

Bank "Microcreditbank"
Consolidated financial statements for the year ended December 31, 2017

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**JOINT-STOCK COMMERCIAL BANK
"MICROCREDITBANK"**

Consolidated financial statements for the year,
ended on December 31, 2017 and
Independent Auditors' Report



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Independent Auditors' Report

To Shareholders and Management of JSCB "Microcreditbank"

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Joint-Stock Commercial Bank "Microcreditbank" (the "Bank") and its subsidiary (the "Group") as at December 31, 2017 and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibility for the audit of the consolidated financial statements section of our report. We are independent of the Group within in meaning of accordance with the Code of Ethics for Professional Accountants of the Council on International Standards of Ethics for Accountants (the Code of the CISEA) and the ethical requirements applicable to our audit of the consolidated financial statements in the Republic of Uzbekistan and have fulfilled other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





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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. Key audit matters are selected from the matters communicated with the Board, but are not intended to respend all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

The key matters of the audit	What audit procedures were performed on the key audit matters
<p><i>Reserve for impairment of loans and advances</i></p> <p>We paid special attention to this issue due to the materiality of loans and advances to customers, as well as the fact that the calculation of the appropriate provision for impairment involves the use of significant judgments and estimates.</p> <p>The provision represents management's best estimate of losses incurred on loans and advances to customers at the balance sheet date.</p> <p>Separate reserves are calculated on an individual basis for significant loans and advances. To calculate such reserves, a judgment is required to determine when an impairment event occurred and then to estimate the expected future cash flows associated with the related loan.</p> <p>For all other loans and advances of a similar nature, collective reserves are created on a portfolio basis. Such reserves are calculated using statistical models to assess the impact of credit conditions on the loan portfolio. The constructed and input data of these models depend on the judgment of management.</p> <p>Note 3, "Presentation principles", Note 4 "Important estimates and professional judgment" and in Note 8 "Loans to customers" included in the consolidated financial statements provide detailed information about the provision for impairment of loans and advances to customers.</p>	<p>We evaluated the main methodologies and the corresponding models used to calculate the reserve for compliance with IFRS.</p> <p>We performed the assessment and testing (on a selective basis) of the construction and operational effectiveness of controls for these impairment, the timely identification of impaired amounts, and the calculation of the reserve.</p> <p>We tested loans (on a selective basis) with loans and advances that were not identified by management as potentially impaired, and formed their own judgment as to whether this was done properly.</p> <p>We tested (on a selective basis) for which an individual reserve was calculated. We checked whether an impairment event was identified in a timely manner, calculated the discounted cash flows, checked the sources of future cash flows used by management, critically assessed the assumptions, and compared the estimated estimates with external evidence, if possible.</p> <p>We tested (on a selective basis) the operation of collective backup models, as well as the data and assumptions used in them. Our work included comparing the main assumptions based on our knowledge and other practices and actual experience, as well as testing models through their recalculation and various analytical procedures.</p>



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The key matters of the audit	What audit procedures were performed on the key audit matters
<p><i>Exchange rate difference on transactions in foreign currency</i></p> <p>We paid special attention to this issue in connection with the implementation of the currency reform. According to the Decree of the President of the Republic of Uzbekistan No.UP-5177 of 2 September 2017 "On Priority Measures for the Liberalization of Monetary Policy", the economy of the country basically devalued the national currency against foreign currencies. 1 US dollar was 8 100 Uzbek soms. Measures have been taken to freely convert the national currency to foreign currencies, and restrictive measures for the use of foreign currency have been simplified.</p> <p>In Note 18 "Net gains less losses from dealing in foreign currencies", in the consolidated financial statements.</p>	<p>We divided the Group's liabilities and assets by currency.</p> <p>We tested (on a selective basis) the accrual of income and expenses set in foreign currency and the application of the exchange rate at the time of reflection as to whether this was done properly.</p> <p>Income and expenses are reflected in Uzbek soms at the time of accrual.</p> <p>Before the adoption of the devaluation, 1 US dollar was 4,210.35 Uzbek soms.</p> <p>The difference from the change in the exchange rates had a significant effect on the financial result.</p>

Other information

The audit of the Group's consolidated financial statements for the year ended December 31, 2016 was carried out by another auditor who expressed an unmodified opinion on this reporting dated April 5, 2017.

Responsibility of management and persons responsible for corporate governance for consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS and for the internal control system that management considers necessary to prepare 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 ability of the Group to continue to operate continuously, for disclosure, as appropriate, of information relating to business continuity and for reporting based on the assumption of continuing operations, unless management intends to liquidate the Group, to stop its activities or, when it does not have a real alternative to such actions.

Management and persons responsible for corporate governance are responsible for overseeing the preparation of the Group's financial statements.



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Auditor's responsibility for the audit of consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing, we apply professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:

- identify and assess the risks of material misstatement of financial statements due to fraud or error; We elaborate and conduct audit procedures in response to these risks; we obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting a significant distortion as a result of unfair acts is higher than the risk of not detecting a significant distortion as a result of an error, since unfair acts may include collusion, fraud, intentional omission, misrepresentation or circumvention of the internal control system;
- obtain an understanding of the internal control system relevant to the audit in order to elaborate audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system;
- We judge the appropriate nature of the accounting policies applied and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by management;
- We conclude that the management has accepted the assumption of continuity of business and, on the basis of the audit evidence obtained, the conclusion is whether there is significant uncertainty about events or conditions that could give rise to significant doubts about the Group's ability to continue to operate continuously. If we conclude that there is significant uncertainty, we must draw attention to our disclosure in the financial statements, or, if such disclosure is inappropriate, modify our opinion. Our conclusions are based on the audit evidence received before the date of our audit report. However, future events or conditions may lead to the Group losing the ability to continue its business;
- We evaluate the presentation of the financial statements as a whole, its structure and content, including disclosure of information, as well as whether the financial statements present the underlying operations and events in a manner that ensures their reliable representation;
- obtain sufficient appropriate audit evidence relating to the financial information of organizations or activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for the management of the audit, supervision and audit of the Group. We remain fully responsible for our audit opinion.

We carry out informational interaction with the Management and the persons responsible for corporate governance, including, among other things, information on the planned scope and timing of the audit, as well as on significant remarks on the audit results, including significant deficiencies in the internal control system that we identify in the audit process.

Consolidated statement of financial position

	Notes	December 31, 2017	December 31, 2016
<i>Assets</i>			
Cash and cash equivalents	6	289 165 916	135 280 251
Amounts due from credit institutions	7	86 674 158	101 658 753
Loans to customers	8	1 197 689 571	1 004 856 501
Investments securities available-for-sale		349 524	2 656 933
Fixed assets and intangible assets	9	228 468 120	56 766 655
Deferred income tax assets	22	239 577	7 665 701
Other assets	10	4 667 096	24 760 320
Total assets		1 807 253 962	1 333 645 114
<i>Liabilities</i>			
Amounts due to credit institutions	11	13 174 649	116 361 807
Amounts due to customer	12	971 354 292	930 186 048
Debt securities issued	13	68 010 616	64 289 819
Other borrowed funds	14	141 682 038	28 007 787
Insurance liabilities		-	2 360 014
Other liabilities	15	10 635 314	4 558 692
Total liabilities		1 204 856 909	1 145 764 167
<i>Equity</i>			
Share capital	16	593 032 833	250 446 510
Retained earnings and funds		9 364 220	(65 318 150)
Total equity attributable to owners of the Bank		602 397 053	185 128 360
Non-controlling interest		-	2 752 587
Total equity		602 397 053	187 880 947
Total liabilities and equity		1 807 253 962	1 333 645 114

Approved and signed on behalf of the Group's management:

 _____ Rasulov Sh.G. Acting Chairman of the Board of the Bank		 _____ Boltaev Sh.A. Chief Accountant of the Bank
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June 01, 2018

The notes on pages 10 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss, other comprehensive income

	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
Interest income	17	169 897 535	161 616 674
Interest expenses	17	(80 322 427)	(72 911 148)
Net interest income		89 575 108	88 705 526
Provision for impairment of assets for which interest is accrued	8	(32 765 559)	(26 950 111)
Net interest income after provision for impairment of assets for which interest is accrued		56 809 549	61 755 415
Fee and commission income	18	57 909 819	62 114 011
Fee and commission expenses	18	(21 693 515)	(19 202 093)
Net gain/(loss) from trading in foreign currencies	19	53 740 473	4 633 222
Loss on disposal of a subsidiary	3	(8 105 400)	-
Provision for impairment of other assets	10	(8 272 088)	(1 264 706)
Other income	20	11 910 776	12 367 764
Other expenses		(363 668)	(480 439)
Non-interest income / (expenses)		85 126 397	58 167 759
Staff costs	21	(121 553 477)	(86 351 854)
Depreciation	9	(9 018 989)	(5 525 036)
Other operating expenses	21	(62 659 160)	(48 062 202)
Non-interest expenses		(193 231 626)	(139 939 092)
Profit / (loss) before income tax expense		(51 295 680)	(20 015 918)
Income tax expense	22	(12 576 450)	(490 803)
Net profit / (loss) for the period		(63 872 130)	(20 506 721)
<i>Other comprehensive income</i>			
Revaluation of buildings		138 297 537	-
Income tax relating to components of comprehensive income		-	-
Other comprehensive income after taxation		138 297 537	-
Total comprehensive income / (loss) for the period		74 425 407	(20 506 721)
<i>Total comprehensive income attributable to:</i>			
To the Shareholders of the Bank		74 425 407	(20 764 128)
Non-controlling interest		-	257 407

Approved and signed on behalf of the Group's management:

Rasulov Sh.G.
Acting Chairman of the Board of the Bank

June 01, 2018

Boltaev Sh.A.
Chief Accountant of the Bank

The notes on pages 10 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Related to the Bank's shareholders			Total capital
	Share capital	Retained earnings and funds / (accumulated deficit)	Total	
Balance at January 1, 2016	225 446 510	(44 554 022)	180 892 488	183 337 668
Total comprehensive income / (loss) for the period	-	(20 506 721)	(20 506 721)	(20 249 314)
Issue of shares	25 000 000	-	25 000 000	25 000 000
Balance at December 31, 2016	250 446 510	(65 060 743)	185 385 767	188 138 354
Total comprehensive income / (loss) for the period	-	74 425 407	74 425 407	74 425 407
Issue of shares	342 586 323	-	342 586 323	342 586 323
Dividend paid	-	(444)	(444)	(444)
Disposal of a subsidiary	-	-	-	(2 752 587)
Balance at December 31, 2017	593 032 833	9 364 220	602 397 053	602 397 053

Approved and signed on behalf of the Group's management

Rasulov Sh.G.
Acting Chairman of the Board of the Bank

June 01, 2018



Boltaev Sh.A.
Chief Accountant of the Bank

Consolidated statement of cash flows

	For the year ended December 31, 2017	For the year ended December 31, 2016
<i>Cash flows from operating activities</i>		
Interest received	162 401 823	161 233 950
Interest paid	(79 767 162)	(72 525 183)
Commission received	60 493 714	61 958 369
Commission paid in foreign currency	(21 693 515)	(19 202 093)
	(49 055 974)	764 588
Insurance premiums received	-	1 924 321
Insurance indemnities paid	-	(1 983 932)
Other operating income received	11 910 776	5 329 053
Paid staff costs	(118 091 539)	(87 582 094)
Paid administrative and other operating expenses	(62 357 964)	(47 458 978)
Paid income tax	(5 150 326)	(2 739 761)
Cash flows from operating activities before changes in operating assets and liabilities	(101 310 167)	(281 760)
<i>Net (increase) / decrease in operating assets</i>		
Amounts due from credit institutions	14 984 595	(26 055 155)
Loans to customers	(192 833 070)	(229 501 957)
Other assets	20 093 224	(4 858 500)
<i>Net increase / (decrease) in operating liabilities</i>		
Amounts due to credit institutions	(103 187 158)	(4 318 423)
Customer accounts	41 168 244	254 739 776
Other liabilities	3 716 608	20 794
Net cash flows from operating activities	(317 367 724)	(10 255 225)
<i>Cash flow from investing activities</i>		
Acquisition of fixed assets and intangible assets	(43 705 672)	(17 172 841)
Revenues from sales of property, plant and equipment and intangible assets	10 318 722	10 110 169
Dividends received	69 286	49 331
Net cash flows from investing activities	(33 317 664)	(7 013 341)
<i>Cash flows from financing activities</i>		
Proceeds from issue of shares	342 586 323	25 000 000
Dividends paid	(444)	(9 663)
Debt securities issued	5 545 000	-
Extinguished debt securities	(2 000 000)	-
Other borrowed funds received	57 053 636	53 020 252
Repayment of other borrowed funds	(1 409 909)	(100 216 812)
Net cash flows from financing activities	401 774 606	(22 206 223)
Effect of exchange rate changes on cash and cash equivalents	102 796 447	14 298 118
Net change in cash and cash equivalents	153 885 665	(25 176 671)
Cash and cash equivalents at the beginning of the reporting period	135 280 251	160 456 922
Cash and cash equivalents at the end of the reporting period	289 165 916	135 280 251

Approved and signed on behalf of the Group's management:

Rasulov Sh.G.
Acting Chairman of the Board of the Bank

June 1, 2018



Boltaev Sh.A.
Chief Accountant of the Bank