

2022



JOINT STOCK COMMERCIAL  
MORTGAGE BANK

"IPOTEKA-BANK"  
AND ITS SUBSIDIARIES

Consolidated Financial Statements  
and Independent Auditors' Report  
For the Year Ended  
31 December 2022

## **Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**

### **STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of JSCMB “Ipoteka Bank” (“the Bank”) and its subsidiaries (collectively – “the Group”) as at 31 December 2022 and the related consolidated financial performance and consolidated cash flows for the year then ended, in accordance with IFRS Standards as issued by the International Accounting Standards Board (“IFRS Standards”).

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

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS Standards;
- 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 Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2022 were approved by the Management Board on 23 June 2023.

On behalf of the Management Board:

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Elyor Inomjonov  
Chairman of the Board

23 June 2023  
Tashkent, Uzbekistan



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Elyor Normetov  
Chief Accountant

23 June 2023  
Tashkent, Uzbekistan



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# Independent Auditors' Report

## To the Shareholders and Supervisory Board of Joint Stock Commercial Mortgage Bank “Ipoteka Bank”

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Joint Stock Commercial Mortgage Bank «Ipoteka Bank» (the “Bank”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

#### 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 “*Auditors' Responsibilities for the Audit of the Financial Statements*” section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Uzbekistan and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**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.

**Expected credit losses ("ECL") on loans and advances to customers**

See Notes 4, 6 and 9 to the consolidated financial statements.

<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Loans to customers represent 74% of assets and are stated net of ECL, which is estimated on a regular basis and is sensitive to assumptions used.</p> <p>The Group uses ECL model which requires management to apply professional judgement and to make assumptions related to the following key areas:</p>	<p>We analyzed the key aspects of the Group's methodology and policies related to ECL estimation for compliance with the requirements of IFRS 9, including involvement of our financial risk management specialists.</p> <p>To analyze the adequacy of the professional judgment used by management and the assumptions made in relation to ECL allowance, we performed the following audit procedures:</p>
<ul style="list-style-type: none"> <li>- Timely identification of significant increase in credit risk and default events related to loans to customers (allocation to Stages 1, 2 and 3 in accordance with IFRS 9);</li> </ul>	<ul style="list-style-type: none"> <li>- For loans to small and medium-sized entities and loans to individuals we assessed the design and tested the operating effectiveness of internal controls for timely classification of loans to Stages of credit risk;</li> <li>- For the sample of corporate loans, the potential change in ECL for which may have a significant impact on the consolidated financial statements, we tested whether stages are correctly assigned by the Group by analyzing financial and non-financial information on selected borrowers, as well as assumptions and professional judgment applied by the Group.</li> </ul>
<ul style="list-style-type: none"> <li>- Estimation of probability of default (PD) and loss given default (LGD);</li> <li>- Expected cash flows forecast on loans to customers classified to Stage 3.</li> </ul>	<ul style="list-style-type: none"> <li>- For all loans to customers classified to Stages 1 and 2 and for loans to customers classified in Stage 3, for which the Group assessed ECL on a collective basis, we tested the principles of appropriate models and checked the correctness of the input data used in the calculation of PD, LGD and EAD, the timely recognition of delinquencies and repayments in the respective systems, by comparing with primary documents on a sample basis.</li> </ul>
<p>Due to the significant volume of loans to customers and the related subjectivity inherent in estimating the amount of the ECL allowance, this area is a key audit matter.</p>	<ul style="list-style-type: none"> <li>- For corporate loans classified to Stage 3, where ECL allowances assessed on an individual basis, we critically assessed assumptions used by the Group in estimating future cash flows, including estimated proceeds from realizable collaterals and their expected disposal terms, based on our</li> </ul>



	<p>understanding and publicly available market information. We focused on loans to customers, the change in ECL for which may potentially have the most significant impact on the consolidated financial statements.</p> <p>We assessed the overall predictive capability of the models used by the Group to calculate ECL by comparing the estimate made as at 1 January 2022 with the actual results for 2022 and assessed whether the disclosures in the consolidated financial statements appropriately reflect the Group’s exposure to credit risk.</p>
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***Fair value of borrowings from government, state and international institutions and loans issued under government programs***

See Note 4 and Note 19 to the consolidated financial statements.

<b><i>The key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>The Group receives significant part of the targeted financing of its operations from state financial institutions under state programs, which as at 31 December 2022 comprised 50% of total liabilities. Many loans were obtained by the Group on terms that differ significantly from other borrowings. These loans were initially recognized at fair value.</p> <p>The Group uses these borrowings to finance issuance of loans under government programs, which comprised 34% of total assets as at 31 December 2022. Contractual terms of such loans also differ significantly from other loans issued and they are initially recognized at fair value.</p> <p>Due to the significant amount of loans received from state financial institutions and loans issued under government programs as well as the significant judgment applied in estimating the fair value of these financial assets and financial liabilities, this issue is a key audit matter.</p>	<p>We have analyzed the resolutions of the government authorities of the Republic of Uzbekistan regarding the financing and development programs of sectors of the economy, under which the Group attracts financing from state financial institutions and issues loans.</p> <p>In order to analyze the adequacy of management’s judgment and assumptions applied in determining fair value of the financing raised and loans issued, we considered all conditions of government financing programs and the relationship between attracted borrowings and issued loans which terms differ significantly from similar instruments in the Group’s portfolio.</p> <p>We have also assessed whether the disclosures in the consolidated financial statements adequately describe the key judgments and key assumptions made by the Group with respect to the determination of the fair value of financial assets and financial liabilities.</p>





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

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

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

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

### **Auditors' 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 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 consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 auditors’ 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.

**Report of findings from procedures performed in accordance with the requirements of the Law No. 580, dated 5 November 2019, On Banks and Banking Activity**

Management is responsible for the Group’s compliance with prudential ratios established by the Central bank of the Republic of Uzbekistan and for maintaining internal controls and organizing risk management systems of the Group in accordance with the requirements established by the Central bank of the Republic of Uzbekistan.

In accordance with Article 74 of the Law No. 580, dated 5 November 2019 *On Banks and Banking Activity* (the “Law”), we have performed procedures to check:

- the Group’s compliance with prudential ratios as at 31 December 2022 established by the Central Bank of the Republic of Uzbekistan;
- whether the elements of the Group’s internal control and organization of its risk management systems comply with the requirements established by the Central Bank of the Republic of Uzbekistan.

These procedures were selected based on our judgment and were limited to the analysis, inspection of documents, comparison of the Group’s internal policies, procedures and methodologies with the applicable requirements established by the Central bank of the Republic of Uzbekistan, and recalculations, comparisons and reconciliations of numerical data and other information. Our findings from the procedures performed are reported below:

- Based on our procedures with respect to the Group’s compliance with the prudential ratios established by the Central bank of the Republic of Uzbekistan, we found that the Bank’s prudential ratios as at 31 December 2022 were within the limits established by the Central bank of the Republic of Uzbekistan.

We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group’s consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the IFRS Standards.

- Based on our procedures with respect to whether the elements of the Group’s internal control and organization of its risk management systems comply with the requirements established by the Central bank of the Republic of Uzbekistan, we found that:

- as at 31 December 2022, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Central bank of the Republic of Uzbekistan;
- the frequency of reports prepared by the Bank's internal audit function during 2022 was in compliance with the requirements of the Central bank of the Republic of Uzbekistan. The reports were approved by the Bank's Supervisory Board and included observations made by the Bank's internal audit function in respect of the Bank's internal control systems;
- as at 31 December 2022 the Bank established Information security function as required by the Central bank of the Republic of Uzbekistan, and the information security policy was approved by the Bank's Management board. Information security function was subordinated to and reported directly to the Chairman of the Management board;
- Reports by the Bank's Information security function to the Chairman of the Management board during 2022 included assessment and analysis of information security risks, and results of actions to manage such risks;
- the Bank's internal documentation, effective on 31 December 2022, establishing the procedures and methodologies for identifying and managing the Group's significant risks and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Central bank of the Republic of Uzbekistan;
- as at 31 December 2022, the Bank maintained a system for reporting on the Group's significant risks and on the Group's capital;
- the frequency of reports prepared by the Bank's risk management and internal audit functions during 2022, which cover the Group's risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the Group's significant risks, and recommendations for improvement;
- as at 31 December 2022, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2022, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions and considered the proposed corrective actions.


Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Law and as described above, comply with the requirements established by the Central bank of the Republic of Uzbekistan.

The engagement partners on the audit resulting in this independent auditors' report are:

Saidov S. K.  
Engagement Director  
General Director  
AO «KPMG Audit» LLC  
Qualification certificate of bank auditor #16/3  
issued 1 February 2020 by the Central Bank  
of the Republic of Uzbekistan  
Tashkent, Uzbekistan



Kouznetsov A. A.  
Project Partner  
AO «KPMG Audit» LLC



23 June 2023