

**JOINT-STOCK COMMERCIAL BANK  
“KAPITALBANK”**

**Consolidated financial statements**

*Year ended 31 December 2016  
together with independent auditor's report*



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working world**



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## Independent auditor's report

To the Shareholders and Board of Directors of Private Joint Stock Commercial Bank "Kapitalbank"

### **Auditor's report on consolidated financial statements**

#### **Opinion**

We have audited the financial statements of Joint Stock Commercial Bank "Kapitalbank" and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 December 2016, the statement of profit and loss and of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities in accordance with these standards are described below in the section "Responsibility of the auditor for the audit of the financial statements" of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (the Code of IESBA), and ethical requirements, applicable to our audit of consolidated financial statements in Republic of Uzbekistan. We have met other ethical obligations under the Code of Ethics for Professional Accountants and the Code of IESBA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Key audit matters**

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

We have met the obligations described in the section "Responsibility of the auditor for the audit of the financial statements" of our report, including with respect to these matters. Accordingly, our audit included performance of procedures designed in response to our assessment of risks of significant misstatement of the financial statements. The results of our audit procedures including procedures performed during the consideration of the following matters serve as a basis for our audit opinion on the accompanying financial statements.

#### **Adequacy of provisions impairment of loans to customers**

The adequacy of the level of provision for impairment of loans to customers is a key area of the Bank's management judgment. Identification of impairment evidence and measurement of the recoverable value of loans is a process involving a high level of subjective judgment, use of assumptions and analysis of various factors, including the financial condition of the borrower, estimated future cash flows and value of the collateral. The use of various models and assumptions can significantly affect the amount of provisions for impairment of loans to customers.

Because of the substantial amounts of loans to customers, which in aggregate amount to 45% of the total assets of the Bank as at 31 December 2016, assessment of provision for impairment has been one of the key audit matters.

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Because of the substantial amounts of loans to customers, which in aggregate amount to 45% of the total assets of the Bank as at 31 December 2016, assessment of provision for impairment has been one of the key audit matters.

Our audit procedures included analysis of the methodology for assessing the impairment of loans to customers, as well as the analysis and testing of controls over the processes of identifying impairment evidence and calculation of the provision for impairment of loans. As part of the audit procedures we analysed assumptions and performed testing of inputs used by the Bank in assessing the collective impairment of loans to customers, loss transfer ratio models and recovery factors. We have analysed the consistency of judgments used by the Bank's management in assessing economic factors and statistical information on the losses incurred and amounts reimbursed, as well as their compliance with general practice and our professional judgment. As for the assessment of individual impairment of loans to customers, we have analysed the expected future cash flows, including in the case of foreclosure on the property, based on our professional judgment and available information in the market.

We reviewed the information on the provision for impairment of loans to customers disclosed in the Notes 6 and 15 to the financial statements for completeness and compliance with IFRS.

### ***Responsibility of management and those charged with governance for the financial statements***

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

In preparing the financial statements, the management is responsible for assessing the ability of the Bank to continue as a going concern, disclosure of appropriate information relating to business continuity, and for the preparation of financial statements based on the going concern basis, except when the management intends to liquidate the Bank, cease its activities or if it has no real alternative to such actions.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### ***Responsibility of the auditor for the audit of financial statements***

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an audit report containing our opinion. Reasonable assurance is a high degree of confidence, but is not a guarantee that the audit performed in accordance with International Auditing Standard will always detect a material misstatement, if any. Misstatements can be resulted from fraud or error, and are considered to be significant if it can be reasonably assumed that, individually or collectively, they could influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit performed in accordance with the International Auditing Standard, we use professional judgement and retain a professional scepticism throughout the audit. Besides, we perform the following:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures in response to these risks; obtain audit evidence, which is sufficient and appropriate to serve as a basis for our audit opinion. The risk of failure to detect a material misstatement as a result of fraud is higher than the risk of failure to detect a material misstatement resulting from error, since the fraud may include collusion, forgery, deliberate omission, distorted presentation of information or action to bypass the internal controls;
- ▶ obtain an understanding of internal controls relevant to the audit, for the purpose of developing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls;
- ▶ assess the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, and disclosure of relevant information;
- ▶ conclude on eligibility of the management's application of going concern assumption, and based on obtained audit evidence, conclude if there is a sufficient uncertainty due to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we determine the existence of material

significant doubt on the Bank's ability to continue as a going concern. If we determine the existence of material uncertainty, we shall draw attention in our opinion to the related disclosure in the financial statements or, if such a disclosure is improper, modify our opinion. Our findings are based on audit evidence received before the date of our opinion. However, subsequent events or conditions may result in the Bank's loss of ability to continue as a going concern;

- ▶ evaluate the overall presentation of the consolidated financial statements, their structure and content, including disclosure of information, and if the financial statements present transactions underlying the financial statements and events in such a way that their fair presentation is provided;
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

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

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

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

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

*Audit Company "Ernst & Young" MChP*

28 April 2017  
Tashkent, Uzbekistan

**Consolidated statement of financial position****For the year ended 31 December 2016***(thousands of Uzbek Sums)*

	Notes	2016	2015 (Restated*)	2014 (Restated)
<b>Assets</b>				
Cash and cash equivalents	5	474,734,942	360,131,359	134,534,667
Amounts due from credit institutions	6	226,140,246	157,443,545	152,626,931
Obligatory reserves with Central Bank of Uzbekistan	7	227,455,782	148,246,858	103,534,621
Loans to customers	8	1,318,017,449	788,104,671	651,095,607
Investment securities:	9	9,155,605	-	-
available-for-sale	10	4,088,656	3,373,990	3,279,153
Investments in associates		3,323,577	2,114,053	778,650
Property and equipment	11	151,780,050	203,339,634	96,322,107
Intangible assets		1,571,904	972,802	797,869
Deferred income tax assets	12	1,487,240	-	-
Other assets	13	229,970,557	167,100,528	56,283,903
<b>Total assets</b>		<b>2,647,726,008</b>	<b>1,830,827,440</b>	<b>1,199,253,508</b>
<b>Liabilities</b>				
Amounts due to credit institutions	14	137,917,814	107,026,059	71,858,992
Amounts due to customers	15	2,222,674,899	1,506,006,724	1,023,823,253
Debt securities issued	16	5,345,781	8,317,260	7,654,301
Liabilities under finance lease agreements	17	19,097,055	917,425	917,425
Deferred income tax liabilities	12	-	16,445,776	3,078,697
Other liabilities	18	15,363,435	-	-
<b>Total liabilities</b>	13	<b>11,277,993</b>	<b>9,008,662</b>	<b>5,046,053</b>
		<b>2,411,676,977</b>	<b>1,647,721,906</b>	<b>1,112,378,721</b>
<b>Equity</b>				
Share capital				
Additional paid-in capital	18	80,331,797	80,331,797	41,631,797
Revaluation reserve		350,000	350,000	350,000
Retained earnings		37,400,020	50,782,450	-
<b>Total equity attributable to shareholders of the Bank</b>		<b>117,967,214</b>	<b>51,641,287</b>	<b>44,892,990</b>
<b>Total equity</b>		<b>236,049,031</b>	<b>183,105,534</b>	<b>86,874,787</b>
<b>Total equity and liabilities</b>		<b>2,647,726,008</b>	<b>1,830,827,440</b>	<b>1,199,253,508</b>

\* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made as detailed in Note 2

Signed and authorised for release on behalf of the Management Board of the Bank

Q. A. Olimov

E. E. Skrybida



Chairman of the Management Board

Chief Accountant

**Consolidated statement of financial position****For the year ended 31 December 2016***(thousands of Uzbek Sums)*

	<b>Notes</b>	<b>2016</b>	<b>2015 (Restated*)</b>
<b>Interest income</b>			
Loans to customers		168,380,090	118,803,040
Amounts due from credit institutions		3,886,993	3,512,498
		<b>172,267,083</b>	<b>122,315,538</b>
<b>Interest expense</b>			
Amounts due to customers		(75,844,266)	(56,568,619)
Amounts due to credit institutions		(4,550,495)	(5,189,355)
Debt securities issued		(614,408)	(756,916)
Finance lease liability		(1,464,861)	(153,000)
Other borrowed funds		(943,385)	-
		<b>(83,417,415)</b>	<b>(62,667,890)</b>
<b>Net interest income</b>			
		<b>88,849,668</b>	<b>59,647,648</b>
Allowance/(reversal of allowance) for loan impairment	8	(11,176,835)	1,609,447
<b>Net interest income after allowance for loan impairment</b>		<b>77,672,833</b>	<b>61,257,095</b>
<b>Non-interest income</b>			
Net fee and commission income	20	98,698,677	82,984,708
Net gains/(losses) from foreign currencies:			
- dealing		67,267,955	50,707,377
- translation differences		(51,002,617)	(40,751,741)
Loss on initial recognition of financial assets		-	(6,383,113)
Other income		9,030,392	12,514,535
Other expense		(10,570)	(920,153)
		<b>123,983,837</b>	<b>98,151,613</b>
<b>Non-interest expense</b>			
Personnel expenses	21	(59,925,912)	(43,776,367)
Depreciation and amortisation		(14,994,478)	(8,441,891)
Other operating expenses	21	(65,096,636)	(47,914,416)
Other impairment charge		958,839	245,961
		<b>(139,058,187)</b>	<b>(99,886,713)</b>
<b>Profit before income tax expense</b>			
		<b>62,598,483</b>	<b>59,521,995</b>
Income tax expense	12	(24,007,294)	(14,073,698)
<b>Profit for the year</b>		<b>38,591,189</b>	<b>45,448,297</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income not to be reclassified subsequently to profit or loss:</i>			
Revaluation of buildings		14,156,745	50,782,451
<b>Net other comprehensive income not to be reclassified subsequently to profit or loss</b>		<b>14,156,745</b>	<b>50,782,451</b>
<b>Other comprehensive income for the year, net of tax</b>			
<b>Total comprehensive income for the year</b>		<b>52,747,934</b>	<b>96,230,748</b>
<b>Other comprehensive income</b>		<b>52,747,934</b>	<b>96,230,748</b>

\* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made as detailed in Note 2.

**Consolidated statement of changes in equity****For the year ended 31 December 2016***(thousands of Uzbek Sums)*

	<i>Note</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Revaluation reserve</i>	<i>Retained earnings</i>	<i>Total</i>
<b>31 December 2014 as previously reported</b>		<b>41,631,797</b>	<b>350,000</b>	-	<b>38,025,451</b>	<b>80,007,248</b>
Correction of error (note 2)		-	-	-	6,867,539	6,867,539
<b>31 December 2014 (Restated*)</b>		<b>41,631,797</b>	<b>350,000</b>	-	<b>44,892,990</b>	<b>86,874,787</b>
Capitalization of PY RE		17,200,000	-	-	(17,200,000)	-
Total comprehensive income for the year		-	-	-	45,448,297	45,448,297
Capitalization of CY RE		21,500,000	-	-	(21,500,000)	-
Capitalization of revaluation reserve	2	-	-	50,782,450	-	50,782,450
<b>31 December 2015 (Restated*)</b>		<b>80,331,797</b>	<b>350,000</b>	<b>50,782,450</b>	<b>51,641,287</b>	<b>183,105,534</b>
Profit for the year		-	-	-	38,591,190	38,591,190
Other comprehensive income for the year		-	-	14,156,745	-	14,156,745
<b>Total comprehensive income for the year</b>		-	-	<b>14,156,745</b>	<b>38,591,190</b>	<b>52,747,935</b>
Depreciation transfer		-	-	(2,760,070)	2,760,070	-
Transfer of revaluation reserve		-	-	(24,779,105)	24,779,105	-
Disposal of subsidiaries		-	-	-	195,562	195,562
<b>31 December 2016</b>		<b>80,331,797</b>	<b>350,000</b>	<b>37,400,020</b>	<b>117,967,214</b>	<b>236,049,031</b>

\* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made as detailed in Note 2.

**Consolidated statement of cash flows****For the year ended 31 December 2016***(thousands of Uzbek Sums)*

	<i>Notes</i>	<b>2016</b>	<b>2015 (Restated*)</b>
<b>Cash flows from operating activities</b>			
<b>Profit from continuing operations before tax</b>		<b>62,598,483</b>	<b>59,521,995</b>
<b>Corrections of:</b>			
Allowance for loan impairment	8	11,176,835	(1,609,447)
Loss on initial recognition		-	6,383,113
Other impairment charge		(964,884)	(245,961)
Amortization	11	14,994,479	8,441,891
Gain on disposal of property and equipment		(599,857)	(856,478)
Translation gain on foreign exchange operations		46,099,347	40,277,825
Unrealized gain on SWAP operations		(37,188,309)	(34,129,221)
Other borrowed funds		943,385	-
Other accruals		9,546,586	(7,376,694)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>106,606,065</b>	<b>70,407,023</b>
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(43,851,318)	15,914,766
Obligatory reserves with the Central Bank of Uzbekistan		(79,176,283)	(38,520,712)
Loans to customers		(522,896,547)	(119,695,837)
Other assets		(35,049,865)	(10,268,439)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		29,914,003	34,697,236
Amounts due to customers		591,675,029	375,932,222
Other liabilities		66,336	(63,450,505)
<b>Net cash flows from operating activities before income tax</b>		<b>47,287,420</b>	<b>265,015,754</b>
Income tax paid		(27,783,564)	(14,863,365)
<b>Net cash from/(used in) operating activities</b>		<b>19,503,856</b>	<b>250,152,389</b>
<b>Cash flows from investing activities</b>			
Purchase of assets held for sale		(9,155,605)	-
Proceeds from sale of subsidiary		52,911,678	-
Purchase of property and equipment		(42,606,697)	(51,003,705)
Purchase of intangible assets		(1,046,856)	(579,689)
Proceeds from sale of property and equipment		49,017,463	6,032,315
Proceeds from sale of intangible assets		-	28,488
<b>Net cash from investing activities</b>		<b>49,119,983</b>	<b>(45,522,591)</b>
<b>Cash flows from financing activities</b>			
Proceeds from increase of share capital		14,420,050	-
Proceeds from issue of debt securities		-	2,600,000
Redemption of debt securities issued		(2,971,479)	(1,974,082)
<b>Net cash (used in) financing activities</b>		<b>11,448,571</b>	<b>625,918</b>
Effect of exchange rates changes on cash and cash equivalents		34,531,173	20,340,976
<b>Net increase in cash and cash equivalents</b>		<b>114,603,583</b>	<b>225,596,692</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	5	360,131,359	134,534,667
<b>Cash and cash equivalents as at the end of the period</b>	5	<b>474,734,942</b>	<b>360,131,359</b>

The accompanying notes on pages 5 to 42 are an integral part of these consolidated financial statements.