

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

**Financial Statements and
Independent Auditors' Report
For the Year Ended 31 December 2018**

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 2018

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 2018, 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 2018 were approved by management on 4 June 2019.

On behalf of the Management Board:

Saidabrор Sayidakhmedov
Chairman of the Management Board

4 June 2019
Tashkent, Uzbekistan



Rustam Chuippanov
Chief Accountant

4 June 2019
Tashkent, Uzbekistan

A handwritten signature in blue ink, belonging to Rustam Chuippanov, is written over a horizontal line. The signature is fluid and cursive.

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 2018, 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 2018, 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	How the matter was addressed in the audit
<p><i>Assessment and measurement of expected credit losses on loans to customers</i></p> <p>As at 31 December 2018, loans to customers amounted to UZS 2,512,584,810 thousand, net of expected credit losses of UZS 51,658,931 thousand.</p> <p>For loans assessed on a collective basis, the impairment models incorporate assumptions on probabilities of default (PD), loss given default (LGD), exposure at default (EAD) and estimation of recoveries, which are inherently judgmental. The complex ECL models may be misstated due to errors in the underlying data – incomplete or inaccurate loan information (maturity dates, outstanding balances and etc.), incorrect assessment of PD, LGD, EAD data and inconsistencies of internally developed forward-looking information with market based information.</p> <p>For significant credit-impaired loans to customers (stage 3), the ECL are assessed on an individual</p>	<p>We obtained an understanding of the management's process relating to assessment and measurement of expected credit losses on loans to customers.</p> <p>For collectively assessed loans, we analysed the impairment methodology for its compliance with IFRS 9 requirements. We challenged the key assumptions for probability of default and loss given default rates with the reference to the historical information and market forecasts. Further, we analysed integrity of the models and tested accuracy and completeness of input data used in the models by selecting a sample of loans and tracing to source documentation.</p> <p>For a sample of collectively assessed loans we ascertained whether the significant increase in credit risk had been identified in a timely manner and appropriately reflected in the calculation of the PD.</p>

basis. Significant judgement is involved in identifying the loan as defaulted, in estimation of the expected future cash flows pertaining to that loan under different scenarios (potential loan restructuring or sale of collateral). ECL for loans to customers that are not classified as credit impaired (stages 1 and 2) are determined using collective impairment models with key parameters including PD and LGD.

Because loans to customers form a major portion of the Bank's assets, and due to the significance of the judgments and subjectivity of assumptions used in classifying loans to customers into various stages stipulated in IFRS 9 and assessing the related expected losses, this area was determined as a key audit matter.

Refer to Notes 2, 3 and 29 to the financial statements.

For individually assessed loans we analysed the appropriateness of loans' staging by selecting a sample from these loans and testing whether conditions, including existence of overdue days, cross-default, restructuring and other factors for classification into respective stages were met.

Further, we selected a sample of loans in stage 3 and tested the Bank's estimations of cash flows available for debt servicing from business activities of the borrower and from the realization of collateral. As part of these procedures, we challenged the assumptions used for the estimation of collateral value performed by external valuation experts and compared estimates to the external evidence in respect of commercial real estate prices and other market information.

We evaluated the adequacy and completeness of disclosures in the financial statements relating to the loans to customers in accordance with IFRS requirements.

We found no material exceptions in these tests.

Fair value measurement of written put option

As discussed in Note 17 and Note 32, on 7 December 2012, the Bank entered into a put option arrangement with the Asian Development Bank, as amended on 10 July 2017.

The agreement is complex in nature, and the estimation of the fair value of the put option liability requires significant judgements and involves estimation uncertainty.

There is a risk that the initial computation of the put option liabilities and the subsequent valuation could be materially misstated because of the complexity of calculations and assumptions about future conditions, such as the likelihood of achievement of future earnings targets or the determination of the appropriate discount rate.

Due to the significance of the put option's balance to the Bank's statement of financial position, the complexity of valuation techniques and sensitivity to changes in the key assumptions, we identified this matter as key to our audit.

We obtained an understanding of the Bank's process related to the assessment of the written put option's fair value and preparation of disclosures in the financial statements.

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

With the assistance of our internal valuation specialists, we analysed the methodology applied by management to value the instrument for its consistency with market participants' generally accepted practices used in pricing such arrangements.

We challenged the key assumptions, including credit ratings and country risk premiums used in the model and assessed whether calibrations are needed to the input data or the valuation model to adjust for the lack of an active market, liquidity and other risk factors associated with this financial instrument.

We checked the calculations for mathematical accuracy.

We also performed sensitivity analysis to test the effect of changes in discount rates to the corridor of minimum and maximum exposure.

We assessed the adequacy and completeness of disclosures in respect of the put option agreement in the financial statements.

We found no material exceptions in these tests.

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:

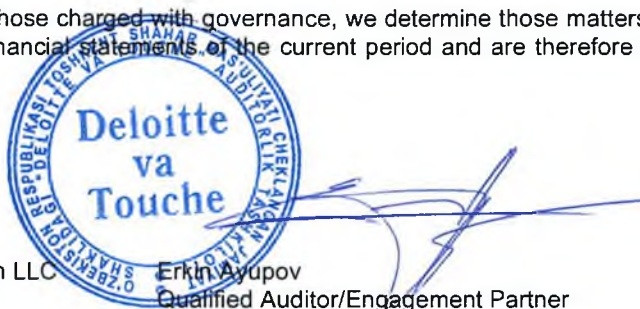
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.
- 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.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 #00776 dated 5 April 2019

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

4 June 2019
Tashkent, Uzbekistan

"Deloitte & Touche" Audit Organisation LLC

Joint Stock Innovation Commercial Bank "Ipak Yuli"

Statement of Financial Position as at 31 December 2018 (in thousands of Uzbek Soums)

	Notes	31 December 2018	31 December 2017
ASSETS:			
Cash and cash equivalents	6	991,619,820	1,002,690,700
Due from banks	7	201,270,336	189,803,132
Loans to customers	8	2,512,584,810	1,931,071,560
Investment securities available-for-sale	9	n/a	3,786,174
Financial assets at fair value through other comprehensive income	9	46,770,855	n/a
Current income tax prepayment		7,101,966	5,808,049
Intangible assets	10	17,509,789	1,346,623
Property and equipment	10	154,851,549	85,293,196
Other financial assets	11	1,051,981	2,110,222
Other non-financial assets	12	22,137,273	22,821,113
TOTAL ASSETS		3,954,898,379	3,244,730,769
LIABILITIES:			
Due to banks	13	110,456,960	100,896,480
Customer accounts	14	1,860,990,093	1,766,078,238
Debt securities in issue	15	4,043,105	17,228,395
Other borrowed funds	16	1,332,671,115	924,630,804
Financial liability - written put option	17	105,773,391	86,704,214
Deferred income tax liability	26	9,687,885	684,864
Other financial liabilities	18	14,307,817	5,743,261
Other non-financial liabilities	18	14,932,193	5,674,233
TOTAL LIABILITIES		3,452,862,559	2,907,640,489
EQUITY:			
Share capital	19	282,773,409	161,873,409
Share premium	19	2,659,500	2,319,500
Retained earnings		202,481,782	172,897,371
Revaluation reserve of financial assets measured at FVTOCI		14,121,129	-
TOTAL EQUITY		502,035,820	337,090,280
TOTAL LIABILITIES AND EQUITY		3,954,898,379	3,244,730,769

On behalf of the Management Board

Saidabrор Saydakhmedov
Chairman of the Management Board

4 June 2019
Tashkent, Uzbekistan



Rustam Chulpanov
Chief Accountant

4 June 2019
Tashkent, Uzbekistan

Joint Stock Innovation Commercial Bank "Ipak Yuli"

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018 (in thousands of Uzbek Soums)

	Notes	2018	2017
Interest income	21	366,785,143	249,157,234
Interest expense	21	(109,119,717)	(72,143,875)
Net interest income before impairment losses on interest bearing assets		257,665,426	177,013,359
Provision for expected credit losses		(4,099,729)	n/a
Provision for incurred credit losses	8	n/a	(2,186,317)
Net interest income		253,565,697	174,827,042
Fee and commission income	22	159,810,677	139,853,153
Fee and commission expense	22	(41,951,787)	(32,290,835)
Net gain on foreign exchange translation		14,495,108	72,160,366
Gains from trading foreign currencies		28,878,893	4,245,897
Provision for impairment of other assets	11, 12	(4,786,304)	(2,345,433)
Provision for credit related commitments		(2,845,788)	(589,893)
Written put option fair value adjustment		(19,069,177)	(55,494,771)
(Provision for) / recovery of impairment of investment securities available-for-sale		-	40,013
Other income	23	11,834,452	18,266,467
Administrative and other operating expenses	24	(222,637,522)	(185,645,756)
Dividend income	25	1,884,837	1,455,601
Profit before income tax		179,179,086	134,481,851
Income tax expense	26	(37,684,088)	(28,784,727)
Net profit for the year		141,494,998	105,697,124
Other comprehensive income for the year:			
Items that will not be subsequently reclassified to profit or loss:			
Fair value gain on financial assets at FVTOCI (equity securities)		5,199,203	-
Income tax effect	26	(790,796)	-
Total other comprehensive income for the year		4,408,407	-
Total comprehensive income for the year		145,903,405	105,697,124
Earnings per share			
Basic and diluted earnings per preference share (expressed in UZS per share)	28	6.83	8.32
Basic and diluted earnings per ordinary share (expressed in UZS per share)	28	6.83	8.32

On behalf of the Management Board:

Saidabrор Saydalimov
Chairman of the Management Board

4 June 2019
Tashkent, Uzbekistan



Rustam Chulpanov
Chief Accountant

4 June 2019
Tashkent, Uzbekistan

Joint Stock Innovation Commercial Bank "Ipak Yuli"

Statement of Changes in Equity for the year ended 31 December 2018 (in thousands of Uzbek Soums)

	Notes	Share capital	Share premium	Retained earnings	Revaluation reserve of financial assets measured at FVTOCI	Total equity
As at 1 January 2017		112,653,409	1,459,500	94,920,247	-	209,033,156
Net profit for the year		-	-	105,697,124	-	105,697,124
Other comprehensive income		-	-	-	-	-
Total comprehensive income for 2017		-	-	105,697,124	-	105,697,124
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	27	-	-	(27,718,200)	-	(27,718,200)
Dividends declared - preference shares	27	-	-	(1,800)	-	(1,800)
Share issue:						
- ordinary shares	19	21,500,000	860,000	-	-	22,360,000
As at 31 December 2017		161,873,409	2,319,500	172,897,371	-	337,090,280
Effect of IFRS 9 adoption on 1 January 2018		-	-	12,978,302	9,712,722	22,691,024
As at 1 January 2018 (restated under IFRS 9)		161,873,409	2,319,500	185,875,673	9,712,722	359,781,304
Net profit for the year		-	-	141,494,998	-	141,494,998
Other comprehensive income		-	-	-	4,408,407	4,408,407
Total comprehensive income for 2018		-	-	141,494,998	4,408,407	145,903,405
Shares issue:						
- ordinary shares - dividends capitalised	19	112,394,000	-	-	-	112,394,000
- preference shares - dividends capitalised	19	6,000	-	-	-	6,000
Dividends declared - ordinary shares	27	-	-	(124,882,222)	-	(124,882,222)
Dividends declared - preference shares	27	-	-	(6,667)	-	(6,667)
Share issue:						
- ordinary shares	19	8,500,000	340,000	-	-	8,840,000
As at 31 December 2018		282,773,409	2,659,500	202,481,782	14,121,129	502,035,820

On behalf of the Management Board

Saidabrur Saydakhmedov
Chairman of the Management Board

4 June 2019
Tashkent, Uzbekistan

Rustam Chulpanov
Chief Accountant

4 June 2019
Tashkent, Uzbekistan

Joint Stock Innovation Commercial Bank “Ipak Yuli”

Statement of Cash Flows for the Year Ended 31 December 2018 (in thousands of Uzbek Soums)

	Notes	2018	2017
Cash flows from operating activities			
Interest received		361,164,863	236,802,675
Interest paid		(69,176,758)	(65,429,737)
Fee and commission received		161,381,939	141,786,407
Fee and commission paid		(38,752,446)	(32,324,508)
Income received from trading in foreign currencies		28,878,893	4,245,897
Other income received		10,472,789	18,405,636
Staff costs paid		(140,983,414)	(115,695,167)
Administrative and other operating expenses paid		(66,678,957)	(64,791,770)
Income tax paid		(37,588,690)	(27,244,650)
Cash flows from operating activities before changes in operating assets and liabilities		208,718,219	95,754,783
<i>Net (increase) / decrease in:</i>			
- due from banks		(9,811,313)	270,350,845
- loans to customers		(517,529,575)	(166,653,028)
- other financial assets		194,555	24,898
- other non-financial assets		(5,428,018)	(136,425)
<i>Net increase/(decrease) in:</i>			
- due to banks		5,926,584	(151,948,231)
- customer accounts		81,971,005	(303,460,097)
- debt securities in issue		(12,914,000)	(200,000)
- other financial liabilities		40,673	(8,117)
- other non-financial liabilities		7,219,612	528,009
Net cash (used in) / provided from operating activities		(241,612,258)	(255,747,363)
Cash flows from investing activities			
Acquisition of Financial assets at fair value through other comprehensive income		(25,873,846)	-
Proceeds from disposal of investment securities available for sale		793,904	504,000
Acquisition of property, equipment and intangible assets		(96,923,330)	(23,471,582)
Proceeds from disposal of premises and equipment		1,604,336	23,701
Dividend income received		1,884,837	1,341,101
Net cash used in investing activities		(118,514,099)	(21,602,780)

Joint Stock Innovation Commercial Bank "Ipak Yuli"

Statement of Cash Flows (continued) for the Year Ended 31 December 2018 (in thousands of Uzbek Soums)

	Notes	2018	2017
Cash flows from financing activities			
Proceeds from other borrowed funds		568,576,557	178,007,339
Repayment of other borrowed funds		(219,119,743)	(145,217,863)
Issuance of ordinary shares	19	8,840,000	22,360,000
Dividends paid	27	(12,488,755)	(3,305)
Net cash from financing activities		345,808,059	55,146,171
Effect of exchange rate changes on cash and cash equivalents		3,293,039	595,401,673
Effect of expected credit losses		(45,621)	-
Net (decrease) / increase in cash and cash equivalents		(11,070,880)	373,197,701
Cash and cash equivalents at the beginning of the year	6	1,002,690,700	629,492,999
Cash and cash equivalents at the end of the year	6	991,619,820	1,002,690,700
Non-cash transactions		2018	2017
Net change in fair value of financial liability - written put option		19,069,177	55,494,771
Capitalization of dividends		112,400,000	27,720,000

On behalf of the Management Board:

Saidabrор Saydakhmedov
Chairman of the Management Board

4 June 2019
Tashkent, Uzbekistan



Rustam Chulpanov
Chief Accountant

4 June 2019
Tashkent, Uzbekistan