

**JOINT STOCK INNOVATION  
COMMERCIAL BANK  
“IPAK YULI”**

**Financial Statements and  
Independent Auditors' Report**  
For the Year Ended 31 December 2017

JOINT STOCK INNOVATION COMMERCIAL BANK "IPAK YULI

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

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements of the Bank for the year ended 31 December 2017 were approved by management on 30 April 2018.

On behalf of the Management Board:

Saidabror Saydakhmedov  
Chairman of the Management Board

30 April 2018  
Tashkent, Uzbekistan



Rustam Chuipanev  
Chief Accountant

30 April 2018  
Tashkent, Uzbekistan

## INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Council of Joint-Stock Innovation Commercial Bank "Ipak Yuli"

### Opinion

We have audited the financial statements of Joint-Stock Innovation Commercial Bank "Ipak Yuli" ("the Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 2017, 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 ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our 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.

#### Why the matter was determined to be a key audit matter

##### *Impairment of loans and advances to customers*

As at 31 December 2017, loans and advances to customers amounts to UZS 1,931,071,560 thousand. The Bank assesses the loans for impairment on an individual and collective basis.

For individually significant loans management evaluates whether a loss has been incurred and uses its best estimate to quantify the impairment loss, if any. This process involves a high level of subjectivity and reliance on assumptions used in relation to cash flows from a borrower's business activity and the sale of pledged collateral.

The collective assessment of loans for impairment is susceptible to a risk of error due to the judgmental nature of source data and models as well as allocation of loans used in probability of default calculations.

Because of the significance of these judgements and the size of loans we consider the impairment of loans and advances to customers to be a key audit matter.

#### How the matter was addressed in the audit

We obtained understanding of the management's process relating to identifying impairment of loans.

We tested a sample of loans (including loans that had not been identified by management as potentially impaired) to form our assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.

For individually assessed loans, we selected a sample of loans and tested the estimation of future expected cash flows from customers and from the realization of collateral, assessed the financial standing of the borrower based on the key financial ratios and the impact of general market and industry conditions on deterioration of the credit risk. Further, we tested the estimated future cash flows arising from collateral by assessing the work performed by external experts used by the Bank to value collateral and compared the valuations to our own research of market values, particularly in respect of commercial real estate.

For the collective impairment models, we assessed appropriateness of the collective provisioning

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Refer to Notes 8 to the financial statements for the disclosures of gross carrying amounts and related allowance balances.

## *Measurement of written put option*

As discussed in Note 17, on 7 December 2012, the Bank entered into a put option agreement and signed the first amendment agreement thereto on 10 July 2017.

As further discussed in Note 31, the agreement is complex in nature and as such requires significant assumptions in its valuation. Given the sensitivity of the valuation to changes in the key assumptions, the valuation of the derivative financial liability recorded in the financial statements is subject to significant estimation uncertainty.

The valuation of the put option agreement with subsequent amendment is a key audit matter due to the complexity involved and significant assumptions made by management in determining the inputs used in valuing this instrument, and its significance to the financial position of the Bank.

## *Going concern*

According to the regulatory requirements on capital adequacy set by the Central Bank of Uzbekistan ("the CBU"), commercial banks are required to maintain regulatory capital and Tier I capital minimum at certain level.

As discussed in Note 2 to these financial statements, during 2017, the Bank was not compliant with the above requirements. Accordingly, during the same period the Bank did not comply with financial covenants set out in certain loan agreements. The Bank has concluded that the going concern basis remains appropriate after it has taken necessary steps to be compliant as at the year-end, as described in Note 2.

methodology in accordance with IAS 39 requirements as well as the key assumptions and data inputs, specifically probability of default rates, used in the model. Further, we tested the accuracy and completeness of source data used in the models and the allocation of loans by days in arrear.

We found no material exceptions in these tests.

We reviewed and analysed the contractual arrangements of the put option agreement and subsequent changes to understand the key terms and determine whether the Bank's accounting treatment is appropriate.

We obtained an understanding of the Bank's process for determining fair value measurements and disclosures related to fair value measurements.

With the assistance of our internal financial instrument specialists, we evaluated whether the assumptions and methodologies, used by management to value the instrument, are consistent with those used by market participants in pricing such an agreement. We also assessed whether calibrations are needed to the relevant input data and valuation models to adjust for the lack of an active market, liquidity and other risk factors associated with this financial instrument. We also performed sensitivity analysis to test the effect of changes in discount rates to the corridor of minimum and maximum exposure.

We read and assessed completeness of disclosures made in relation to the put option agreement in the financial statements.

We found no material exceptions in these tests.

We analyzed the ability of the Bank to continue as a going concern, including a number of assumptions on pricing of put option, capital adequacy, associated risks, and covenant compliance.

We obtained understanding of management's remediation plan and focused on evaluating and challenging the reasonableness of assumptions, which had material impact on the Bank's ability to continue as a going concern. Further, we checked documentation, including meeting minutes and emission prospectus, supporting the actions already performed under the remediation plan.

We reviewed key loan agreements, past and forecast loan covenant calculations, correspondence with CBU and loan arrangers with regards to the risk of non-compliance with regulatory capital requirements and financial covenant ratios.

We obtained calculations of forecast regulatory ratios. Further, we checked the integrity of the financial projection models, reasonableness of inputs and performed sensitivity calculations to test the adequacy of the available headroom.

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We consider the level of risk in relation to going concern and compliance with restrictive financial covenants set in certain credit facility agreements increased due to non-compliance with regulatory requirements on capital adequacy.

We checked appropriateness and completeness of the disclosures made in the financial statements in respect of going concern.

We were satisfied with the conclusions reached by the Bank and the adequacy of disclosures provided in the financial statements in relation to the going concern assessment.

## **Other Information - Annual Report**

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' 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 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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 financial statements of the current period and are therefore the key audit matters.



"Deloitte & Touche" Audit Organisation LLC

Erkin Ayupov  
Qualified Auditor/Engagement Partner

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

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

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

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

30 April 2018  
Tashkent, Uzbekistan

"Deloitte & Touche" Audit Organisation LLC

## Joint Stock Innovation Commercial Bank “Ipak Yuli”

Statement of Financial Position  
as at 31 December 2017  
(in thousands of Uzbek Soums)

	Notes	31 December 2017	31 December 2016
<b>ASSETS:</b>			
Cash and cash equivalents	6	1,002,690,700	629,492,999
Due from banks	7	189,803,132	284,182,971
Loans to customers	8	1,931,071,560	1,268,015,661
Investments available-for-sale	9	3,786,174	4,117,410
Current income tax prepayments		5,808,049	4,551,162
Intangible assets	10	1,346,623	1,150,103
Property and equipment	10	85,293,196	78,606,696
Deferred income tax assets	25	-	2,455,873
Other financial assets	11	2,110,222	3,932,817
Other non-financial assets	12	22,821,113	9,091,130
<b>TOTAL ASSETS</b>		<b>3,244,730,769</b>	<b>2,285,596,822</b>
<b>LIABILITIES:</b>			
Due to banks	13	100,896,480	76,411,649
Customer accounts	14	1,766,078,238	1,593,336,182
Debt securities issued	15	17,228,395	17,348,846
Other borrowed funds	16	924,630,804	347,354,069
Financial liability - written put option	17	86,704,214	31,209,443
Deferred income tax liability	25	684,864	-
Other financial liabilities	18	5,743,261	7,006,247
Other non-financial liabilities	18	5,674,233	3,897,230
<b>TOTAL LIABILITIES</b>		<b>2,907,640,489</b>	<b>2,076,563,666</b>
<b>EQUITY:</b>			
Share capital	19	161,873,409	112,653,409
Share premium	19	2,319,500	1,459,500
Retained earnings		172,897,371	94,920,247
<b>TOTAL EQUITY</b>		<b>337,090,280</b>	<b>209,033,156</b>
<b>TOTAL LIABILITIES AND EQUITY ^</b>		<b>3,244,730,769</b>	<b>2,285,596,822</b>

On behalf of the Management Board

Saidabror Saydakhmedov  
Chairman of the Management Board

30 April 2018  
Tashkent, Uzbekistan



J Rustagt Sfaufotte  
Chief Accountant

30 April 2018  
Tashkent, Uzbekistan

## Joint Stock Innovation Commercial Bank "Ipak Yuli"

Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 31 December 2017  
(in thousands of Uzbek Soums)

	Notes	2017	2016
<b>Continuing operations</b>			
Interest income	20	249,157,234	179,664,058
Interest expense	20	(72,143,875)	(45,591,577)
Net interest income before impairment losses on interest bearing assets		177,013,359	134,072,481
Impairment losses on interest bearing assets	8	(2,186,317)	(10,591,515)
<b>Net interest income</b>		<b>174,827,042</b>	<b>123,480,966</b>
Fee and commission income	21	139,853,153	102,913,948
Fee and commission expense	21	(32,290,835)	(24,311,089)
Net gain on foreign exchange operations		72,160,366	5,554,462
Gain from trading foreign currencies		4,245,897	1,552,626
Written put option finance cost		(55,494,771)	(14,172,146)
Recovery of / (provision for) impairment of other assets (Provision for) / recovery of credit related commitments	11,12	254,567 (589,893)	(248,131) 527,415
Recovery of impairment of investments available-for-sale	9	40,013	33,065
Other income	22	18,266,467	10,304,050
Administrative and other operating expenses	23	(188,245,756)	(137,677,336)
Dividend income	24	1,455,601	1,372,228
<b>Profit before income tax</b>		<b>134,481,851</b>	<b>69,330,058</b>
Income tax expense	25	(28,784,727)	(14,880,435)
<b>Profit for the year from continuing operations</b>		<b>105,697,124</b>	<b>54,449,623</b>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations, net of tax			5,684,951
<b>Net profit for the year</b>		<b>105,697,124</b>	<b>60,134,574</b>
Other comprehensive income			
<b>Total comprehensive income for the year</b>		<b>105,697,124</b>	<b>60,134,574</b>
<b>Earnings per share</b>			
	27		
From continuing and discontinued operations			
Basic and diluted earnings per preference share (expressed in UZS per share)		8.32	5.42
Basic and diluted earnings per ordinary share (expressed in UZS per share)		8.32	5.42
From continuing operations			
Basic and diluted earnings per preference share (expressed in UZS per share)		8.32	4.91
Basic and diluted earnings per ordinary share (expressed in UZS per share)		8.32	4.91

On behalf of the Management Board:

Saidabrор Saydakhmedov  
Chairman of the Management Board

30 April 2018  
Tashkent, Uzbekistan



Rustam Chulpanov  
Chief Accountant

30 April 2018  
Tashkent, Uzbekistan

## Joint Stock Innovation Commercial Bank “Ipak Yuli”

Statement of Changes in Equity  
for the Year Ended 31 December 2017  
(in thousands of Uzbek Soums)

	Notes	Share capital	Share premium	Retained earnings	Total equity
<b>As at 1 January 2016</b>		<b>94,173,409</b>	<b>1,459,500</b>	<b>53,265,673</b>	<b>148,898,582</b>
Net profit for the year		-	-	60,134,574	60,134,574
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for 2016</b>				<b>60,134,574</b>	<b>60,134,574</b>
Share issue:					
- ordinary shares - dividends capitalised	19	18,478,800	-	-	18,478,800
- preference shares - dividends capitalised	19	1,200	-	-	1,200
Dividends declared - ordinary shares	26	-	-	(18,478,800)	(18,478,800)
Dividends declared - preference shares	26	-	-	(1,200)	(1,200)
<b>31 December 2016</b>		<b>112,653,409</b>	<b>1,459,500</b>	<b>94,920,247</b>	<b>209,033,156</b>
Net profit for the year		-	-	105,697,124	105,697,124
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for 2017</b>				<b>105,697,124</b>	<b>105,697,124</b>
Share issue:					
- ordinary shares - dividends capitalised	19	27,718,200	-	-	27,718,200
- preference shares - dividends capitalised	19	1,800	-	-	1,800
Dividends declared - ordinary shares	26	-	-	(27,718,200)	(27,718,200)
Dividends declared - preference shares	26	-	-	(1,800)	(1,800)
Share issue:					
- ordinary shares	19	21,500,000	860,000	-	22,360,000
<b>31 December 2017</b>		<b>161,873,409</b>	<b>2,319,500</b>	<b>172,897,371</b>	<b>337,090,280</b>

On behalf of the Management Board

Saidabror Saydakhmedov  
Chairman of the Management Board

30 April 2018  
Tashkent, Uzbekistan

Rustam Chulpanov  
Chief Accountant

30 April 2018  
Tashkent, Uzbekistan

## Joint Stock Innovation Commercial Bank “Ipak Yuli”

### Statement of Cash Flows for the Year Ended 31 December 2017 *(in thousands of Uzbek Soums)*

	Notes	2017	2016
<b>Cash flows from operating activities</b>			
Interest received		236,802,675	173,174,067
Interest paid		(65,429,737)	(40,252,467)
Fee and commission received		141,786,407	102,384,979
Fee and commission paid		(32,324,508)	(25,801,782)
Income received from trading in foreign currencies		4,245,897	1,486,593
Other income received		18,405,636	11,431,429
Staff costs paid		(115,695,167)	(86,308,232)
Administrative and other operating expenses paid		(64,791,770)	(40,489,185)
Income tax paid		(27,244,650)	(17,267,661)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>95,754,783</b>	<b>78,357,741</b>
<i>Net (increase) /decrease in:</i>			
- due from banks		270,350,845	(10,780,848)
- loans to customers		(166,653,028)	(270,587,952)
- other financial assets		24,898	136,161
- other non-financial assets		(136,425)	92,545
<i>Net increase/(decrease) in:</i>			
- due to other banks		(151,948,231)	31,084,734
- customer accounts		(303,460,097)	298,286,434
- debt securities in issue		(200,000)	(7,037,066)
- other financial liabilities		(8,117)	3,486
- other non-financial liabilities		528,009	(212,491)
<b>Net cash (used in) / provided from operating activities</b>		<b>(255,747,363)</b>	<b>119,342,744</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investment securities available for sale		9 504,000	135,000
Acquisition of premises, equipment and intangible assets		(23,471,582)	(24,752,879)
Proceeds from disposal of premises and equipment		23,701	349,555
Dividend income received		1,341,101	1,140,373
<b>Net cash used in investing activities</b>		<b>(21,602,780)</b>	<b>(23,127,951)</b>

## Joint Stock Innovation Commercial Bank “Ipak Yuli”

Statement of Cash Flows (continued)  
for the Year Ended 31 December 2017  
*(in thousands of Uzbek Soums)*

	Notes	2017	2016
<b>Cash flows from financing activities</b>			
Proceeds from other borrowed funds		178,007,339	169,978,223
Repayment of other borrowed funds		(145,217,863)	(86,346,017)
Issuance of ordinary shares	19	22,360,000	
Dividends paid	26	(3,305)	(10,131)
<b>Net cash from financing activities</b>		<b>55,146,171</b>	<b>83,622,075</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>595,401,673</b>	<b>4,073,462</b>
<b>Net increase in cash and cash equivalents</b>		<b>373,197,701</b>	<b>183,910,330</b>
Cash and cash equivalents at the beginning of the year	6	629,492,999	445,582,669
<b>Cash and cash equivalents at the end of the year</b>	<b>6</b>	<b>1,002,690,700</b>	<b>629,492,999</b>
<b>Non-cash transactions</b>			
		<b>31 December 2017</b>	<b>31 December 2016</b>
Net change in fair value of financial liability - written put option		55,494,771	14,172,146
Capitalization of dividends		27,720,000	18,480,000
Sale of subsidiary on deferred terms			11,900,000

On behalf of the Management Board:

Saidalbor Saydakhmedov  
Chairman of the Management Board

30 April 2018  
Tashkent, Uzbekistan



Rustam Chulpanov  
Chief Accountant

30 April 2018  
Tashkent, Uzbekistan