs paid		(234,764,800)	(196,218,962)
Administrative and other operating expenses paid		(109,091,924)	(79,214,974)
Income tax paid		(2,941)	(20,558,009)
Cash flows from operating activities before changes in operating assets and liabilities		**130,919,998**	**48,542,873**
Net (increase) / decrease in due from other banks		(164,732,737)	24,915,287
Net increase in loans and advances to customers		(2,981,691,047)	(1,095,936,488)
Net (increase) / decrease in other non-financial assets		(19,856,249)	624,617
Net (increase) / decrease in due to other banks		(143,024,702)	56,928,033
Net increase in customer accounts		677,879,466	629,816,384
Net decrease in other financial liabilities		7,900,717	-
Net decrease / (increase) in other non-financial liabilities		8,962,770	(408,357)
Net cash used in operating activities		**(2,483,641,784)**	**(335,517,651)**
Cash flows from investing activities			
Purchase of premises, equipment and intangible assets		(61,013,384)	(21,123,286)
Proceeds from disposal of premises, equipment and intangible assets		963,820	863,081
Proceeds from property for resale		13,362,054	4,717,819
Purchase of investments securities available for sale		(3,498,704)	-
Purchase of associates (incorporation)		(2,300,000)	-
Dividend income received		481,868	123,374
Net cash used in investing activities		**(52,004,346)**	**(15,419,012)**
Cash flows from financing activities			
Issue of ordinary shares	21	542,069,447	26,920,037
Proceeds from borrowings from government, state and international financial institutions	28	2,093,377,544	992,554,426
Repayment of borrowings from government, state and international financial institutions	28	(1,037,033,992)	(557,775,466)
Proceeds from long term borrowings from other banks	28	751,100,000	-
Repayment of long term borrowings from other banks	28	(12,671,761)	-
Proceeds from issue of debt securities		-	6,200,000
Repayment of debt securities		(15,600,100)	(2,950,000)
Dividends paid	29	(23,464,279)	(3,896,847)
Proceeds from issuing shares or other equity instruments		8,672,406	
Proceeds from stock subscription	21	109,476,554	-
Net cash from financing activities		**2,415,925,819**	**461,052,150**
Effect of exchange rate changes on cash and cash equivalents		**962,379,786**	**34,514,451**
Net increase in cash and cash equivalents		**842,659,475**	**144,629,938**
Cash and cash equivalents at the beginning of the period	7	531,431,619	386,801,681
Cash and cash equivalents at the end of the period	7	**1,374,091,094**	**531,431,619**

1. Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for Joint Stock Commercial Mortgage Bank "Ipoteka Bank" (the "Bank") and its subsidiaries (the "Group").

The Bank operates in Uzbekistan and founded by the Decree of the President of the Republic of Uzbekistan #PP-10 dated 16 February 2005. The Bank was established by merging two banks - State Joint Stock Housing Bank "Uzjilsberbank" and State Joint Stock Mortgage Bank "Zamin". The Bank is registered in Uzbekistan to carry out banking and foreign exchange activities and has operated under the banking license #74 issued by the Central bank of Uzbekistan ("CBU") and general license for foreign currency operations #83 both reissued on 20 August 2016.

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 makes loans, transfers payments in Uzbekistan and abroad. The Bank conducts its banking operations from its head office in Tashkent and 38 branches within Uzbekistan as at 31 December 2017 (31 December 2016: 38 branches). As at 31 December 2017 and 2016, the number of employees of the Bank was 5,305 and 4,660, respectively.

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

Registered address and place of business. The Bank's registered address is: Shahrisabz Street 30, Tashkent, 100000, Uzbekistan.

Presentation currency. These financial statements are presented in thousands of Uzbekistan Soums ("UZS").

Shareholders. As at 31 December 2017 and 2016, the ownership of the shareholders in the Bank's capital was as follows:

Shareholders	31 December 2017	31 December 2016
Fund for the Reconstruction and Development of the Republic of Uzbekistan	60.3%	-
Ministry of Finance of the Republic of Uzbekistan	11.5%	21.3%
Uzneftmahsulot JSC	9.0%	-
UzGazOil LLC	-	25.0%
Others (individually less than 5%)	19.2%	53.7%
Total	**100%**	**100%**

The sign "-" in the table means that the entity does not own any shares or the shares the entity owns is less than 5%.

Subsidiaries and associates. As at 31 December 2017 and 31 December 2016, the Bank's subsidiaries and associates comprised the following:

1. Introduction (Continued)

Name	Ownership 31 December 2017	Ownership 31 December 2016	Year of incorporation	Industry	Country
Bank's direct interest in subsidiaries:					
Ipoteka Sarmoyasi LLC	100%	-	2017	Investment	Uzbekistan
Ipoteka Leasing LLC	100%	-	2017	Leasing	Uzbekistan
Bank's indirect interest in subsidiaries via Ipoteka Sarmoyasi LLC					
O'zbekbaliqsanoat LLC	100%	-	2017	Fishery	Uzbekistan
Qaraqalpaqbaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Andijonbaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Buxorobaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Jizzaxbaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Qashqadaryobaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Navoiybaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Namanganbaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Samarqandbaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Surxandaryobaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Sirdaryobaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Toshkentbaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Farg'onabaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Xorazmbaliqsanoat LLC	51%	-	2017	Fishery	Uzbekistan
Bank's interest in associates:					
Nukus Agro Fish LLC	25%	-	2017	Fishery	Uzbekistan
Nukus-Group Gold Fish LLC	25%	-	2017	Fishery	Uzbekistan

In accordance with Presidential Decree #PP-2939 dated 1 May 2017 the Group established 51% subsidiaries and obtained control through its ability to cast a majority of votes. The principle objects of the Group are capital contribution to the regional fisheries, replenishment of working capital of the fishing industry and assistance to regional fisheries in the implementation of programs for the development of fish farming by co-financing projects in the fishing industry. The principal activity of Ipoteka Leasing LLC is providing finance leases to legal entities in the Republic of Uzbekistan.

2. Operating Environment of the Group

Republic of Uzbekistan. The Uzbekistan economy displays characteristics of an emerging market, including but not limited to, a currency that is not freely convertible outside of the country and a low level of liquidity in debt and equity markets. Also, the banking sector in Uzbekistan is particularly impacted by local political, legislative, fiscal and regulatory developments. The largest Uzbek banks are state-controlled and act as an arm of Government to develop the country's economy. The Government distributes funds from the country's budget, which flow through the banks to various government agencies, and other state and privately owned entities.

Economic stability in Uzbekistan is largely dependent upon the effectiveness of economic measures undertaken by the Government, together with other legal, regulatory and political developments, all of which are beyond the Group's control.

The Bank's financial position and operating results will continue to be affected by future political and economic developments in Uzbekistan including the application and interpretation of existing and future legislation and tax regulations which greatly impact Uzbek financial markets and the economy overall. Management is unable to predict all developments which could have an impact on the banking sector generally and on the financial position of the Bank in particular.

2. Operating Environment of the Group (Continued)

Following the Presidential Resolution #УП-5177 "On priority measures for liberalization of currency policy" of 2 September 2017, Uzbek legal entities have been free to purchase foreign currencies for payment of current international transactions (imports of goods and services, loan repayments, business travel expenses, etc.) at commercial banks from 5 September 2017. The mandatory transfer of foreign currency from export revenues to the government was also abolished, which was 50%, and then 25% in the past.

This means that the country's monetary policy, which was very restrictive for many years, is now highly liberalized.

Uzbekistan experienced following key economic indicators in 2017:

- Inflation: 14.4%[1] (2016: 5.7%);
- Official exchange rates: 31 December 2017: USD 1 = UZS 8,120.07[2] (31 December 2016: USD 1 = UZS 3,231.48);
- GDP growth 5.3%[1] (2016: 7.8%);
- Central Bank refinancing rate – 14%[2] (2016: 9%).

3. 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. 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 (refer to Note 5).

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 Bank's Uzbekistan Accounting Legislation books and records, adjusted and reclassified in order to comply with IFRS.

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 consolidated 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 loses 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.

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 substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

[1] *Source: The State Committee of the Republic of Uzbekistan on Statistics (www.stat.uz)*
[2] *Source: Central Bank of Uzbekistan (www.cbu.uz)*

3. Significant Accounting Policies (Continued)

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.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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 all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

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.

3. Significant Accounting Policies (Continued)

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, cost, 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 (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. 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). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 35.

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. Refer to Notes 4 and 10.

3. Significant Accounting Policies (Continued)

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. All other 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 on which 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.

3. Significant Accounting Policies (Continued)

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.

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. 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 for the year when incurred as a result of one or more events ("loss events") that occurred 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 other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment 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.

3. Significant Accounting Policies (Continued)

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.

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.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period 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 unless fair value cannot be reliably determined, in which case the investment securities available for sale are carried at cost. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year.

3. Significant Accounting Policies (Continued)

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year 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 recognised in other comprehensive income 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 for the year 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 reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. 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 profit or loss for the year.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Uzbekistan Soum at 31 December 2005 for assets acquired prior to 1 January 2006, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs 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 are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Construction in progress is 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
Buildings	20
Furniture and equipment	5-10
Vehicles	5

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 definite 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.

3. Significant Accounting Policies (Continued)

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. Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

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 a 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.

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. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Other borrowed funds*.* The Bank 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 Bank could source the funds from local lenders. As a result of this financing, the Bank is able to advance funds at advantageous rates to specific customers which are determined by the government and active usually in agricultural and mortgage sector. 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. These borrowings are carried at amortised cost.

3. Significant Accounting Policies (Continued)

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary’s dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

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.

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

Share capital. Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are reflected in expenses of the period. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

3. Significant Accounting Policies (Continued)

Preference shares are accounted for as a compound financial instrument having both a liability component and an equity component. The liability component is initially determined as the present value of future minimum dividend payments discounted at the Bank’s incremental borrowing rate and the rest of the sale proceeds are classified as equity component.

As at 31 December 2017, the Group’s retained earnings included two special purpose reserves – the General Reserve Fund and the Reserve Fund for favorable lending of small enterprises. The General Reserve Fund in the amount of UZS 55,975,212 thousand (2016: UZS 46,817,883 thousand) is allocated to cover future losses, repayment of bonds, distribution of dividends on preference shares and cannot be less than fifteen percent of total share capital and is not distributable to ordinary shareholders. The Reserve Fund for favorable lending of small enterprises amounted to UZS 42,623,000 thousand (2016: UZS 27,200,000 thousand) and serves as a source of funds for lending to small businesses.

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 financial statements are authorized for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

When dividends are declared on preference shares, the excess of the dividend above its minimum amount is recognised in equity (as the discretionary payment of the equity component). The minimum dividend is recognised as a decrease of a liability component of preference shares when paid.

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 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.

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 (furthermore CBU) at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of 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 for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

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.

3. Significant Accounting Policies (Continued)

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

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). Exchange restrictions and controls exist over the conversion of UZS into other currencies. The UZS is not a freely convertible currency outside of the Republic of Uzbekistan.

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. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank's shares by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to Uzbekistan 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. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

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

Presentation of Financial Instruments by Measurement Category. For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. All of the Group's financial assets fall in the loans and receivables category except for investment securities available for sale, which fall in the available- for-sale financial assets category. All of the Group's financial liabilities were carried at amortised cost.

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. The following table provides information for each line item in the statement of financial position which combines amounts expected to be recovered or settled before and after twelve months after the reporting period.

3. Significant Accounting Policies (Continued)

	31 December 2017		
	Amounts expected to be recovered or settled		
In thousands of Uzbekistan Soums	Within 12 months after the reporting period	After 12 months after the reporting period	Total
ASSETS			
Cash and cash equivalents	1,374,091,094	-	1,374,091,094
Due from other banks	1,133,072,181	116,178,825	1,249,251,006
Loans and advances to customers	1,376,245,520	9,186,934,480	10,563,180,000
Investment securities available for sale	5,820,700	-	5,820,700
Investment in associates	-	2,299,741	2,299,741
Premises, equipment and intangible assets	14,683,600	123,616,544	138,300,144
Current income tax asset	17,890	-	17,890
Deferred income tax asset	-	9,294,096	9,294,096
Other financial assets	17,514,579	-	17,514,579
Other assets	23,880,205	-	23,880,205
TOTAL ASSETS	**3,945,325,769**	**9,438,323,686**	**13,383,649,455**
LIABILITIES			
Due to other banks	34,000	851,665,277	851,699,277
Customer accounts	5,056,688,921	591,744,283	5,648,433,204
Debt securities in issue	7,295,510	5,500,000	12,795,510
Borrowings from government, state and international financial institutions	360,364,647	5,091,969,897	5,452,334,544
Other financial liabilities	9,861,722	-	9,861,722
Other liabilities	44,498,444	-	44,498,444
TOTAL LIABILITIES	**5,478,743,244**	**6,540,879,457**	**12,019,622,701**

3. Significant Accounting Policies (Continued)

	31 December 2016		
	Amounts expected to be recovered or settled		
In thousands of Uzbekistan Soums	Within 12 months after the reporting period	After 12 months after the reporting period	Total
ASSETS			
Cash and cash equivalents	531,431,619	-	531,431,619
Due from other banks	400,492,170	49,027,655	449,519,825
Loans and advances to customers	619,697,376	4,017,610,764	4,637,308,140
Investment securities available for sale	5,289,143	-	5,289,143
Premises, equipment and intangible assets	11,817,292	81,116,888	92,934,180
Current income tax prepayment	4,335,335	-	4,335,335
Deferred income tax asset	-	8,730,032	8,730,032
Other financial assets	729,234	-	729,234
Other non-financial assets	7,468,641	10,021,541	17,490,182
TOTAL ASSETS	**1,581,260,810**	**4,166,506,880**	**5,747,767,690**
LIABILITIES			
Due to other banks	137,796,000	110,830,433	248,626,433
Customer accounts	2,930,677,583	119,380,472	3,050,058,055
Debt securities in issue	8,402,397	20,250,000	28,652,397
Borrowings from government, state and international financial institutions	291,264,589	1,698,315,105	1,989,579,694
Other financial liabilities	4,498,377	-	4,498,377
Other non-financial liabilities	12,327,029	-	12,327,029
TOTAL LIABILITIES	**3,384,965,975**	**1,948,776,010**	**5,333,741,985**

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances to customers, including finance lease receivables. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UZS 10,580,553 thousand (2016: UZS 4,810,373 thousand), respectively.

Tax legislation. Uzbekistan tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Valuation of financial instruments. As described in Note 35, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 35 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Other borrowed funds. 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 judgement 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 judgement management also considered that these instruments are a separate market sector.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are: the Group is expecting to achieve stable growth in net profit during following years.

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Preference shares. According to current legislation, the Group is obliged to pay the minimum level of dividends on preference shares, considering it has sufficient profits. However, the legislation is not clear on whether the Group has the right to pay dividends of less than the minimum level when it has sufficient profits. Accordingly, the Group considers that it has an obligation to pay the minimum dividend amount, and the preference shares are accounted for as a compound instrument having both a liability component and an equity component. The liability component is initially determined as the present value of minimum dividend payments discounted at the Group's incremental borrowing rate and the rest of the sale proceeds are classified as equity component. As a discount rate the Bank used its average borrowing rate on customer deposits and considers the rate as adequate.

Investments carried at cost. Management could not reliably estimate fair value of the Group's available-for-sale investments. The investments are carried at a cost of UZS 5,820,700 thousand (2016: UZS 5,289,143 thousand). The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible.

5. Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2017:

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

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 28.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

6. New Accounting Pronouncements (Continued)

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

On 19 February 2018, the Group management has engaged an internationally recognised audit firm to assist the Group in implementing IFRS 9, including putting relevant systems, processes and controls in place. In June 2018, the Group expects to finalise its analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that existed at that date to assess the likely impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

The new standard is expected to impact measurement of financial assets, including an increase in loan loss provision, and financial liabilities and also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

6. New Accounting Pronouncements (Continued)

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes 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 Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

6. New Accounting Pronouncements (Continued)

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments introduce two approaches: (i) an overlay approach and (ii) a deferral approach. Insurers will have the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued. In addition, entities whose activities are predominantly connected with insurance will have an optional temporary exemption from applying IFRS 9 until 2021.

Amendments to IAS 40, Investment Property (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). 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 the situations listed in IAS 40 are not exhaustive 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 Group is currently assessing the impact of the new standard on its consolidated financial statements.

Annual Improvements to IFRSs 2014 – 2016 Cycle (effective for annual periods beginning on or after 1 January 2018). The amendments impact 2 standards. IFRS 1 was amended to delete certain short-term exemptions because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable. 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 to 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 Group is currently assessing the impact of the new standard on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7. Cash and Cash Equivalents

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
Cash on hand	415,100,204	60,024,518
Cash balances with the CBU (other than mandatory reserve deposits)	398,643,053	285,680,413
Correspondent accounts and overnight placements with other banks	557,067,908	168,238,060
Placements with other banks with original maturities of less than three month	3,279,929	17,488,628
Total cash and cash equivalents	**1,374,091,094**	**531,431,619**

Cash balances with the CBU include an overnight deposit of nil (31 December 2016: UZS 228,500,000 thousand) bearing a fixed interest rate of 0.02% per annum (31 December 2016: 0.02% per annum). Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

7. Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2017:

In thousands of Uzbekistan Soums	**Cash balances with the CBU, including mandatory reserves**	**Correspondent accounts and overnight placements**	**Placement with other banks**	**Total**
Neither past due nor impaired				
- Central Bank of Uzbekistan	398,643,053	-	-	398,643,053
- "Aa2" (Moody's)	-	596,954	-	596,954
- "A" (Fitch Ratings)	-	363,372,134	-	363,372,134
- "A-" (Standard & Poors)	-	31,032,538	-	31,032,538
- "BBB+" (Standard & Poors)	-	38,118,624	-	38,118,624
- "B+" (Fitch Ratings)	-	17,023,251	3,279,929	20,303,180
- "B+" (Standard & Poors)	-	61,468,506	-	61,468,506
- Unrated	-	45,455,901	-	45,455,901
Total cash and cash equivalents, excluding cash on hand	**398,643,053**	**557,067,908**	**3,279,929**	**958,990,890**

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

In thousands of Uzbekistan Soums	**Cash balances with the CBU, including mandatory reserves**	**Correspondent accounts and overnight placements**	**Placement with other banks**	**Total**
Neither past due nor impaired				
- Central Bank of Uzbekistan	285,680,413	-	-	285,680,413
- "Aa3" (Moody's)	-	390,997	-	390,997
- "A1" (Moody's)	-	1,352,012	-	1,352,012
- "A2" (Moody's)	-	4,081,657	-	4,081,657
- "A3" (Moody's)	-	138,185,357	-	138,185,357
- "Baa2" (Moody's)	-	3,130,675	-	3,130,675
- "Ba3" (Moody's)	-	194,487	-	194,487
- "B1" (Moody's)	-	17,451,603	-	17,451,603
- "B2" (Moody's)	-	244,809	14,000,000	14,244,809
- "B" (Standard & Poors)	-	3,206,463	3,488,628	6,695,091
Total cash and cash equivalents, excluding cash on hand	**285,680,413**	**168,238,060**	**17,488,628**	**471,407,101**

8. Due from Other Banks

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
Mandatory reserve deposit held with CBU	406,356,051	326,860,881
Long term placements with other banks	580,931,698	49,027,655
Short term placements with other banks with original maturities of more than three months	261,963,257	73,631,289
Total due from other banks	**1,249,251,006**	**449,519,825**

8. Due from Other Banks (Continued)

Due from other banks includes investments in debt securities of commercial banks of Uzbekistan with the balance of UZS 19,526,008 thousand (31 December 2016: UZS 27,216,600 thousand).

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

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
Neither past due nor impaired		
- Central Bank of Uzbekistan	406,356,051	326,860,881
- "Aa2" (Moody's)	-	-
- "A2" (Moody's)	-	22,360,204
- "A" (Fitch Ratings)	20,850	-
- "A-" (Standard & Poors)	174,142,407	-
- "BBB+" (Standard & Poors)	413,443,190	-
- "Baa2" (Moody's)	-	4,155,846
- "B1" (Moody's)	-	-
- "B+" (Fitch Ratings)	3,348,858	-
- "B+" (Standard & Poors)	-	3,317,990
- "B2" (Moody's)	32,139,650	66,801,972
- "B" (Fitch Ratings)	-	3,000,000
- "B3" (Moody's)	168,000,000	20,000,000
- "B-" (Fitch Ratings)	-	3,022,932
- "B-" (Standard & Poors)	51,800,000	-
Total due from other banks	**1,249,251,006**	**449,519,825**

Refer to Note 35 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

9. Loans and Advances to Customers

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
Corporate loans	7,942,538,147	2,795,965,588
Residential mortgage loans	1,444,047,503	1,148,673,157
Small business loans	1,055,082,441	659,672,644
Consumer loans	227,317,441	81,100,485
Total loans and advances to customers, gross	**10,668,985,532**	**4,685,411,874**
Less: Provision for loan impairment	(105,805,532)	(48,103,734)
Total loans and advances to customers	**10,563,180,000**	**4,637,308,140**

As at 31 December 2017, corporate loans include finance lease receivables of UZS 73,590,606 thousand (31 December 2016: UZS 29,038,733 thousand) before impairment provisions.

9. Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2017 were as follows:

In thousands of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Provision for loan impairment at 1 January 2017	**41,139,531**	**620,222**	**6,300,165**	**43,816**	**48,103,734**
Provision for / (recovery of) loan impairment during the year	33,765,989	1,934,779	9,164,732	370,892	**45,236,392**
Bad debt written-off	(1,801,151)	(33,632)	(1,495,746)	-	**(3,330,529)**
Recovery of bad debt written-off	2,344,185	209,034	1,199,010	-	**3,752,229**
Currency translation difference	12,043,706	-	-	-	**12,043,706**
Provision for loan impairment at 31 December 2017	**87,492,260**	**2,730,403**	**15,168,161**	**414,708**	**105,805,532**

Movements in the provision for loan impairment during 2016 were as follows:

In thousands of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Provision for loan impairment at 1 January 2016	**40,146,849**	**416,242**	**7,693,896**	**24,165**	**48,281,152**
Provision for / (recovery of) loan impairment during the year	613,057	32,818	322,625	7,870	**976,370**
Bad debt written-off	-	-	(2,583,242)	-	**(2,583,242)**
Recovery of bad debt written-off	40,169	171,162	866,886	11,781	**1,089,998**
Currency translation difference	339,456	-	-	-	**339,456**
Provision for loan impairment at 31 December 2016	**41,139,531**	**620,222**	**6,300,165**	**43,816**	**48,103,734**

Significant increase of provision for loan impairment during 2017 comparing with 2016 was due to significant increase - by more than 120% of loans and advances to customers balances during the period (2016: 39% increase of loans and advances to customers balances).

Economic sector risk concentrations within the customer loan portfolio were as follows:

	31 December 2017		31 December 2016	
In thousands of Uzbekistan Soums	amount	%	amount	%
Manufacturing	6,320,875,911	59.0	2,281,681,182	48.6
Individuals	1,671,364,944	15.7	1,229,773,642	26.2
Construction	1,443,033,911	13.5	347,471,690	7.4
Trade and services	540,918,507	5.1	417,814,403	8.9
Agriculture	315,738,628	3.0	201,256,822	4.3
Municipal services	144,253,431	1.4	84,019,357	1.8
Transport and communication	119,209,159	1.1	101,994,552	2.2
Oil & Gas	110,722,308	1.1	21,355,437	0.5
Other	2,868,733	0.1	44,789	0.1
Total loans and advances to customers before impairment provision	**10,668,985,532**	**100**	**4,685,411,874**	**100**

As at 31 December 2017, the Group had 10 borrowers (31 December 2016: 10 borrowers) with the aggregate loan balance of UZS 3,709,020,622 thousand (31 December 2016: UZS 1,994,927,803 thousand) or 35% (31 December 2016: 42%) of total loans and advances to customers.

9. Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2017 was as follows:

In thousands of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Unsecured loans					**-**
Loans collateralised by:					
- real estate	1,229,117,875	1,442,863,550	624,715,260	612,310	**3,297,308,995**
- state guarantee	3,970,322,319	-	-	-	**3,970,322,319**
- letters of surety	395,173,396	1,183,953	92,023,631	200,101,923	**688,482,903**
- equipment and inventory	788,863,225	-	17,104,110	34,913	**806,002,248**
- future cash flow	1,173,051,156	-	-	-	**1,173,051,156**
- vehicles	25,910,532	-	110,668,801	5,106,488	**141,685,821**
- cash deposit	220,566,443	-	812,683	16,641,161	**238,020,287**
- insurance	5,972,298	-	148,679,934	4,726,065	**159,378,297**
- other assets	133,560,903	-	61,078,022	94,581	**194,733,506**
Total loans collateralised	**7,942,538,147**	**1,444,047,503**	**1,055,082,441**	**227,317,441**	**10,668,985,532**
Total loans and advances to customers before impairment provision	**7,942,538,147**	**1,444,047,503**	**1,055,082,441**	**227,317,441**	**10,668,985,532**

Information about collateral at 31 December 2016 was as follows:

In thousands of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Unsecured loans	**83,785,984**	**115,031**	**569,073**	**44,244**	**84,514,332**
Loans collateralised by:					
- state guarantee	1,013,362,050	-	-	-	**1,013,362,050**
- real estate	433,969,461	1,147,246,761	402,367,057	903,593	**1,984,486,872**
- letters of surety	417,087,569	1,036,022	72,831,743	67,671,344	**558,626,678**
- vehicles	87,921,547	275,343	129,560,458	10,782,466	**228,539,814**
- equipment and inventory	550,002,368	-	9,192,912	276	**559,195,556**
- cash deposit	54,844,041	-	-	45,464	**54,889,505**
- insurance	3,043,398	-	44,016,034	1,300,833	**48,360,265**
- future cash flow	151,949,170	-	-	-	**151,949,170**
- other assets	-	-	1,135,367	352,265	**1,487,632**
Total loans collateralised	**2,712,179,604**	**1,148,558,126**	**659,103,571**	**81,056,241**	**4,600,897,542**
Total loans and advances to customers before impairment provision	**2,795,965,588**	**1,148,673,157**	**659,672,644**	**81,100,485**	**4,685,411,874**

9. Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

In thousands of Uzbekistan Soums	**Corporate loans**	**Residential mortgage loans**	**Small business loans**	**Consumer loans**	**Total**
Neither past due nor impaired	7,914,731,069	1,436,909,102	1,044,362,120	226,205,628	**10,622,207,919**
Total neither past due nor impaired	**7,914,731,069**	**1,436,909,102**	**1,044,362,120**	**226,205,628**	**10,622,207,919**
Past due but not impaired					
- less than 30 days overdue	1,258,358	1,842,453	1,496,907	328,120	**4,925,838**
- 30 to 90 days overdue	8,280,532	1,773,833	2,590,314	515,495	**13,160,174**
- 90 to 180 days overdue	-	901,537	1,218,673	197,202	**2,317,412**
- 180 to 360 days overdue	-	685,140	3,427,261	43,547	**4,155,948**
- more than 360 days overdue	1,796,143	1,935,438	1,987,166	27,449	**5,746,196**
Total past due but not impaired	**11,335,033**	**7,138,401**	**10,720,321**	**1,111,813**	**30,305,568**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	16,472,045	-	-	-	**16,472,045**
- 90 to 180 days overdue	-	-	-	-	**-**
Total individually impaired loans (gross)	**16,472,045**	**-**	**-**	**-**	**16,472,045**
- Impairment provisions for individually impaired loans	(5,717,804)	-	-	-	**(5,717,804)**
- Impairment provisions assessed on portfolio basis	(81,774,456)	(2,730,403)	(15,168,161)	(414,708)	**(100,087,728)**
Less total impairment provisi	**(87,492,260)**	**(2,730,403)**	**(15,168,161)**	**(414,708)**	**(105,805,532)**
Total loans and advances to customers	**7,855,045,887**	**1,441,317,100**	**1,039,914,280**	**226,902,733**	**10,563,180,000**

9. Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

In thousands of Uzbekistan Soums	Corporate loans	Small business loans	Residential mortgage loans	Consumer loans	Total
Neither past due nor impaired	2,752,384,354	630,056,691	1,132,416,026	80,653,066	**4,595,510,137**
Total neither past due nor impaired	**2,752,384,354**	**630,056,691**	**1,132,416,026**	**80,653,066**	**4,595,510,137**
Past due but not impaired					
- less than 30 days overdue	2,209,381	12,444,230	4,045,268	145,155	**18,844,034**
- 30 to 90 days overdue	-	4,205,395	3,593,164	114,102	**7,912,661**
- 90 to 180 days overdue	21,637	6,595,030	2,851,242	59,356	**9,527,265**
- 180 to 360 days overdue	6,903,751	4,803,855	2,114,194	108,974	**13,930,774**
- more than 360 days overdue	-	1,567,443	3,508,767	19,832	**5,096,042**
Total past due but not impaired	**9,134,769**	**29,615,953**	**16,112,635**	**447,419**	**55,310,776**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	22,609,830	-	144,496	-	**22,754,326**
- 90 to 180 days overdue	11,836,635	-	-	-	**11,836,635**
Total individually impaired loans (gross)	**34,446,465**	**-**	**144,496**	**-**	**34,590,961**
- Impairment provisions for individually impaired loans	(13,862,301)	-	(64,524)	-	**(13,926,825)**
- Impairment provisions assessed on portfolio basis	(27,277,230)	(620,222)	(6,235,641)	(43,816)	**(34,176,909)**
Less total impairment provisions	**(41,139,531)**	**(620,222)**	**(6,300,165)**	**(43,816)**	**(48,103,734)**
Total loans and advances to customers	**2,754,826,057**	**659,052,422**	**1,142,372,992**	**81,056,669**	**4,637,308,140**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement,* and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date. 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. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment. 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.

Past due but not impaired loans primarily include collateralized loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual installments that are past due.

9. Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("overcollateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2017.

	Over-collateralised assets		Under-collateralised assets	
In thousands of Uzbekistan Soums	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	7,479,454,764	16,076,448,180	375,591,123	208,652,586
Residential mortgage loans	1,437,273,222	2,070,552,045	4,043,878	745,857
Small business loans	1,013,567,075	1,887,621,296	26,347,205	2,341,135
Consumer loans	226,078,794	398,224,806	823,939	3,793
Total loans and advances to customers	**10,156,373,855**	**20,432,846,327**	**406,806,145**	**211,743,371**

The effect of collateral at 31 December 2016.

	Over-collateralised assets		Under-collateralised assets	
In thousands of Uzbekistan Soums	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate lending	2,663,143,633	2,651,042,307	91,682,424	32,434,441
Residential mortgage lending	1,147,937,966	1,756,445,500	114,969	9,399,033
Small business lending	648,726,431	1,401,569,504	4,646,048	611,408
Consumer lending	81,012,450	180,087,436	44,219	632,150
Total loans and advances to customers	**4,540,820,480**	**5,989,144,747**	**96,487,660**	**43,077,032**

The description of Bank's internal rating scale is disclosed in Note 31.

In thousands of Uzbekistan Soums	**Due within 1 year**	**Due between 1 and 5 years**	**Total**
Finance lease payments receivable at 31 December 2017	**25,323,768**	**74,609,894**	**99,933,662**
Unearned finance income	(8,089,163)	(18,253,893)	**(26,343,056)**
Impairment loss provision	(153,941)	(492,877)	**(646,818)**
Present value of lease payments receivable at 31 December 2017	**17,080,663**	**55,863,124**	**72,943,788**
Finance lease payments receivable at 31 December 2016	**16,239,794**	**17,034,476**	**33,274,270**
Unearned finance income	(2,642,244)	(1,593,293)	**(4,235,537)**
Impairment loss provision	(117,213)	(133,106)	**(250,319)**
Present value of lease payments receivable at 31 December 2016	**13,480,337**	**15,308,077**	**28,788,414**

9. Loans and Advances to Customers (Continued)

The normal contractual finance lease receivables arrangements of the Group include the following main terms and conditions:

- Lease term (1-5 years);
- Stated annual lease interest is in the range of 10% - 22%, payable monthly from commencement/delivery of lease object to the lessee;
- Finance income computed using effective interest rate;
- Lessee insures risks related to the leased assets such as damage caused by various reasons, theft and other with an insurer and keeps it insured throughout the term of the lease. Insurance fees are paid by the Lessee;
- The Group is entitled to repossession of the object if certain terms of the agreement are not fulfilled;
- Initial direct costs are initially borne by the Group and are reimbursed by lessees prior to the inception of the lease; and
- Legal title passes to the lessee upon repayment of final lease payment.

10. Investment Securities Available for Sale

The equity investment securities available for sale were:

Name	Nature of business	31 December 2017	31 December 2016
Chilonzor buyum savdo kompleksi JSC	Trade	3,409,690	3,409,690
Kichik tadbirkorlikni rivojlantirish kafolat jamg'armasi JSC	Fund	3,002,247	-
O'zagrolizing JSC	Leasing	692,132	692,132
O'zmarkazimpeks JSC	Trade	456,113	456,113
Qo'qon neftegaz parmalash ishlari JSC	Oil & Gas	431,945	90,138
Qurilish-Lizing LLC	Leasing	360,325	320,674
O'zMed-Lizing JSC	Leasing	340,750	340,750
O`zshahar qurilish invest LLC	Construction	90,000	-
Kredit ahborot tahliliy markazi LLC	Consulting	40,000	40,000
O'zneftgazqazibchiqarish JSC	Oil & Gas	36,365	36,365
Xorazm Baliq Sanoat Agro LLC	Fishery	25,000	-
Uzneftmahsulot JSC	Oil & Gas	20,602	20,602
Banklararo maslahat markazi LLC	Consulting	4,000	4,000
O'zgeoburneftgaz JSC	Oil & Gas	3,916	3,917
Provision for impairment of investment securities available for sale		(3,092,385)	(125,238)
Total investment securities availabe for sale		**5,820,700**	**5,289,143**

Investment securities available for sale are equity securities and equity investments, registered in Uzbekistan and not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments.

11. Investment in Associates

The table below summarises the movements in the carrying amount of the Group's investment in associates:

In thousands of Uzbekistan Soums	2017	2016
Carrying amount at 1 January	-	-
Fair value of net assets of associate established	2,300,000	-
Share of losses of associates	(259)	-
Carrying amount at 31 December	**2,299,741**	**-**

11. Investment in Associates (Continued)

The Group’s interests in its principal associates were as follows:

Name	31 December 2017 % ownership interest	31 December 2017 Place of business	31 December 2016 % ownership interest	31 December 2016 Place of business
Nukus Agro Fish LLC	25%	Uzbekistan	-	-
Nukus-Group Gold Fish LLC	25%	Uzbekistan	-	-

In accordance with Presidential Decree #PP-2939 dated 1 May 2017 the Group participated in the establishment of 25% associates (fisheries) and obtained significant influence over them. Principle activities of associates are not strategic to activities of the Group.

Summarised financial information of each material associate is as follows at 31 December 2017:

In thousands of Uzbekistan Soums	**Nukus Agro Fish LLC**	**Nukus-Group Gold Fish LLC**	**Total associates**
Current assets	1,322,397	1,048,553	**2,370,950**
Non-current assets	11,065,662	956,525	**12,022,187**
Current liabilities	11,017	5,078	**16,095**
Non-current liabilities	510,977	-	**510,977**
Profit or loss from continuing operations	(1,036)	-	**(1,036)**
Profit or loss from discontinued operations	-	-	**-**
Other comprehensive income	-	-	**-**
Total comprehensive income	(1,036)	-	**(1,036)**

The only reconciling difference between the above amounts and the carrying amount of the investments in associates is elimination of the ownership interest held by the other investors in the associates.

12. Premises, Equipment and Intangible Assets

In thousands of Uzbekistan Soums	**Building and premises**	**Office and Computer equipment**	**Motor vehicles**	**Construction in progress**	**Intangible assets**	**Total**
Cost at 31 December 2015	31,481,624	64,060,376	3,161,117	37,041,225	2,585,074	138,329,416
Accumulated depreciation / amortisation	(9,136,200)	(40,636,019)	(1,658,221)	-	(2,259,917)	(53,690,357)
Carrying amount at 31 December 2015	**22,345,424**	**23,424,357**	**1,502,896**	**37,041,225**	**325,157**	**84,639,059**
Additions	57,770	16,349,494	102,923	3,869,730	101,000	20,480,917
Disposals (net of depreciation)	(201,336)	(83,413)	(33,635)	(50,120)	-	(368,504)
Net transfers	6,580,413	610,460	942,094	(8,587,929)	454,962	-
Depreciation / amortisation charge (Note 24)	(1,721,275)	(9,458,169)	(470,245)	-	(167,603)	(11,817,292)
Carrying amount at 31 December 2016	**27,060,996**	**30,842,729**	**2,044,033**	**32,272,906**	**713,516**	**92,934,180**
Cost at 31 December 2016	37,977,432	78,448,122	3,959,450	32,272,906	3,136,383	155,794,293
Accumulated depreciation / amortisation	(10,916,436)	(47,605,393)	(1,915,417)	-	(2,422,867)	(62,860,113)
Carrying amount at 31 December 2016	**27,060,996**	**30,842,729**	**2,044,033**	**32,272,906**	**713,516**	**92,934,180**
Additions	8,997,118	42,923,749	18,729	7,616,558	1,457,230	61,013,384
Disposals (net of depreciation)	(45,729)	(798,947)	(119,147)	-	3	(963,820)
Net transfers	222,572	(1,416,858)	1,284,163	(197,928)	108,051	-
Depreciation / amortisation charge (Note 24)	(2,196,597)	(11,579,665)	(656,284)	-	(251,054)	(14,683,600)
Carrying amount at 31 December 2017	**34,038,360**	**59,971,008**	**2,571,494**	**39,691,536**	**2,027,746**	**138,300,144**
Cost at 31 December 2017	47,123,984	116,136,927	4,473,814	39,691,536	4,699,333	212,125,594
Accumulated depreciation / amortisation	(13,085,624)	(56,165,919)	(1,902,320)	-	(2,671,587)	(73,825,450)
Carrying amount at 31 December 2017	**34,038,360**	**59,971,008**	**2,571,494**	**39,691,536**	**2,027,746**	**138,300,144**

As at 31 December 2017 and 31 December 2016, assets in the warehouse are included in the office and computer equipment category in the amount of UZS 7,569,303 thousand and UZS 718,964 thousand, respectively.

13. Other Financial Assets

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
Unrealised gain on SWAP revaluation	15,131,795	-
Charter capital contributions receivable from shareholders	2,199,725	-
Commission and other receivable	281,932	958,705
Less: Provision for impairment	(98,873)	(229,471)
Total other financial assets	**17,514,579**	**729,234**

14. Other Non-Financial Assets

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
Prepayments for property for resale	-	13,362,054
Prepayments	16,564,882	1,178,516
Inventories	4,233,420	149,406
Prepayment for intangible assets	2,365,663	1,630,601
Other tax prepayments		375,280
Other	716,240	794,325
Total other non-financial assets	**23,880,205**	**17,490,182**

In 2017, the Group sold residential buildings in Navoi Street, Tashkent, which was classified as prepayments for property for resale as at 31 December 2016.

Prepayments mainly represent payments for various goods and services used for daily operations, not yet delivered.

Prepayment for intangible assets mainly include payment for software and telecommunication services.

15. Other Impairment Provision

Movements in the provision for impairment of other assets were as follows:

In thousands of Uzbekistan Soums	**2017**	**2016**
Other impairment provision at 1 January	**229,471**	**5,466,340**
Additional provision charge	104,172	251,824
Currency translation difference	-	-
Recovery of assets previously written-off as uncollectible	-	3,278
Written-off as uncollectible	(234,770)	(5,491,971)
Other impairment provision at 31 December	**98,873**	**229,471**

16. Due to Other Banks

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
Long-term placements of other banks	851,665,277	110,830,433
Short term placements of other banks	34,000	137,725,000
Correspondent accounts and overnight placements of other banks	-	71,000
Total due to other banks	**851,699,277**	**248,626,433**

Interest rate analysis of due to other banks is disclosed in Note 31.

17. Customer Accounts

In thousands of Uzbekistan Soums	31 December 2017	31 December 2016
State and public organisations		
- Current/settlement accounts	1,247,003,584	1,064,524,634
- Term deposits	1,796,627,838	413,435,380
Other legal entities		
- Current/settlement accounts	733,571,138	486,767,580
- Term deposits	586,612,231	194,735,272
Individuals		
- Current/settlement accounts	371,184,843	438,795,803
- Term deposits	913,433,570	451,799,386
Total customer accounts	**5,648,433,204**	**3,050,058,055**

Economic sector concentrations within customer accounts are as follows:

	31 December 2017		31 December 2016	
In thousands of Uzbekistan Soums	Amount	%	Amount	%
State and budgetary organisations	3,043,631,422	54	1,477,960,014	48
Individuals	1,284,618,413	23	890,595,189	29
Private enterprises	912,262,577	16	428,775,718	14
Non-governmental organisations	174,370,599	3	86,889,137	3
Joint ventures	130,948,449	2	102,103,776	4
Other	102,601,744	2	63,734,221	2
Total customer accounts	**5,648,433,204**	**100**	**3,050,058,055**	**100**

As at 31 December 2017, the Group had 10 customers (31 December 2016: 10 customers) with the aggregate customer account balance of UZS 2,368,418,548 thousand (31 December 2016: UZS 734,613,556 thousand) or 42% (31 December 2016: 24%) of total customer accounts.

Refer to Note 35 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

18. Debt Securities in Issue

In thousands of Uzbekistan Soums	31 December 2017	31 December 2016
Certificates of deposit	12,795,510	23,642,534
Non-documentary bonds	-	5,009,863
Total debt securities in issue	**12,795,510**	**28,652,397**

Interest rate analysis of debt securities in issue is disclosed in Note 31.

19. Borrowings from Government, State and International Financial Institutions

In thousands of Uzbekistan Soums	31 December 2017	31 December 2016
Borrowings from the Fund for the Reconstruction and Development of the Republic of Uzbekistan	3,700,031,492	972,759,691
Borrowings from the Ministry of Finance of the Republic of Uzbekistan	940,230,219	750,050,022
Borrowings from International Financial Institutions	714,007,283	248,760,779
Borrowings from CBU	80,133,407	142,858
Preference shares	12,078,000	10,436,450
Borrowings from Domestic Financial Institutions	5,854,143	7,429,894
Borrowings from government, state and international financial institutions	**5,452,334,544**	**1,989,579,694**

As at 31 December 2017, borrowings from the Fund for the Reconstruction and Development of the Republic of Uzbekistan ("the UFRD") were used mainly for financing general modernisation of mining and equipment for the state entity Almalyk Mining-Metallurgical Complex ("AMMC"). The Group earns a net interest margin of 1% on these borrowings. Maturity of the borrowings is linked with maturities of the individual loans made by the Group. Each individual loan is issued under the separate President's Decree and the use of borrowed funds is monitored by the UFRD.

As at 31 December 2017, borrowings from the Ministry of Finance of the Republic of Uzbekistan amounted to UZS 940,230,219 thousand which were used for advancing to individual mortgage borrowers at 4% net interest margin and for development of agricultural sector from the sources of International Development Agency (IDA) (outstanding amount as at 31 December 2017: UZS 23,218,251 thousand), International Bank for Reconstruction and Development (IBRD) (outstanding amount as at 31 December 2017: UZS 69,190,981 thousand) and International Fund for Agricultural Development (IFAD) (outstanding amount as at 31 December 2017: UZS 1,215,500 thousand). The maturity of mortgage lending is 15 years with 3 years grace period and interest rate on borrowing is 3% with maturity of 15 years with quarterly repayment of the principal and interest including 5 years of grace period on principal. Interest rate for borrowing to development of agricultural sector is 3%-4% (IDA), 3% (IBRD), 4.5% (IFAD). Borrowing from the Asian Development Bank is obtained through the Ministry of Finance of the Republic of Uzbekistan in 2017 in various currencies equivalent to SDR 7,970,357 for 20 years with 3 years of grace period for financing the development of horticulture value chain. The interest rate for the project constitutes 3% per annum paid semi-annually. The maximum subloan amount does not exceed $5,000,000 with maximum tenor of 10 years and the subloan is used for solely investment purposes. As at 31 December 2017 the borrowing had an outstanding amount equal to UZS 85,258,705 thousand.

As at 31 December 2017, borrowings from various International Financial Institutions constituted UZS 34,755,586 thousand from Kreditanstalt fur Wiederaufbau ("KfW" - Germany), UZS 383,059,231 thousand from Commerzbank (current amount includes insurance cost as well from Hermes), UZS 9,960,513 thousand from AKA Ausfuhrkredit-Gesellschaft mbH, UZS 90,476,377 thousand from Landesbank Berlin AG (Germany) and UZS 73,740,350 thousand from the Export-Import Bank of China while
UZS 44,322,021 thousand from Export-Import Bank of Korea and UZS 52,106,489 thousand from China Development Bank and other borrowings obtained from International Financial Institutions. Moreover, total interest payable liabilities to mentioned international financial institution as at 31 December 2017 makes up UZS 3,211,212 thousand.

- Borrowing from KfW is obtained for financing of mortgage loans within Uzbekistan. The rate of interest is 7% per annum. The maturity of this borrowing is 12 years with semi-annual repayment of the principal and interest including 3.5 years of grace period on principal.
- Borrowing from the Export-Import Bank of China is obtained in 2006 for financing project loans to entities in water management sector for purchase and installation of water counters in households. The rate of interest is 2% per annum. The maturity of this borrowing is 20 years with semi-annual repayment of the principal and interest including 5 years of grace period on principal.
- Borrowing from Landesbank Berlin AG is obtained in 2014 for the partial financing of purchase contracts for the delivery of capital goods and respective services by exporters in the Federal Republic of Germany or other countries to importers in Uzbekistan. Under the first individual loan agreement the rate of interest is 1.9% plus 6 month Euribor.

19. Borrowings from Government, State and International Financial Institutions (Continued)

- Borrowings from Commerzbank is obtained for financing general modernisation of mining and equipment for the state entity Almalyk Mining and Smelting Complex ("AGMK") and for financing projects in other sectors of the economy. The rate of interest for the borrowings is 1.95% plus 6 month Euribor. Maturity of the borrowings is linked with maturities of the individual loans made by the Group.
- Borrowings from AKA Ausfuhrkredit-Gesellschaft mbH is obtained in 2016 for the partial financing of purchase contracts for the delivery of carbonated soft drink filling line as well as related services by exporters in the Federal Republic of Germany or other countries to importers in Uzbekistan. Under the first loan agreement the rate of interest is 1.95% plus 6 month Euribor.
- Borrowing from the Export-Import Bank of Korea is obtained in 2015 for financing project loans to develop small business entities. Full amount of credit line is 10,000,000 USD. The bank may utilize the Line of Credit in the form of the long-term loan facility and short-term loan facility under general agreement. The rate of interest is 6 month Libor plus margin size of which depends on loan facility. Maturity of the borrowings is linked with maturities of the individual loans made by the Group.
- Loan facility from the China Development Bank is obtained on 26 July 2017 amounted to USD 30,000,000 for 8 years. The interest rate for the borrowing equals 6M Libor+4% per annum paid semi-annually . The outstanding balance for this loan as at 31 December 2017 amounts to UZS 52,106,489 thousand.
- Bank's commitment in the amount of UZS 22,375,504 thousand related to guarantee agreement with Islamic Corporation for the Development of the Private Sector was recognised as borrowings from international financial institutions (Note 33).

In addition to above mentioned borrowings, the Bank also signed loan agreement with European Bank for Reconstruction and Development on 20 December 2017 for USD 25,000,000 credit line to finance small businesses. However, no disbursement has been made before the year end 2017, accordingly outstanding balances was nil as at 31 December 2017.

As at 31 December 2017, borrowings from Domestic Financial Institutions constituted UZS 5,846,063 thousand made by Qishloq Qurilish Bank at concessionary rate of 4%, advanced by the Group to individual mortgage borrowers at 1% net interest margin. The maturity of mortgage lending is 15 years with 3 years grace period. The lending was made in accordance with the Government Decree on development of mortgage sector in Uzbekistan.

As at 31 December 2017, borrowings from the CBU of UZS 128,795 thousand were used for the procurement of audit services, equipment and software to the Bank in 2005. The borrowing has interest rate of Libor with 15 year maturity. Furthermore, in the second half of 2017 new short term funding was obtained from CBU amounting to UZS 80,000,000 thousand denominated in national currency which was used for the financing of oil sector of the economy.

Interest rate analysis is disclosed in Note 31. The information on related party balances is disclosed in Note 37.

20. Other Liabilities

In thousands of Uzbekistan Soums	31 December 2017	31 December 2016
Payable to suppliers	8,281,282	2,219,908
Dividends payable	359,365	148,928
Other payables	1,221,075	2,129,541
Total other financial liabilities	**9,861,722**	**4,498,377**
Other tax liabilities	15,460,825	6,179,928
Payables to employees	15,014,285	279,597
Payable to State deposit insurance fund	3,543,500	3,666,715
Unearned revenue	2,108,958	1,347,443
Current income tax liability	-	806,940
Other	8,370,876	46,406
Total other non financial liabilities	**44,498,444**	**12,327,029**
Total other liabilities	**54,360,166**	**16,825,406**

21. Share Capital

In thousands of Uzbekistan Soums except for number of shares	Number of outstanding shares	Ordinary shares	Inflation adjustment	Share premium	Total
At 31 December 2015	**67,981,938**	**236,083,374**	**6,417,747**	**754,417**	**243,255,538**
Ordinary shares issued	7,523,762	26,920,021	-	17	26,920,038
At 31 December 2016	**75,505,700**	**263,003,395**	**6,417,747**	**754,434**	**270,175,576**
Share split	270,083,888,900	-	-	-	-
Ordinary shares issued	542,069,446,400	542,069,447			542,069,447
Capitalisation of retained earnings	33,826,553,600	32,930,553	-	-	32,930,553
At 31 December 2017	**846,055,394,600**	**838,003,395**	**6,417,747**	**754,434**	**845,175,576**

The total authorised number of ordinary and preference shares is 838,003,394,600 and 9,104,000,000, respectively (31 December 2016: 73,505,700 and 2,000,000, respectively) with a par value of UZS 1 per share (31 December 2016: UZS 3,578 per share). Outstanding shares include 838,003,394,600 ordinary shares and 8,052,000,000 preference shares issued and fully paid in UZS. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

The Group distributes profits as dividends or transfers to reserves on the basis of financial information prepared in accordance with local legislation.

Preference shares. Preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Bank'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 reorganization and liquidation of the Bank, and where changes and amendments to the Bank's charter which restrict the rights of preference shareholders are proposed. Minimum annual dividends on preference shares are fixed at 25% of the nominal value and rank above ordinary dividends. 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 dividends are paid.

21. Share capital (Continued)

The dividends declared on preference shares cannot be less than those declared for ordinary shares. For details of preference shares accounting treatment please see Notes 3 and 4.When dividends declared above minimum amount, the excess of the dividends is recognised in equity (as discretionary payment on the equity component).

On 8 March 2017, the Bank decreased its preference share price comparing with year ended as at 31 December 2016 where change was from UZS 3,578 to UZS 1 without the change in the total amount of preference shares. The minimum rate of dividend remained at the same level of 25%.

On 14 March 2017, the Bank made additional issue of preference shares in the amount of UZS 896,000 thousand (closed issue to existing shareholders) as a distribution of retained earnings.

Share capital reserve. On 22 November 2016 the President of the Republic of Uzbekistan issued Decree PP-2660, which granted the Bank a relief from payment of income tax and property taxes for the period from 1 January 2017 until 1 April 2021. According to the above decree, funds saved from such tax relief are directed to the share capital of the Bank as a contribution of the Ministry of Finance of Uzbekistan. These funds are accumulated in a special deposit for stock subscription as they represent an equity contribution to be made from the Ministry of Finance of the Republic of Uzbekistan when a new share issue is registered. As at 31 December 2017, the outstanding balance of these funds amounted to UZS 31,427,547 thousand.

Share subscription reserve. Share subscription reserve includes the following: (i) stock subscription by the Ministry of Finance of UZS 97,790,554 thousand in accordance with Agreements # 08-02-36-13/84 dated 18 March 2017, #1 dated 15 September 2017 and # 08-02-36-13/179 dated 28 September 2017 and (ii) stock subscription by the Uzbekistan Fund for Reconstruction and Development of UZS 11,686,000 thousand in accordance with Presidential Decree #PP-3066 dated 16 June 2017.

22. Interest Income and Expense

In thousands of Uzbekistan Soums	**2017**	**2016**
Interest income		
Loans and advances to customers	568,392,391	368,914,993
Due from other banks	14,099,739	9,982,045
Cash and cash equivalents	-	10,356
Total interest income	**582,492,130**	**378,907,394**
Interest expenses		
Customer accounts	150,991,159	103,659,720
Other borrowed funds	90,911,308	49,690,413
Due to other banks	40,178,715	23,157,013
Debt securities in issue	2,829,557	2,467,985
Total interest expense	**284,910,739**	**178,975,131**
Net interest income	**297,581,391**	**199,932,263**

Interest income includes UZS 1,816,780 thousand (31 December 2016: UZS 3,540,285 thousand) interest income, recognized on individually impaired loans.

In the period ended at 31 December 2017 interest income from loans and advances to customers includes finance lease interest of UZS 4,249,795 thousand (2017: UZS 4,688,343 thousand).

23. Fee Commission Income and Expense

In thousands of Uzbekistan Soums	2017	2016
Fee and commission income from:		
- Settlement transactions	175,948,628	156,414,217
- Foreign currency conversion services	18,063,272	18,118,050
- Guarantees and letters of credit	7,376,557	3,862,592
- Cash transactions	883,017	615,704
- Other	2,929,673	2,032,058
Total fee and commission income	**205,201,147**	**181,042,621**
Fee and commission expense		
- Cash collection services	22,937,348	20,864,125
- Conversion operations	5,565,170	8,989,033
- Settlement transactions	4,558,446	3,822,614
- Cash transactions	1,331,717	1,827,066
- Other	113,355	130,237
Total fee and commission expense	**34,506,036**	**35,633,075**
Net fee and commission income	**170,695,111**	**145,409,546**

24. Other Operating Income

In thousands of Uzbekistan Soums	2017	2016
Income from property and equipment rentals	3,650,345	3,903,312
Fines received	1,686,688	1,322,621
Income from services provided	1,448,148	1,519,086
Income from disposal of premises and equipment	704,733	494,577
Other non-interest income	3,415,920	228,016
Total other operating income	**10,905,834**	**7,467,612**

25. Administrative and Other Operating Expenses

In thousands of Uzbekistan Soums	**Note**	**2017**	**2016**
Staff costs		249,499,488	196,484,890
Taxes other than income tax		39,989,171	26,985,645
Security services		18,033,730	15,544,475
Depreciation and amortisation	11	14,683,600	11,817,292
Membership fees		12,514,908	11,910,066
Stationery and Supplies		10,941,644	8,896,710
Charity and sponsorship		9,290,666	5,798,516
Repair and maintenance of property and equipment		7,696,501	4,872,542
Software maintenance		5,027,510	3,650,286
Postage, Telephone and Fax		3,893,534	2,306,087
Rent expenses		3,182,673	2,470,678
Business trip and travel expenses		2,482,339	1,831,139
Utilities		2,174,715	1,838,209
Advertising and Publicity		2,119,138	1,010,592
Fuel		1,338,575	1,167,931
Representation and entertainment		988,781	267,513
Professional services		689,513	320,479
Penalties incurred		142,273	334
Insurance		37,649	33,435
Other operating expenses		6,636,522	1,666,820
Total administrative and other operating expenses		**391,362,930**	**298,873,639**

In 2017, included in staff costs are statutory social security expenses of UZS 46,776,071 thousand (2016: UZS 36,819,334 thousand), of which UZS 14,968,342 thousand (2016: UZS 11,045,800 thousand) are obligatory pension contributions to the state pension fund.

26. Income taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Uzbekistan Soums	**2017**	**2016**
Current tax charge	26,133,713	20,339,734
Deferred tax credit	(564,064)	(1,045,246)
Income tax expense for the year	**25,569,649**	**19,294,488**

26. Income Taxes (Continued)

(b) Reconciliation between tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank’s income is comprised 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 is 21.8%. Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Uzbekistan Soums	**2017**	**2016**
IFRS profit before tax	**306,519,735**	**91,356,594**
Theoretical tax charge at statutory rate 21.8% (2016: 21.8%)	66,821,302	19,915,737
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	3,730,050	4,127,033
- Tax exempt income	(39,584,015)	(812,188)
- Tax effect on income taxed at different rates (10.5% - 12%)	(5,397,688)	(3,936,094)
Income tax expense for the year	**25,569,649**	**19,294,488**

In accordance with the Decree of the President of Uzbekistan, until 1 January 2020, all commercial banks pay income tax on the differential rates, depending on the proportion of long-term investment financing in the loan portfolio. Income generated by this financing is taxed as follows: proportion of 35-40% of long-term investment financing taxed at 12%, proportion of 40-50% taxed at 11.25%, and proportion of more than 50% is taxed at 10.5%.

(c) Deferred taxes in respect of subsidiaries, joint ventures and associates

The Group has not recorded a deferred tax liability in respect of temporary differences of UZS 50,093 thousand (2016: nil) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

(d) Deferred tax analysed by type of temporary differences

Differences between IFRS and Uzbekistan statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for their tax bases. The tax effect of the movements on these temporary differences is detailed below, and is recorded at the rate of 21.8 % (2016: 21.8 %).

26. Income Taxes (Continued)

In thousands of Uzbekistan Soums	**31 December 2017**	**Credited/ (charged) to profit or loss**	**31 December 2016**	**Credited/ (charged) to profit or loss**	**31 December 2015**
Tax effect of deductible/(taxable) temporary differences					
Loans and advances to customers	6,744,943	(13,658)	6,758,601	(157,546)	6,916,147
Premises, equipment and intangible assets	1,741,160	1,383,099	358,061	69,718	288,343
Investment securities available for sale	654,490	654,490	-	-	-
Other financial assets	(3,298,731)	(3,298,731)	-	-	-
Other non-financial assets	343,378	79,881	263,497	(656)	264,153
Borrowings from government, state and international financial institutions	2,710,884	2,261,506	449,378	371,720	77,658
Other financial liabilities	397,972	397,972	-	(4,839)	4,839
Other non-financial liabilities	-	(900,495)	900,495	766,849	133,646
Net deferred tax asset	**9,294,096**	**564,064**	**8,730,032**	**1,045,246**	**7,684,786**
Recognised deferred tax asset	12,592,827	3,862,795	8,730,032	1,045,246	7,684,786
Recognised deferred tax liability	(3,298,731)	(3,298,731)	-	-	-
Net deferred tax asset	**9,294,096**	**564,064**	**8,730,032**	**1,045,246**	**7,684,786**

27. Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share are calculated as follows:

In thousands of Uzbekistan Soums	**2017**	**2016**
Profit for the year attributable to ordinary shareholders	275,098,855	70,273,106
Profit for the year attributable to preference shareholders	5,851,231	1,789,000
Profit for the year	**280,950,086**	**72,062,106**
Weighted average number of ordinary shares (in thousands)	466,921,119	72,396,690
Weighted average number of preference shares (in thousands)	7,128,000	2,000,000
Basic and diluted earnings per share per ordinary share in UZS	**0.589**	**0.971**
Basic and diluted earnings per share per equity component of preference share in UZS	**0.821**	**0.895**

28. Net Debt Reconciliation

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Liabilities from financing activities		
In thousands of Uzbekistan Soums	**Other borrowed funds**	**Long term borrowings from other banks**	**Total**
Net debt at 1 January 2017	**1,989,579,694**	**110,830,433**	**2,100,410,127**
Cash flows	1,056,343,552	738,428,239	1,794,771,791
Foreign exchange adjustments	2,399,530,734	-	2,399,530,734
Other non-cash movements	6,880,564	2,406,605	9,287,169
Net debt at 31 December 2017	**5,452,334,544**	**851,665,277**	**6,303,999,821**

29. Dividends

All dividends are declared in Uzbekistan Soums. Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to the legislation of Uzbekistan.

In thousands of Uzbekistan Soums	**2017**	**2016**
Dividends payable at 1 January	**148,928**	**76,467**
Dividends declared during the period	23,674,716	3,969,308
Dividends paid during the period	(23,464,279)	(3,896,847)
Dividends payable at 31 December	**359,365**	**148,928**
Dividends per share declared during the year in UZS per share	**0.03**	**0.05**

The Bank distributes profits as dividends on the basis of financial information prepared in accordance with local legislation. According to the information provided to the CBU, retained earnings under national accounting standards as at 31 December 2017 include distributable profits of UZS 278,907,990 thousand (31 December 2016: UZS 77,114,803) for the year then ended.

30. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Group.

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

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

- Retail banking - principally handling individual customers' and individual entrepreneurs' deposits, providing consumer and mortgage loans, loans to individual entrepreneurs, 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.

30. Segment Analysis (Continued)

(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.

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

Segment information for the reportable business segments of the Group as at 31 December 2017 is set out below:

In thousands of Uzbekistan Soums	**Retail banking**	**Corporate banking**	**Group function**	**Total**
Cash and cash equivalents	312,806,141	1,061,284,953	-	1,374,091,094
Due from other banks	-	1,249,251,006	-	1,249,251,006
Loans and advances to customers	1,671,364,944	8,891,815,056		10,563,180,000
Investment securities available for sale	-	-	5,820,700	5,820,700
Investment in associates	-	-	2,299,741	2,299,741
Premises, equipment and intangible assets	37,545,892	95,222,246	5,532,006	138,300,144
Current income tax prepayment	-	-	17,890	17,890
Deferred income tax asset	-	-	9,294,096	9,294,096
Other financial assets	66,055	15,240,117	2,208,407	17,514,579
Other non-financial assets	2,006,575	2,778,022	19,095,608	23,880,205
Total reportable segment assets	**2,023,789,607**	**11,315,591,400**	**44,268,448**	**13,383,649,455**
Due to other banks	-	851,699,277	-	851,699,277
Customer accounts	1,277,777,976	4,370,655,228	-	5,648,433,204
Debt securities in issue	-	12,795,510	-	12,795,510
Borrowings from government, state and international financial institutions	771,137,227	4,669,119,318	12,077,999	5,452,334,544
Other financial liabilities	98,789	9,399,971	362,962	9,861,722
Other non-financial liabilities	9,254,775	7,094,685	28,148,984	44,498,444
Total reportable segment liability	**2,058,268,767**	**9,920,763,989**	**40,589,945**	**12,019,622,701**
Capital expenditure	**16,563,989**	**42,008,860**	**2,440,535**	**61,013,384**

Capital expenditure represents additions to non-current assets other than financial instruments.

30. Segment Analysis (Continued)

The table below shows the segment information for the reportable segments of the Group for 2017:

In thousands of Uzbekistan Soums	Retail banking	Corporate banking	Group function	Total
Interest income	146,778,251	435,713,879	-	582,492,130
Fee and commission income	50,741,111	154,460,036	-	205,201,147
Gains less losses from foreign currencies	51,232,200	215,294,231	-	266,526,431
Dividend income	-	-	481,868	481,868
Other operating income	4,183,670	2,930,704	3,791,460	10,905,834
Total revenues	**252,935,232**	**808,398,850**	**4,273,328**	**1,065,607,410**
Interest expense	(87,767,221)	(197,143,518)	-	(284,910,739)
Fee and commission expense	(241,411)	(34,264,625)	-	(34,506,036)
Other impairment provision	(20,024)	(84,148)		(104,172)
Provision for impairment of loans and advances to customers	(2,305,671)	(42,930,721)	-	(45,236,392)
Loss from impairment of investment securities available for sale	-	-	(2,967,147)	(2,967,147)
Administrative and other operating expenses	(125,441,490)	(255,332,871)	(10,588,569)	(391,362,930)
Share of result of associates	-	-	(259)	(259)
Income tax expense	-	-	(25,569,649)	(25,569,649)
Total expenses	**(215,775,817)**	**(529,755,883)**	**(39,125,624)**	**(784,657,324)**
Segment result	**37,159,415**	**278,642,967**	**(34,852,296)**	**280,950,086**

Segment information for the reportable business segments of the Group as at 31 December 2016 is set out below:

In thousands of Uzbekistan Soums	Retail banking	Corporate banking	Group function	Total
Cash and cash equivalents	59,014,907	472,416,712	-	531,431,619
Due from other banks	-	449,519,825	-	449,519,825
Loans and advances to customers	1,314,898,509	3,322,409,631	-	4,637,308,140
Investment securities available for sale	-	-	5,289,143	5,289,143
Premises, equipment and intangible assets	31,011,645	58,196,750	3,725,785	92,934,180
Current income tax prepayment	-	-	4,335,335	4,335,335
Deferred income tax asset	-	-	8,730,032	8,730,032
Other financial assets	91,234	637,271	729	729,234
Other non-financial assets	737,286	788,764	15,964,132	17,490,182
Total reportable segment assets	**1,405,753,581**	**4,303,968,953**	**38,045,156**	**5,747,767,690**
Due to other banks	1,000	248,625,433	-	248,626,433
Customer accounts	890,595,188	2,159,462,867	-	3,050,058,055
Debt securities in issue	100	28,652,297	-	28,652,397
Borrowings from government, state and international financial institutions	736,393,650	1,242,749,594	10,436,450	1,989,579,694
Other financial liabilities	387,769	3,542,419	568,189	4,498,377
Other non-financial liabilities	3,747,801	440,339	8,138,889	12,327,029
Total reportable segment liability	**1,631,125,508**	**3,683,472,949**	**19,143,528**	**5,333,741,985**
Capital expenditure	**6,834,374**	**12,825,451**	**821,092**	**20,480,917**

30. Segment Analysis (Continued)

The table below shows the segment information for the reportable segments of the Group for 2016:

In thousands of Uzbekistan Soums	Retail banking	Corporate banking	Group function	Total
Interest income	102,701,334	276,206,060	-	378,907,394
Fee and commission income	30,419,030	150,623,591	-	181,042,621
Gains less losses from foreign currencies	1,943,807	36,648,959	-	38,592,766
Dividend income	-	-	181,478	181,478
Other operating income	229,818	6,219,895	1,017,899	7,467,612
Total revenues	**135,293,989**	**469,698,505**	**1,199,377**	**606,191,871**
Interest expense	(83,772,045)	(93,414,086)	(1,789,000)	(178,975,131)
Provision for impairment of loans and advances to customers	(253,041)	(723,329)	-	(976,370)
Fee and commission expense	(1,917,131)	(33,715,944)	-	(35,633,075)
Other impairment provision	(11,452)	(19,710)	(220,662)	(251,824)
Loss from impairment of investment securities available for sale	-	-	(125,238)	(125,238)
Administrative and other operating expenses	(95,742,260)	(203,131,379)	-	(298,873,639)
Income tax expense	-	-	(19,294,488)	(19,294,488)
Total expenses	**(181,695,929)**	**(331,004,448)**	**(21,429,388)**	**(534,129,765)**
Segment result	**(46,401,940)**	**138,694,057**	**(20,230,011)**	**72,062,106**

(e) Analysis of revenues by products and services

The Group's revenues are analyzed by products and services in Notes 22 (interest income), Note 23 (fee and commission income) and in Note 24 (other operating income).

(f) Geographical information

The Group conducts its operations in Uzbekistan and operations of the Group with their foreign counterparts are disclosed in Note 31. All revenue of the Group is generated within Uzbekistan, since most of financial assets outside Uzbekistan are non-interest bearing.

31. Financial Risk Management

The risk management function is carried out in respect of financial risks (credit, market, and liquidity 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 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 to minimize operational and legal risks.

Credit risk. Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. 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.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of the Group's internal credit rating system, which assigns each counterparty a risk rating. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

31. Financial Risk Management (Continued)

		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 annually by the Group 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.

31. Financial Risk Management (Continued)

(a) 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. The principal collateral types for loans and advances are:

- state guarantee
- cash deposit
- real estate
- residential property
- equipment and inventory
- motor vehicle
- letter of surety
- insurance policy
- future cash flows

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

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

- According to the credit policy of the Group the total amount of loans and advances to customers in the same sector are not recommended to exceed the following dimensions in relation to the gross amount of loans and advances to customers by the national accounting standards:

Economic sector	**Required maximum weight (in percentage)**
Manufacturing	60%
Individuals – residential mortgage lending	35%
Individuals – consumer lending	10%
Trade and services	20%
Construction	15%
Agriculture	10%
Municipal services	10%
Transport and communication	10%
Other	20%

- The maximum risk to a single borrower or Group of affiliated borrowers shall not exceed 25% of the Group's tier 1 capital (with the exception of loans, the allocation of which is allowed on the basis of specific government decrees, guaranteed by the Government of the Republic of Uzbekistan, funded by the Fund for the Reconstruction and Development of the Republic of Uzbekistan and cash collateralized loans) in accordance with the CBU requirements;

- The maximum risk for unsecured credits shall not exceed 5% of the Group's tier 1 capital in accordance with the CBU requirements;

- Total amount of all large credits (loans equal to or exceeding 10% of tier 1 capital) cannot exceed the Group's tier 1 capital by more than 8 times in accordance with the CBU requirements;

- Total loan amount to related party shall not exceed the Group's tier 1 capital in accordance with the CBU requirements;

- The Group is required to prepare and submit stand-alone financial statements of the Group to the CBU on monthly basis. The annual consolidated financial statements and interim condensed consolidated financial statements for the 1st half of a year are prepared under IFRS once a year.

31. Financial Risk Management (Continued)

Impairment and provisioning policies. The internal and external rating systems described above focus on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

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:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences 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.

The Group’s policy requires the review of individual financial assets that are above 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.The Group’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment, refer to Note 33.The Group reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

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 management 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 measures its currency risk by:

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

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.

31. Financial Risk Management (Continued)

The Group also measures its currency risk by matching financial assets and liabilities denominated in same currency and analyses the effect of appreciation/depreciation of that currency against Uzbekistan Soums to the profit and loss of the Group.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the consolidated statement of financial position date:

In thousands of Uzbekistan Soums	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
31 December 2017			
UZS	5,598,962,887	(4,979,808,247)	619,154,640
US Dollars	6,652,019,002	(6,154,044,595)	497,974,407
Euros	909,185,998	(804,122,470)	105,063,528
Other	43,868,792	(37,148,945)	6,719,847
Total	**13,204,036,679**	**(11,975,124,257)**	**1,228,912,422**
31 December 2016			
UZS	3,784,557,614	(3,626,112,158)	158,445,456
US Dollars	1,591,145,185	(1,488,933,699)	102,211,486
Euros	229,916,135	(193,718,062)	36,198,073
Other	13,369,884	(12,651,037)	718,847
Total	**5,618,988,818**	**(5,321,414,956)**	**297,573,862**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the reporting date relative to the functional currency of the Group, with all other variables held constant:

	31 December 2017	31 December 2016
In thousands of Uzbekistan Soums	Impact on profit or loss	Impact on profit or loss
US Dollars strengthening by 22% (2016: 10%)	607,528,777	16,219,743
US Dollars weakening by 22% (2016: 10%)	(607,528,777)	(16,219,743)
Euro strengthening by 31% (2016: 6%)	137,633,222	632,985
Euro weakening by 31% (2016: 6%)	(137,633,222)	(632,985)

The exposure 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 the consolidated statement of comprehensive income.

As a result of the liberalization of currency policy described in Note 2, national currency – Uzbek Soum was devalued by more than 90%, for example Uzbek Soum was devalued by UZS 3,889.65: from UZS 4,210.35 to UZS 8,100 per US dollar. Accordingly, the Bank had significant foreign exchange gain from financial assets in foreign currency, such as Cash and cash equivalents and due from other banks and significant foreign exchange loss from financial liabilities in foreign currency, such as customer accounts, other borrowed funds and due to other banks.

31. Financial Risk Management (Continued)

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.

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Treasury Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability and reports on them to the Management.

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.

In thousands of Uzbekistan Soums	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
31 December 2017					
Total interest bearing financial assets	92,401,834	1,423,353,094	4,436,362,309	4,866,351,271	**10,818,468,508**
Total interest bearing financial liabilities	616,564,966	984,627,780	3,047,587,479	3,491,006,930	**8,139,787,155**
Net interest sensitivity gap at 31 December 2017	**(524,163,132)**	**438,725,314**	**1,388,774,830**	**1,375,344,341**	**2,678,681,353**
31 December 2016					
Total interest bearing financial assets	1,035,181,057	516,440,108	1,943,645,697	2,122,992,722	**5,618,259,584**
Total interest bearing financial liabilities	2,575,297,629	792,842,940	970,606,380	978,169,630	**5,316,916,579**
Net interest sensitivity gap at 31 December 2016	**(1,540,116,572)**	**(276,402,832)**	**973,039,317**	**1,144,823,092**	**301,343,005**

As at 31 December 2017, if interest rates at that date had been 200 basis points lower (31 December 2016: 200 basis points lower) with all other variables held constant, profit would have been UZS 53,136,056 thousand lower (31 December 2016: UZS 6,026,860 thousand lower).

If interest rates had been 200 basis points higher (31 December 2016: 200 basis points higher), with all other variables held constant, profit would have been UZS 53,136,056 thousand higher (31 December 2016: UZS 6,026,860 thousand higher).

31. Financial Risk Management (Continued)

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

	31 December 2017		
In % p.a.	**UZS**	**USD**	**Euro**
Assets			
Cash and cash equivalents	-	-	-
Due from other banks	5-14	-	-
Loans and advances to customers	0-22	2.3-10	4.4-10
Liabilities			
Due to other banks	6.5-13.5	-	-
Customer accounts	0-20	0-7	5-7
Debt securities in issue	9	-	-
Other borrowed funds	0-20	2-6	(Euribor+1.7)-7

	31 December 2016		
In % p.a.	**UZS**	**USD**	**Euro**
Assets			
Cash and cash equivalents	0-0.02	0-Libor	0-(Eonia -0.5)
Due from other banks	0-12.5	-	-
Loans and advances to customers	0-22	2.3-10	4.4-10
Liabilities			
Due to other banks	8-10	-	-
Customer accounts	0-20	0-7	5-7
Debt securities in issue	8-10	-	-
Other borrowed funds	0-20	2-6	(Euribor+1.7)-7

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency or the Group has the respective assets and liabilities in corresponding currency with zero interest rate.

Other price risk. The Group has no material exposure to equity price risk.

The Group is exposed to prepayment risk through providing fixed loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current profit or loss and equity at the current balance sheet 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.

31. Financial Risk Management (Continued)

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

In thousands of Uzbekistan Soums	Uzbekistan	OECD	Non OECD	Total
Financial assets				
Cash and cash equivalents	896,113,682	432,521,511	45,455,901	1,374,091,094
Due from other banks	661,644,559	587,606,447	-	1,249,251,006
Loans and advances to customers	10,563,180,000	-	-	10,563,180,000
Investment securities available for sale	5,820,700	-	-	5,820,700
Other financial assets	17,514,579	-	-	17,514,579
Total financial assets	**12,144,273,520**	**1,020,127,958**	**45,455,901**	**13,209,857,379**
Financial liabilities				
Due to other banks	851,699,277	-	-	851,699,277
Customer accounts	5,648,433,204	-	-	5,648,433,204
Debt securities in issue	12,795,510	-	-	12,795,510
Borrowings from government, state and international financial institutions	4,731,658,022	623,888,813	96,787,709	5,452,334,544
Other financial liabilities	9,861,722	-	-	9,861,722
Total financial liabilities	**11,254,447,735**	**623,888,813**	**96,787,709**	**11,975,124,257**
Net position in on-balance sheet financial instruments	**889,825,785**	**396,239,145**	**(51,331,808)**	**1,234,733,122**
Credit related commitments (Note 33)	**3,857,681,154**	**-**	**-**	**3,857,681,154**

31. Financial Risk Management (Continued)

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

In thousands of Uzbekistan Soums	Uzbekistan	OECD	Non OECD	Total
Financial assets				
Cash and cash equivalents	370,901,870	147,140,698	13,389,051	531,431,619
Due from other banks	423,003,775	26,516,050	-	449,519,825
Loans and advances to customers	4,637,308,140	-	-	4,637,308,140
Investment securities available for sale	5,289,143	-	-	5,289,143
Other financial assets	729,234	-	-	729,234
Total financial assets	**5,437,232,162**	**173,656,748**	**13,389,051**	**5,624,277,961**
Financial liabilities				
Due to other banks	248,626,433	-	-	248,626,433
Customer accounts	3,050,058,055	-	-	3,050,058,055
Debt securities in issue	28,652,397	-	-	28,652,397
Borrowings from government, state and international financial institutions	1,740,818,915	216,192,251	32,568,528	1,989,579,694
Other financial liabilities	4,498,377	-	-	4,498,377
Total financial liabilities	**5,072,654,177**	**216,192,251**	**32,568,528**	**5,321,414,956**
Net position in on-balance sheet financial instruments	**364,577,985**	**(42,535,503)**	**(19,179,477)**	**302,863,005**
Credit related commitments (Note 33)	**563,057,393**	**-**	**-**	**563,057,393**

Credit related commitments are presented on gross basis, i.e. inclusive commitments collateralized by cash deposits.

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held. OECD includes mainly Japan, Switzerland, Austria, USA and Germany. Non-OECD includes mainly China and Russia.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty 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 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 Treasury Department 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 diversified portfolios 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 the liquidity ratio monthly in accordance with the requirement of the Central Bank of Uzbekistan.

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.

31. Financial Risk Management (Continued)

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 as at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows. These undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

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 reporting date.

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

In thousands of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	15,191,599	45,978,779	337,414,788	727,877,222	1,126,462,388
Customer accounts	3,365,096,529	1,788,152,098	624,338,538	219,463	5,777,806,628
Debt securities in issue	478,233	7,800,533	6,095,233	-	14,373,999
Borrowings from government, state and international financial institutions	128,913,323	359,524,322	2,571,557,816	3,183,752,931	6,243,748,391
Other financial liabilities	9,861,722	-	-	-	9,861,722
Letters of credit	219,820,911	1,216,839,257	49,856,766	1,545,990	1,488,062,923
Guarantees	10,711,799	41,268,076	25,573,032	73,081	77,625,987
Undrawn loan commitments	2,259,003,684	-	-	-	2,259,003,684
SWAP (commitment to buy foreign currency and sell UZS)	12,665,685	16,970,946	-	-	29,636,631
SWAP (commitment to buy UZS and sell foreign currency)	1,432,500	1,919,428	-	-	3,351,928
Total potential future payments for financial obligations	**6,023,175,984**	**3,478,453,440**	**3,614,836,172**	**3,913,468,686**	**17,029,934,283**

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. 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.

31. Financial Risk Management (Continued)

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

In thousands of Uzbekistan Soums	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to other banks	76,122,765	72,326,765	50,657,198	70,826,765	269,933,493
Customer accounts	2,391,577,006	570,614,291	45,965,217	79,419,333	3,087,575,847
Debt securities in issue	1,080,049	9,734,444	22,015,656	-	32,830,149
Borrowings from government, state and international financial institutions	142,190,195	203,972,736	1,048,602,963	1,003,019,454	2,397,785,348
Other financial liabilities	4,498,377	-	-	-	4,498,377
Letters of credit	93,340,693	82,662,383	-	-	176,003,076
Guarantees	6,055,681	20,584,852	40,889,632	-	67,530,165
Undrawn loan commitments	285,628,019	-	-	-	285,628,019
SWAP (commitment to buy foreign currency and sell UZS)	9,607,028	21,397,982	-	-	31,005,010
SWAP (commitment to buy UZS and sell foreign currency)	467,513	2,423,610	-	-	2,891,123
Total potential future payments for financial obligations	**3,010,567,326**	**983,717,063**	**1,208,130,666**	**1,153,265,552**	**6,355,680,607**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Uzbekistan Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

31. Financial Risk Management (Continued)

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

In thousands of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	1,374,091,094	-	-	-	1,374,091,094
Due from other banks	460,801,155	672,271,026	108,613,889	7,564,936	1,249,251,006
Loans and advances to customers	51,692,426	1,324,553,094	4,328,145,709	4,858,788,771	10,563,180,000
Investment securities available for sale	5,820,700	-	-	-	5,820,700
Other financial assets	17,514,579	-	-	-	17,514,579
Total financial assets	**1,909,919,954**	**1,996,824,120**	**4,436,759,598**	**4,866,353,707**	**13,209,857,379**
Liabilities					
Due to other banks	34,000	-	123,788,055	727,877,222	851,699,277
Customer accounts	3,324,849,051	1,731,839,870	591,544,283	200,000	5,648,433,204
Debt securities issued	195,510	7,100,000	5,500,000	-	12,795,510
Borrowings from government, state and international financial organisations	42,766,991	317,597,656	2,329,040,189	2,762,929,708	5,452,334,544
Other financial liabilities	9,861,722	-	-	-	9,861,722
Total financial liabilities	**3,377,707,274**	**2,056,537,526**	**3,049,872,527**	**3,491,006,930**	**11,975,124,257**
Net liquidity gap based on contractual maturities	**(1,467,787,320)**	**(59,713,406)**	**1,386,887,071**	**1,375,346,777**	**1,234,733,122**
Cumulative liquidity gap at 30 December 2017	**(1,467,787,320)**	**(1,527,500,726)**	**(140,613,655)**	**1,234,733,122**	**-**

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 the fact that a substantial portion of customer accounts is on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Thus, the management believes that significant maturity mismatch between assets and liabilities with maturity up to 12 months and more does not represent significant risk to the Group's liquidity, as very low proportion of demand deposits and short-term deposits is expected to be withdrawn based on the Group's past years' and current year experience, which is consistent with the general banking practices in the banking sector of Uzbekistan.

31. Financial Risk Management (Continued)

Remaining contractual maturities at 31 December 2016:

In thousands of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	531,431,619	-	-	-	531,431,619
Due from other banks	391,168,682	9,323,488	20,090,155	28,937,500	449,519,825
Loans and advances to customers	112,580,756	507,116,620	1,923,555,542	2,094,055,222	4,637,308,140
Investment securities available for sale	5,289,143	-	-	-	5,289,143
Other financial assets	729,234	-	-	-	729,234
Total financial assets	**1,041,199,434**	**516,440,108**	**1,943,645,697**	**2,122,992,722**	**5,624,277,961**
Liabilities					
Due to other banks	70,796,000	67,000,000	45,330,433	65,500,000	248,626,433
Customer accounts	2,372,415,088	558,262,495	41,955,775	77,424,697	3,050,058,055
Debt securities issued	452,397	7,950,000	20,250,000	-	28,652,397
Borrowings from government, state and international financial organisations	131,634,144	159,630,445	863,070,172	835,244,933	1,989,579,694
Other financial liabilities	4,498,377	-	-	-	4,498,377
Total financial liabilities	**2,579,796,006**	**792,842,940**	**970,606,380**	**978,169,630**	**5,321,414,956**
Net liquidity gap based on contractual maturities	**(1,538,596,572)**	**(276,402,832)**	**973,039,317**	**1,144,823,092**	**302,863,005**
Cumulative liquidity gap at 31 December 2016	**(1,538,596,572)**	**(1,814,999,404)**	**(841,960,087)**	**302,863,005**	**-**

32. Management of Capital

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 12.5% (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 9.5% (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 6.0% (31 December 2016: 6.0%).

Actual compliance with above mentioned ratios by the Bank as of 31 December 2017 was as following:

- Regulatory capital ratio - 15.8% (31 December 2016: 11.7%);
- Capital adequacy ratio – 11.8% (31 December 2016: 9,4%); and
- Leverage ratio – 6.6% (31 December 2016: 6.0%).

32. Management of Capital (Continued)

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

In thousands of Uzbekistan Soums	31 December 2017 (unaudited)	31 December 2016 (unaudited)
Tier 1 capital	900,759,972	373,012,320
Tier 2 capital	312,419,229	87,135,958
Less: deductions from capital	(12,165,905)	(6,151,182)
Total regulatory capital	**1,201,013,296**	**453,997,096**

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.

The Bank's capital computed based on IFRS balances as of 31 December 2017 and 2016 comprised:

In thousands of Uzbekistan Soums	31 December 2017	31 December 2016
Tier 1 capital	1,072,928,481	414,025,705
Tier 2 capital	280,950,086	34,176,909
Total capital	**1,353,878,567**	**448,202,614**
Risk weighted assets	8,651,523,815	4,241,973,308
Tier 1 capital ratio	12.40%	9.76%
Total capital ratio	15.65%	10.57%

33. Contingencies and Commitments

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 the 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 financial statements.

Tax legislation. Uzbekistan tax and customs legislation is subject to varying interpretations. Also, changes to regulation can occur frequently. Management's interpretation of legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Uzbekistan 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, 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 Group'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 (31 December 2016: no provision). The Group estimates that it has no potential obligations from exposure to other than remote tax risks (31 December 2016: no obligations).

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

33. Contingencies and Commitments (Continued)

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.

Outstanding credit related commitments are as follows:

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
Letters of credit	1,488,062,923	176,003,076
Guarantees	77,625,987	67,530,165
Undrawn loan commitments	2,259,003,684	285,628,019
SWAP (commitment to buy foreign currency and sell UZS)	29,636,631	31,005,010
SWAP (commitment to buy UZS and sell foreign currency)	3,351,928	2,891,123
Total gross commitments and contingencies	**3,857,681,154**	**563,057,393**
Less – Cash held as security against letters of credit	(1,444,954,991)	(229,614,166)
Total net commitments and contingencies	**2,412,726,163**	**333,443,227**

The total outstanding contractual amount of undrawn credit lines, import letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. As at 31 December 2017, the estimated fair value of credit related commitments was UZS 360,899 thousand (31 December 2016: UZS 237,302 thousand).

Credit related commitments are denominated in currencies as follows:

In thousands of Uzbekistan Soums	**31 December 2017**	**31 December 2016**
UZS	33,734,572	55,937,924
US Dollars	3,528,546,057	465,677,849
Euros	264,934,239	30,356,764
Other	30,466,287	11,084,856
Total	**3,857,681,154**	**563,057,393**

Capital expenditure commitments. As at 31 December 2017, the Group has contractual capital expenditure commitments in respect of premises and equipment totaling UZS 120,627 thousand (31 December 2016: UZS 528,896 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Compliance with covenants. The Bank is subject to certain covenants – financial ratios primarily relating to its borrowings and guarantees. Financial covenants are included in the agreements signed with Asian Development Bank, China Development Bank, Islamic Corporation for the Development of the Private Sector and European Bank for Reconstruction and Development. The Bank did not fulfil certain ratios as required in the guarantee agreement with Islamic Corporation for the Development of the Private Sector (the "ICD") of which the Group has commitment of USD 2,755,366 (equivalent of UZS 22,375,504 thousand) as at 31 December 2017. This line of financing agreement, where the Bank is a guarantor, expires in August 2018.

33. Contingencies and Commitments (Continued)

Due to this breach of the covenant clause, ICD is contractually entitled to request for immediate repayment of the guarantee issued by the Bank amounting to USD 2,755,366. The outstanding balance is presented as liability for immediate repayment as at 31 December 2017. ICD had not requested early repayment of guarantee as of the date when these consolidated financial statements were approved by the Board of Directors. Management believes that this deviation is temporary and does not affect continued cooperation with ICD, which demonstrates willingness to continue their cooperation with the Bank.

34. Non-Controlling Interest

The following table provides information about Regional baliq sanoats that has non-controlling interest that is material to the Group.

In thousands of Uzbekistan Soums	**2017**
Information about subsidiary:	
Place of business (and country of incorporation if different)	Uzbekistan
Proportion of non-controlling interest	49%
Proportion of non-controlling interest’s voting rights held	49%
Profit or loss attributable to non-controlling interest	(1,397,571)
Accumulated non-controlling interest in the subsidiary	9,474,560
Dividends paid to non-controlling interest during the year	-
Summarised financial information:	
Current assets	27,136,279
Non-current assets	11,200,558
Current liabilities	13,977,757
Non-current liabilities	4,032,554
Revenue	602,355
Profit	(1,864,161)
Total comprehensive income	(1,864,161)

All subsidiaries were formed in 2017.

35. Fair Value of Financial Instruments

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 observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

35. Fair Value of Financial Instruments (Continued)

The level in the fair value hierarchy into which the recurring fair value measurements are categorised at 31 December 2017, were as follows:

In thousands of Uzbekistan Soums	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Cash and cash equivalents				
- Cash on hand	415,100,204	-	-	415,100,204
- Cash balances with the CBU (other than mandatory reserve deposits)	398,643,053	-	-	398,643,053
- Correspondent accounts and overnight placements with other banks	-	557,067,908	-	557,067,908
- Placements with other banks with original maturities of less than three month		-	3,279,929	3,279,929
Due from other banks				
- Mandatory cash balances with CBU	-	406,356,051	-	406,356,051
- Long term placements with other banks	-	-	580,931,698	580,931,698
- Short term placements with other banks with original maturities of more than three months	-	-	261,963,257	261,963,257
Loans and advances to customers				
- Corporate loans	-	-	7,855,045,887	7,855,045,887
- Residential mortgage loans	-	-	1,441,317,100	1,441,317,100
- Small business loans	-	-	1,039,914,280	1,039,914,280
- Consumer loans	-	-	226,902,733	226,902,733
Other financial assets				
- Unrealised gain on SWAP revaluation			15,131,795	15,131,795
- Commission receivable from customers	-	-	2,382,784	2,382,784
TOTAL	**813,743,257**	**963,423,959**	**11,426,869,463**	**13,204,036,679**

35. Fair Value of Financial Instruments (Continued)

In thousands of Uzbekistan Soums	Level 1	Level 3	Carrying value
Due to other banks			
- Short term placements of other banks	-	34,000	34,000
- Long-term placements of other banks	-	851,665,277	851,665,277
- Correspondent accounts and overnight placements of other banks	-	-	-
Customer accounts			
- Current/settlement accounts of state and public organisations	1,247,003,584	-	1,247,003,584
- Term deposits of state and public organisations	-	1,796,627,838	1,796,627,838
- Current/settlement accounts of other legal entities	733,571,138	-	733,571,138
- Term deposits of other legal entities	-	586,612,231	586,612,231
- Current/demand accounts of individuals	371,184,843	-	371,184,843
- Term deposits of individuals	-	913,433,570	913,433,570
Debt securities in issue			
- Non-documentary bonds	-	12,795,510	12,795,510
- Deposit certificates		-	-
Borrowings from government, state and international financial institutions			
- Borrowings from the Fund for the Reconstruction and Development of the Republic of Uzbekistan	-	3,700,031,492	3,700,031,492
- Borrowings from International Financial Institutions	-	940,230,219	940,230,219
- Borrowings from the Ministry of Finance of the Republic of Uzbekistan	-	714,007,283	714,007,283
- Borrowings from Domestic Financial Institutions	-	12,078,000	12,078,000
- Preference shares	-	5,854,143	5,854,143
- Borrowings from Central Bank of Uzbekistan	-	80,133,407	80,133,407
Other financial liabilities			
- Payable to suppliers	-	8,281,282	8,281,282
- Other payables	-	1,221,075	1,221,075
- Dividends payable	-	359,365	359,365
TOTAL	**2,351,759,565**	**9,623,364,692**	**11,975,124,257**

35. Fair Value of Financial Instruments (Continued)

The level in the fair value hierarchy into which the recurring fair value measurements are categorised at 31 December 2016, were as follows:

In thousands of Uzbekistan Soums	Level 1	Level 2	Level 3	Carrying value
Cash and cash equivalents				
- Cash on hand	285,680,413	-	-	285,680,413
- Cash balances with the CBU (other than mandatory reserve deposits)	168,238,060	-	-	168,238,060
- Correspondent accounts and overnight placements with other banks	-	60,024,518	-	60,024,518
- Placements with other banks with original maturities of less than three month	-	-	17,488,628	17,488,628
Due from other banks				
- Mandatory cash balances with CBU	-	326,860,881	-	326,860,881
- Long term placements with other banks	-	-	81,754,257	81,754,257
- Short term placements with other banks with original maturities of more than three months	-	-	40,904,687	40,904,687
Loans and advances to customers				
- Corporate loans	-	-	2,754,826,057	2,754,826,057
- Residential mortgage loans	-	-	1,148,052,934	1,148,052,934
- Small business loans	-	-	653,372,480	653,372,480
- Consumer loans	-	-	81,056,669	81,056,669
Other financial assets				
- Commission income receivable	-	-	729,234	729,234
TOTAL	**453,918,473**	**386,885,399**	**4,778,184,946**	**5,618,988,818**

35. Fair Value of Financial Instruments (Continued)

In thousands of Uzbekistan Soums	Level 1	Level 3	Carrying value
Due to other banks			
- Short term placements of other banks	-	96,000,000	96,000,000
- Long term placements of other banks	-	152,555,433	152,555,433
- Correspondent accounts and overnight placements of other banks	-	71,000	71,000
Customer accounts			
- Current/settlement accounts of state and public organisations	1,035,162,817	-	1,035,162,817
- Term deposits of state and public organisations	-	413,435,380	413,435,380
- Current/settlement accounts of other legal entities	477,872,655	-	477,872,655
- Term deposits of other legal entities	-	194,735,272	194,735,272
- Current/demand accounts of individuals	477,097,519	-	477,097,519
- Term deposits of individuals	-	451,754,412	451,754,412
Debt securities in issue			
- Non-documentary bonds	-	5,009,863	5,009,863
- Deposit certificates		23,642,534	23,642,534
Borrowings from government, state and international financial institutions			
- Borrowings from the Fund for the Reconstruction and Development of the Republic of Uzbekistan	-	972,759,691	972,759,691
- Borrowings from International Financial Institutions	-	248,760,779	248,760,779
- Borrowings from the Ministry of Finance of the Republic of Uzbekistan	-	750,050,022	750,050,022
- Borrowings from Domestic Financial Institutions	-	10,436,450	10,436,450
- Preference shares	-	142,858	142,858
- Borrowings from Central Bank of Uzbekistan	-	7,429,894	7,429,894
Other financial liabilities			
- Payable to suppliers	-	2,219,908	2,219,908
- Other payables	-	2,129,541	2,129,541
- Dividends payable	-	148,928	148,928
TOTAL	**1,990,132,991**	**3,331,281,965**	**5,321,414,956**

As at 31 December 2017 and 2016, equity investments available-for-sale in the amount of UZS 5,820,700 thousand and UZS 5,289,143 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.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

36. Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

	31 December 2017		31 December 2016	
	Contracts with positive fair value	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	29,636,631	-	31,005,010	-
- UZS payable on settlement (-)	(14,504,836)	-	(31,005,010)	-
- USD payable on settlement (+)	-	3,351,928	-	2,891,123
- UZS receivable on settlement (-)	-	(3,351,928)	-	(2,891,123)
Net fair value of foreign exchange swaps	**15,131,795**	**-**	**-**	**-**

37. 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 with the Group party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of Uzbekistan Soums	**Significant shareholders**	**Government related entities**	**Associates**	**Total**
Cash and cash equivalents	-	464,009,197	-	464,009,197
Due from other banks	-	432,876,235	-	432,876,235
Gross amount of loans and advances to customers (contractual rate 10%)	-	-	-	-
Impairment provision for loans and advances to customers at 31 December	-	-	-	-
Due to other banks (contractual rate 0%-10%)	-	265,933,800	-	265,933,800
Customer accounts (contractual rate 0%-6%)	(17,677,109)	-	-	(17,677,109)
Borrowings from government and state financial institutions	4,639,858,521	(85,979,619)	-	4,553,878,902

The income and expense items with related parties for 2017 were as follows:

In thousands of Uzbekistan Soums	**Significant shareholders**	**Government related entities**	**Associates**	**Total**
Interest income	-	1,256,477	-	1,256,477
Interest expense	(75,558,443)	(38,809,813)	-	(114,368,256)
Provision for impairment of loans and advances to customers				-
Fee and commission income	286			286
Other operating income	13,472			13,472
Administrative and other operating expenses	(613,466)			(613,466)
Share of result of associates			(259)	(259)

37. Related Party Transactions (Continued)

As at 31 December 2016, the outstanding balances with related parties were as follows:

In thousands of Uzbekistan Soums	Significant shareholders	Government related entities	Associates	Total
Cash and cash equivalents	-	310,138,634	-	310,138,634
Due from other banks	-	379,607,118	-	379,607,118
Gross amount of loans and advances to customers (contractual rate 10%)	55,761,000	-	-	55,761,000
Impairment provision for loans and advances to customers at 31 December	(908,904)	-	-	(908,904)
Due to other banks (contractual rate 0%-10%)	-	265,933,800	-	265,933,800
Customer accounts (contractual rate 0%-6%)	18,035,154	-	-	18,035,154
Borrowings from government and state financial institutions	750,058,877	980,323,589	-	1,730,382,466

The income and expense items with related parties for 2016 were as follows:

In thousands of Uzbekistan Soums	Significant shareholders	Government related entities	Associates	Total
Interest income	4,582,700	5,430,856	-	10,013,556
Interest expense	(19,589,448)	(44,705,438)	-	(64,294,886)
Provision for impairment of loans and advances to customers	41,096	-	-	41,096
Fee and commission income	2,472,972	-	-	2,472,972
Other operating income	16,771	-	-	16,771
Administrative and other operating expenses	(1,341,045)	-	-	(1,341,045)

Key management compensation is presented below:

In thousands of Uzbekistan Soums	2017	2016
Short-term benefits:		
- Salaries and other short term benefits	1,241,716	941,486
- Social Security costs	310,429	235,372
Total key management personnel compensation	**1,552,145**	**1,176,858**

38. Subsequent events

On 26 February 2018 the Bank increased its share capital by UZS 111,660,554 thousand, which was mainly formed by transferring share subscription reserve as at 31 December 2017 (Note 21). As a result of this transaction, the ownership of the shareholders in the Bank's capital was as follows:

Shareholders	1 May 2018	31 December 2017
Fund for the Reconstruction and Development of the Republic of Uzbekistan	54.7%	60.3%
Ministry of Finance of the Republic of Uzbekistan	20.3%	11.5%
Uzneftmahsulot JSC	7.9%	9.0%
Others (individually less than 5%)	17.0%	19.2%
Total	**100%**	**100%**

In March 2018 in accordance with the resolution of CBU #25/1 dated 20 September 2017 and decision of general meeting of shareholders dated 5 January 2018, the Bank transferred part of its net profit of 2017 UZS 174,810,745 thousand – foreign exchange gain resulted from liberalization of foreign currency (Note 2) to form reserves against credit losses (UZS 91,739,997 thousand) and general reserve fund (UZS 83,070,748 thousand).