ORIENT
FINANS
BANK

PRIVATE JOINT STOCK COMMERCIAL BANK "ORIENT FINANS"

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2016

Independent auditor's report

To the Shareholders and Council of the Private Joint Stock Commercial Bank "Orient Finans":

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) 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.

Our audit approach

Overview

Materiality	Overall Group materiality: Uzbek Soums ("UZS") 3,400,000 thousand.
Group scoping	The Group consists of two entities, both of which are located in Uzbekistan. We performed full audit procedures on the consolidated financial statements that include the transactions and balances of both group entities.
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.

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

Materiality

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

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

Overall Group materiality	UZS 3,400,000 thousand.
How we determined it	We determined overall materiality as being 5% of profit before tax.
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. 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 170,000 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 as at 31 December 2016 represent approximately 40% 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 the timely identification of the loss events and the amounts of losses incurred. The Group's approach to the estimation of impairment losses on loans and advances to customers is the following: *Individually significant loans* These are the loans to legal entities that the Bank's Credit Committee assesses individually in order to determine whether there is an objective evidence that the loan is impaired. If the individually assessed loans have no signs of impairment, they are assessed on a collective basis. The Bank measures individually impaired loans based on the present value of estimated future cash flows from the borrower or where applicable from realising collateral discounted at the original effective interest rate. *Collectively assessed loans* The Bank groups loans by similar credit risk characteristics that are indicative of the borrowers' ability to pay all amounts due according to the contractual terms. The Bank estimates future cash flows in a group of loans based on historical loss experience, prevailing economic and credit conditions and peer	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 the identification of the impairment events, the amounts and timing of the estimated future cash flows and the quality and valuation of collateral. Our selection was focused on potentially under-collateralized loans. We tested on a sample basis that in case when the recovery of the loan is expected from the proceeds on sale of collateral that the valuation of collateral is supported by an appropriate and current valuation. We agreed on a sample basis the key inputs used in impairment calculation to source systems and source documents. 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 Group. 2. We checked that the calculation of the provision for loan impairment is mathematically accurate, including the movement for the period. 3. We developed independent expectations in respect of collective assessments based on our understanding of the industry sectors and the banking market in Uzbekistan. 4. We re-performed the back testing exercise to ensure that accounting estimate is appropriate and has been applied consistently. While performing our procedures we did not identify any material differences.

group experience for loans with credit risk characteristics similar to those in the group.

The summary of significant accounting policies, critical accounting estimates and judgements relative to the calculations of impairment and loans and advances to customers is provided in Notes 3, 4 and 9, respectively, to the consolidated financial statements.

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

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27 April 2017
Tashkent, Uzbekistan

In thousands of Uzbekistan Soums	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	678 563 579	343 720 231
Due from other banks	8	269 453 003	121 921 048
Loans and advances to customers	9	689 077 523	403 294 517
Investments securities available for sale	11	2 392 442	2 392 442
Current income tax prepayment		882 333	2 529 949
Deferred income tax asset	21	2 985 689	1 018 097
Premises and equipment	10	61 466 054	42 544 148
Intangible assets	10	4 666 287	2 432 744
Other assets	12	1 788 657	2 844 737
TOTAL ASSETS		**1 711 275 567**	**922 697 913**
LIABILITIES			
Due to other banks	13	7 423 168	6 318 860
Other borrowed funds		355 862 696	-
Customer accounts	14	1 163 563 831	799 854 859
Other liabilities	15	4 300 549	3 080 150
TOTAL LIABILITIES		**1 531 150 244**	**809 253 869**
EQUITY			
Share capital	16	109 297 039	52 357 500
Share premium	16	2 105 273	89 290
Retained earnings		68 723 011	60 997 254
TOTAL EQUITY		**180 125 323**	**113 444 044**
TOTAL LIABILITIES AND EQUITY		**1 711 275 567**	**922 697 913**

In thousands of Uzbekistan Soums	Note	2016	2015
Interest income	18	55,963,901	32,639,469
Interest expense	18	(4,896,559)	(2,142,543)
Net interest income		**51,067,342**	**30,496,926**
Provision for loan impairment	9	(5,832,307)	(7,895,995)
Net interest income after provision for loan impairment		**45,235,035**	**22,600,931**
Fee and commission income	19	93,936,984	80,332,607
Fee and commission expense	19	(12,492,704)	(6,332,144)
Net gain from foreign exchange translation		3,918,877	1,076,525
Net gain from trading in foreign currencies		895,161	435,100
Net gain from swap operaions		1,063,548	1,379,615
Dividend income received		696,330	851,967
Other operating income		650,462	378,923
Administrative and other operating expenses	20	(51,500,418)	(38,809,795)
Profit before tax		**82,403,275**	**61,913,729**
Income tax expense	21	(17,963,182)	(12,994,541)
PROFIT FOR THE YEAR		**64,440,093**	**48,919,188**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**64,440,093**	**48,919,188**
Basis and dilluted earnings per ordinary share (expressed in UZS per share)	22	**1,316**	**2,079**

The notes set out on pages 5 to 54 form an integral part of these consolidated financial statements.

In thousands of Uzbekistan Soums	Note	Share capital	Share premium	Retained earnings	Total
Balance at 31 December 2014		**41,886,000**	**89,290**	**22,549,566**	**64,524,856**
Total comprehensive income		-	-	48,919,188	**48,919,188**
Capitalisation of retained earnings	17	10,471,500	-	(10,471,500)	-
Balance at 31 December 2015		**52,357,500**	**89,290**	**60,997,254**	**113,444,044**
Total comprehensive income		-	-	64,440,093	**64,440,093**
Dividends paid	17	-	-	(9,005,490)	**(9,005,490)**
Capitalisation of retained earnings	17	47,708,846	-	(47,708,846)	-
Share issue for cash	17	9,230,693	2,015,983	-	**11,246,676**
Balance at 31 December 2016		**109,297,039**	**2,105,273**	**68,723,011**	**180,125,323**

In thousands of Uzbekistan Soums	Note	2016	2015
Cash flows from operating activities			
Interest received		54,676,343	32,366,284
Interest paid		(4,546,415)	(2,191,865)
Fee and commission received		93,936,984	81,268,839
Fee and commission paid		(12,492,704)	(6,332,144)
Income received from trading in foreign currencies		895,161	435,100
Income received from derivatives		2,298,094	1,379,615
Other operating income received		747,507	378,923
Staff costs paid		(27,802,634)	(20,709,459)
Administrative and other operating expenses paid		(17,652,841)	(13,491,546)
Income tax paid		(18,283,158)	(15,610,273)
Cash flows from operating activities before changes in operating assets and liabilities		**71,776,337**	**57,493,474**
Net (increase) / decrease in:			
- due from other banks		(147,531,868)	(51,489,391)
- loans and advances to customers		(290,327,842)	(234,715,151)
- other assets		(178,466)	(1,239,374)
Net increase / (decrease) in:			
- due to other banks		1,086,376	(1,032,956)
- other borrowed funds		355,462,800	-
- customer accounts		363,776,656	375,498,717
- other liabilities		685,239	139,161
Net cash from operating activities		**354,749,232**	**144,654,480**
Cash flows from investing activities			
Acquisition of premises and equipment	10	(23,787,754)	(6,652,025)
Acquisition of intangible assets	10	(2,974,523)	(267,690)
Dividend income received		696,330	851,967
Net cash used in investing activities		**(26,065,947)**	**(6,067,748)**
Cash flows from financing activities			
Issue of ordinary shares	17	11,246,676	-
Dividends paid	17	(9,005,490)	-
Net cash from financing activities		**2,241,186**	**-**
Effect of exchange rate changes on cash and cash equivalents		3,918,877	1,374,680
Net increase in cash and cash equivalents		**334,843,348**	**139,961,412**
Cash and cash equivalents at the beginning of the year	7	343,720,231	203,758,819
Cash and cash equivalents at the end of the year	7	**678,563,579**	**343,720,231**