



**JOINT STOCK COMMERCIAL BANK
«MICROCREDITBANK»**

**Financial statement for the
year ended 31 December 2018 and
Independent Auditor's Report
(Translated from Russian language)**



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Independent Auditor's Report

To shareholders and the Supervisory Board of JSCB «Microcreditbank»

Opinion

We have audited the financial statements of Joint-Stock Commercial Bank “Microcreditbank” (hereinafter referred to as the “Bank”), which consist of the statement of financial position as at 31 December 2018, and the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ending on the specified date and the notes to the financial statements, including a summary of key 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, as well as its financial results and cash flows for the year ending on that date, in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities in accordance with these standards are described further in the section "Auditor's responsibility for the audit of financial statements" of our opinion. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the schedule in the Code of Ethics of Professional Accountants of the International Ethics Standards Board for Accountants (PAIESB Code) and ethical requirements applicable to our audit of the financial statements in the Republic of Uzbekistan, and we have fulfilled our ethical responsibilities in accordance with these 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 that according to our professional judgment were most significant to our audit of the financial statements for the current period. These matters were considered in the context of our audit of the financial statements as a whole and in forming our opinion on these statements, and we do not express a separate opinion on these matters.

Key audit matter	What audit procedures were performed regarding the key audit matter
<p><i>Provision for impairment of loans and advances to customers, as well as provisions for loan-related obligations</i></p> <p>Due to the materiality of the provision for impairment of loans and advances to customers and credit related liabilities for the financial position of the Bank, as well as due to the complexity and necessity to apply judgments in estimating expected credit losses in accordance with the new IFRS 9 Financial Instruments This issue is one of the key audit questions.</p> <p>It is necessary to apply judgment to determine a significant increase in credit risk from the date of initial recognition, both on an individual and on a portfolio basis, as well as for the calculation of expected credit losses. The assessment of the increase in credit risk is based on the relative change in credit ratings, the duration of overdue debts and other objective and subjective factors. The choice of thresholds at which an increase in credit risk is recognized as significant, such as the magnitude of deterioration in a credit rating, is also subjective.</p> <p>The calculation of expected credit losses includes valuation techniques that use significant unobservable input data and factors, such as internal credit ratings, as well as comprehensive statistical modeling and expert judgment. These methods are used to determine the probability of default based on available historical data and external information.</p> <p>To calculate expected credit losses in respect of significant financial assets that have been individually impacted by a credit impairment, it is required to analyze financial and non-financial information, and extensive use of assumptions. Estimation of future cash flows is based on such material unobservable baseline data as the borrower's current and projected financial indicators, the value of the collateral and an estimate of the likelihood of possible scenarios. The use of other modeling techniques, assumptions and forecasts can lead to significantly different estimates of the provision for expected credit losses.</p> <p>Information on the provision for expected credit losses in respect of loans and advances to customers, as well as credit related commitments presented in Notes 9 and 26 to the financial statements.</p>	<p>In the process of our audit, we paid special attention to the following: assessment of credit risk models and assumptions used to determine key parameters for provisioning and expected credit losses from a portfolio; assessment of management's judgments regarding the identification of a significant increase in credit risk on both of an individual and portfolio basis, using quantitative and qualitative criteria; testing of expected future cash flows, including cash flows from collateral, in terms of significant loans and advances to customers and credit related commitments.</p> <p>Our audit procedures included an assessment of the methodology for calculation of expected credit losses developed by the Bank in accordance with IFRS 9, for estimation of provision for impairment of loans and advances to customers, as well as credit related commitments. We evaluated the rationality of the credit risk factors and the thresholds chosen by management to determine a significant increase in credit risk on both of an individual and portfolio basis. We assessed the sequence of application of the criteria selected by management at the reporting date.</p> <p>When testing the impairment calculated on a portfolio basis, we analyzed the underlying statistical models, key input data and assumptions, as well as forward-looking information used to calculate expected credit losses. For selected significant loans, we conducted an audit of internal credit ratings, credit risk factors and classification by stages.</p> <p>In collaboration with valuation specialists, we analyzed assumptions about future cash flows for selected material corporate loans, including the value of the collateral and the likelihood of possible scenarios. We reviewed the results of a Bank that was subsequently tested on the models used for IFRS 9.</p>



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Other information

Management is responsible for other information. Other information includes information contained in the annual report, but does not include the financial statements and our audit report about it.

Our view of the financial statements does not apply to other information, and we will not provide conclusion with assurance of any form regarding this information.

In a view of conducting our audit of the financial statements, our responsibility is to review other information and consider whether there are significant discrepancies between other information and the financial statements or our knowledge gained during the audit, and whether other information contains other significant distortion.

If, based on the work we have carried out, we conclude that other information contains a material misstatement, we must report this fact.

Responsibility of the Management and Those Charged with Corporate Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of financial statements in accordance with IFRS and for such internal control system as management determines is necessary to enable the preparation of the financial statements that is free from material misstatements, due to fraud or errors.

In preparing the financial statements, management is responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters relating 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.

The management and those charged with governance are responsible for overseeing the preparation of the financial statements of the Bank.

Auditor's responsibility for auditing financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or on 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 conducted in accordance with International Standards on Auditing, we apply professional judgment to retain 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; develop 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 non-detection of material 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 conspiracy, fraud, intentional omission, misrepresentation of information or actions bypassing the internal control system;
- get an understanding of the internal control system that is relevant to the audit, in order to develop audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control system;
- assess the proper nature of the accounting policies applied and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by management;



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- make a conclusion about the legitimacy of management's use of the assumption of business continuity, and on the basis of the obtained audit evidence - the conclusion whether there is a significant uncertainty in connection with events or conditions that may raise significant doubts in the ability of the Bank to continue its business 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 Bank losing the ability to continue its business continuously;
- assess the presentation of the financial statements in general, 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 the organization or activities within the Bank in order to express an opinion on the financial statements. We are responsible for the management, control and conduct of the Bank's audit. We remain fully responsible for our audit opinion.

We collaborate with persons responsible for corporate governance, including, among other things, information on the planned scope and timing of the audit, as well as significant comments on the audit results, including significant deficiencies in the internal control system that we identify in the course of the audit.

We also provide the Management and those responsible for corporate governance with a statement that we have complied with all relevant ethical requirements regarding independence and informed these individuals about all relationships and other issues that can reasonably be considered to affect the independence of the auditor. And if it is required - on appropriate precautions.

From those questions that we brought to the attention of the Management and to those responsible for corporate governance, we identify issues that were most essential to the audit of the financial statements for the current period and, therefore, are considered as key audit issues. We describe these issues in our audit report, except when public disclosure of information on these matters is prohibited by law or regulation. In extremely rare cases, we conclude that information on any matter should not be communicated in our report, since it can be reasonably assumed that the negative consequences of communicating such information will exceed the socially significant benefits.

Shoodil Nosirov

Project partner

Auditor's qualification certificate for auditing banks No. 13/1 of 24 July 2017, issued by the Central Bank of the Republic of Uzbekistan.



AO Grant Thornton LLC

24 May 2019
Tashkent, Uzbekistan

Statement of financial position


	Notes	31 December 2018	31 December 2017	1 January 2017
Assets				
Cash and cash equivalents	7	255 393 830	289 165 916	135 280 251
Required reserves on accounts in the Central Bank of Uzbekistan		26 845 096	83 499 809	97 788 971
Due from other banks	8	8 982 014	424 349	1 119 782
Loans to customers	9	2 393 567 871	1 197 689 571	1 004 856 501
Investment financial assets		341 924	3 099 524	5 406 933
Deferred tax asset	22	30 585 965	239 577	7 665 701
Fixed assets and intangible assets	10	218 400 503	228 468 120	56 766 655
Other assets	11	8 802 797	4 667 096	24 760 320
Total assets		2 942 920 000	1 807 253 962	1 333 645 114
Liabilities				
Funds of other banks	12	287 062 340	13 174 649	116 361 807
Customer accounts	13	1 060 415 607	971 354 292	930 186 048
Debt securities issued	14	83 087 259	68 010 616	64 289 819
Other borrowed funds	15	765 094 446	141 682 038	28 007 787
Deferred tax liabilities	22	27 856 947	-	-
Other liabilities	16	23 281 981	10 635 314	6 918 706
Total liabilities		2 246 798 580	1 204 856 909	1 145 764 167
Equity				
Share capital	17	694 465 804	593 032 833	250 446 510
Retained earnings and funds / (Accumulated loss)		1 655 616	9 364 220	(65 318 150)
Total equity attributable to Bank Shareholders		696 121 420	602 397 053	185 128 360
Non-controlling share		-	-	2 752 587
Total equity		696 121 420	602 397 053	187 880 947
Total liabilities and equity		2 942 920 000	1 807 253 962	1 333 645 114

Approved and signed on behalf of the management of the Bank:



 Nizamov A.K.
 Acting Chairman of the Board of the Bank

24 May 2019


 Tailakov I.R.
 Chief Accountant of the Bank

The notes on pages 9 to 83 are an integral part of these financial statements.


Statement of profit and losses and other comprehensive income

	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income calculated at effective interest rate	18	311 068 098	169 897 535
Other interest income	18	82 730 148	-
Interest expense calculated at effective interest rate	18	(107 486 036)	(80 322 427)
Other interest expense	18	(43 771 193)	-
Net interest income		242 541 017	89 575 108
Provision for loan losses on debt financial assets	7,8,9,16	(10 083 873)	(32 765 559)
Net interest income after creating a provision for credit losses		232 457 144	56 809 549
Commission income	19	54 071 321	57 909 819
Commission expenses	19	(16 725 314)	(21 693 515)
Net income / (expenses) on operations in foreign currency and from revaluation of foreign currency		(13 141 630)	53 740 473
Loss on disposal of subsidiary		-	(8 105 400)
Net income / (expense) from initial recognition of financial instruments and loan modification		5 560 979	-
Reserves creation of other assets	11	(4 066 794)	(8 272 088)
Other operating income	20	7 331 046	11 910 776
Administrative and other operating expenses	21	(244 109 485)	(193 595 294)
Profit before tax		21 377 267	(51 295 680)
Income tax expense	22	(6 470 770)	(12 576 450)
Net profit for the period		14 906 497	(63 872 130)
<i>Other comprehensive income</i>			
Revaluation of buildings		-	138 297 537
Income tax related to components of comprehensive income		-	-
Other comprehensive after-tax income		-	138 297 537
Total comprehensive income for the period		14 906 497	74 425 407

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 Nizamov A.K.
 Acting Chairman of the Board of the Bank
 24 May 2019


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Statement of changes in equity

	Share capital	Retained earnings and funds / (Accumulated loss)	Total equity attributable to Bank Shareholders	Non-controlling share	Total equity ⁴
Balance as of 1 January 2017	250 446 510	(65 060 743)	185 385 767	2 752 587	188 138 354
Net profit / (Net loss)	-	(63 872 130)	(63 872 130)	-	(63 872 130)
Other comprehensive income	-	138 297 537	138 297 537	-	138 297 537
Total comprehensive income for the period	-	74 425 407	74 425 407	-	74 425 407
Share capital increase	342 586 323	-	342 586 323	-	342 586 323
Dividends paid	-	(444)	(444)	-	(444)
Disposals of a subsidiary	-	-	-	(2 752 587)	(2 752 587)
Balance at 31 December 2017	593 032 833	9 364 220	602 397 053	-	602 397 053
The impact of the first application of IFRS 9 on 1 January 2018	-	(22 615 101)	(22 615 101)	-	(22 615 101)
Recalculated balance as of 1 January 2018	593 032 833	(13 250 881)	579 781 952	-	579 781 952
Net profit / (Net loss)	-	14 906 497	14 906 497	-	14 906 497
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	14 906 497	-	-	14 906 497
Share capital increase	101 432 971	-	101 432 971	-	101 432 971
Balance at 31 December 2018	694 465 804	1 655 616	696 121 420	-	696 121 420

Approved and signed on behalf of the management of the Bank:



Nizamov A.K.
Acting Chairman of the Board of the Bank

24 May 2019


Tailakov I.R.
Chief Accountant of the Bank

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Statement of cash flow

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash flow from operating activities		
Interest received	389 069 804	162 401 823
Interest paid	(147 364 104)	(79 767 162)
Commissions received	55 152 564	60 493 714
Commissions paid	(16 725 314)	(21 693 515)
Net income from operations in foreign currency	13 141 630	(49 055 974)
Other operating income received	12 892 025	11 910 776
Staff costs	(149 848 958)	(118 091 539)
Administrative and other operating expenses	(75 022 641)	(62 357 964)
Income tax paid	(3 177 708)	(5 150 326)
Cash flows from operating activities to changes in operating assets and liabilities	78 117 298	(101 310 167)
<i>Net (increase) / decrease in operating assets</i>		
Required reserves in the Central Bank of Uzbekistan	56 654 713	14 289 162
Funds in other banks	(8 557 665)	695 433
Loans to customers	(1 261 749 615)	(192 833 070)
Other assets	(4 135 701)	20 093 224
<i>Net increase / (decrease) in operating liabilities</i>		
Funds of other banks	273 887 691	(103 187 158)
Customer accounts	89 061 315	41 168 244
Other liabilities	12 646 667	3 716 608
Net cash flow from operating activities	(764 075 297)	(317 367 724)
Cash flow from investing activities		
Acquisition of fixed assets and intangible assets	(13 319 272)	(43 705 672)
Proceeds from the sale of fixed assets	1 174 946	10 318 722
Dividends received	30 701	69 286
Net cash flow from investing activities	(12 113 625)	(33 317 664)
Cash flows from financial activities		
Proceeds from the issue of shares	101 432 971	342 586 323
Dividends paid	-	(444)
Debt securities issued	67 331 000	5 545 000
Debt Securities Redeemed	(52 254 357)	(2 000 000)
Receiving other borrowed funds	752 223 981	57 053 636
Repayment of other borrowed funds	(128 811 573)	(1 409 909)
Net cash flow from financial activities	739 922 022	401 774 606
The effect of changes in exchange rates on cash and cash equivalents	2 494 814	102 796 447
Net change in cash and cash equivalents	(33 772 086)	153 885 665
Cash and cash equivalents at the beginning of the reporting period	289 165 916	135 280 251
Cash and cash equivalents at the end of the reporting period	255 393 830	289 165 916

Approved and signed on behalf of the management of the Bank:


Nizamov A.K.
Acting Chairman of the Board of the Bank

24 May 2019


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