



## *Independent auditor's report*

To the Shareholders and Council of the Joint Stock Company "KDB Bank Uzbekistan":

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### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Joint Stock Company "KDB Bank Uzbekistan" ("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 ("IFRS").

### **What we have audited**

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### *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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Code of Professional Ethics for Auditors of Uzbekistan and auditor's independence requirements that are relevant to our audit of the financial statements in the Republic of Uzbekistan. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.



## Our audit approach

### Overview

<b>Materiality</b>	Overall Bank materiality: Uzbek Soums (“UZS”) 4,300,000 thousand, which represents 5% of profit before tax.
<b>Key audit matter</b>	Assessment of expected credit losses (ECL) provision for loans and advances to customers in accordance with IFRS 9, <i>Financial Instruments</i> .

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

<b>Overall Bank materiality</b>	UZS 4,300,000 thousand (2017: UZS 5,523,000)
<b>How we determined it</b>	We determined overall materiality as being 5% of the profit before tax.
<b>Rationale for the materiality benchmark applied</b>	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which, users and stakeholders most commonly measure the performance of the Bank as a whole, and it is a generally accepted benchmark. We chose 5% threshold as in our professional experience this is a widely accepted quantitative measure for this benchmark.

We agreed with the management and the Council of the Bank that we would report to them misstatements identified during our audit above UZS 215,000 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## 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.

### **Key audit matter**

### **How our audit addressed the key audit matter**

#### ***Assessment of expected credit losses (ECL) provision for loans and advances to customers in accordance with IFRS 9, Financial Instruments.***

We considered impairment of loans and advances to customers as a key audit matter due to the significance of loans and advances to customer balance and because IFRS 9 is a new and complex financial reporting standard, which requires significant judgment to determine the ECL provision.

Collective assessment of ECL is based on models, which use internally developed risk metrics assigned to the balances.

The calculation of ECL involves estimation techniques that use significant unobservable inputs and factors and expert judgement. These techniques are used to estimate key risk parameters – probability of default, loss given default and exposure at default.

Note 3 “Significant accounting policies”, Note 4 “Critical Accounting Estimates, and Judgements in Applying Accounting Policies”, Note 9 “Loans and Advances to Customers, including Finance Lease Receivables” and Note 22 “Financial Risk Management” to the financial statements provide detailed information on the credit loss allowance.

In assessing the ECL provision we have performed, among others, the following audit procedures:

- We assessed the methodology and models for ECL provision assessment developed by the Bank in order to evaluate its compliance with IFRS 9 requirements. We focused our procedures on: default definition, factors for determining a “significant increase in credit risk”, allocation of the loans to stages, and estimation of key risk parameters;
- With the support of our internal modelling specialists, we tested the assumptions, inputs and formulae used in ECL models. This included assessing the ECL methodology and appropriateness of model design and formulae used;
- We tested, on a sample basis, the underlying data and operations of the models and calculations used for assessment of ECL. We performed analytical procedures over reasonableness of assumptions used for calculation of ECL rates by comparing ECL rates of the Bank with ECL rates of local commercial banks with similar risks;
- To verify the data quality, we agreed on a sample basis the key inputs used in ECL calculation to source systems and source documents;
- We checked that estimation of ECL provision is made in accordance with the Bank’s methodology and models and is in line with IFRS 9 requirements;
- We assessed the adequacy and appropriateness of disclosures related to ECL provision for compliance with the accounting standards including disclosure of transition to IFRS 9 from IAS 39.



### *Responsibilities of management and Council of the Bank for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of 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.

Council is responsible for overseeing the Bank's financial reporting process.

### *Auditor's 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 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 auditor's 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 auditor's 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 Council 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 Council 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 Council, 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. We describe these matters in our auditor's 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.

A handwritten signature in blue ink, appearing to read "Utkir", written over a horizontal line.

Utkir Muhammadiyev  
Certified Auditor  
Certificate of Auditor No. 05082  
dated 23 February 2013

A handwritten signature in blue ink, appearing to read "Otabek", written over a horizontal line.

Otabek Abdukodirov  
Certified Auditor  
Certificate of Auditor No. 9/19  
dated 27 August 2018

*Audit Organization "PricewaterhouseCoopers" LLC*

Audit Organization "PricewaterhouseCoopers" LLC  
26 April 2019  
Tashkent, Uzbekistan

**JOINT-STOCK COMPANY "KDB BANK UZBEKISTAN"**  
**Statement of Financial Position**

<i>In thousands of Uzbekistan Soums</i>	Notes	31 December 2018	31 December 2017
<b>ASSETS</b>			
Cash and cash equivalents	7	3,737,788,357	3,429,670,057
Due from other banks	8	565,962,880	1,906,614,398
Loans and advances to customers, including finance lease receivables	9	511,085,250	323,145,176
Current income tax prepayment		2,724,181	2,606,450
Deferred income tax asset	19	997,217	2,368,999
Premises and equipment	10	44,293,312	46,524,253
Intangible assets	10	1,131,199	2,439,006
Investment property		2,344,979	2,588,541
Other assets	11	6,712,958	12,618,900
<b>TOTAL ASSETS</b>		<b>4,873,040,333</b>	<b>5,728,575,780</b>
<b>LIABILITIES</b>			
Due to other banks	12	66,616,688	64,782,365
Customer accounts	13	4,300,891,671	5,137,082,254
Other liabilities	14	8,930,399	10,056,223
<b>TOTAL LIABILITIES</b>		<b>4,376,438,758</b>	<b>5,211,920,842</b>
<b>EQUITY</b>			
Share capital	15	102,765,597	40,444,206
Retained earnings		393,835,978	476,210,732
<b>TOTAL EQUITY</b>		<b>496,601,575</b>	<b>516,654,938</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,873,040,333</b>	<b>5,728,575,780</b>

Approved for issue and signed on 18 April 2019.

  
 Jong Seon Kim  
 Chairman of the Board



  
 Abrorjon Juraev  
 Chief accountant

**JOINT-STOCK COMPANY "KDB BANK UZBEKISTAN"**  
**Statement of Profit or Loss and Other Comprehensive Income**

<i>In thousands of Uzbekistan Soums</i>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
Interest income calculated using the effective interest method	16	125,953,122	90,332,280
Interest and similar expense	16	(3,270,606)	(182,941)
<b>Net margin on interest and similar income</b>		<b>122,682,516</b>	<b>90,149,339</b>
Recovery of / (credit) loss allowance	5, 7,8,9	249,218	(1,933,069)
<b>Net margin on interest and similar income after credit loss allowance</b>		<b>122,931,734</b>	<b>88,216,270</b>
Fee and commission income	17	47,849,933	63,951,315
Fee and commission expense	17	(10,059,681)	(9,321,847)
Gains less losses from trading in foreign currencies		6,308,983	3,330,960
Foreign exchange translation (losses) less gains / gains less losses		(6,515,966)	171,122,340
Other operating income		1,193,161	889,153
Administrative and other operating expenses	18	(75,577,236)	(65,736,654)
<b>Profit before tax</b>		<b>86,130,928</b>	<b>252,451,536</b>
Income tax expense	19	(21,443,715)	(17,799,940)
<b>PROFIT FOR THE YEAR</b>		<b>64,687,213</b>	<b>234,651,596</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>64,687,213</b>	<b>234,651,596</b>
<b>Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in UZS per share)</b>	20	<b>152</b>	<b>895</b>

**JOINT-STOCK COMPANY "KDB BANK UZBEKISTAN"**  
**Statement of Changes in Equity**

<i>In thousands of Uzbekistan Soums</i>	Notes	Share capital	Retained earnings	Total equity
<b>Balance at 1 January 2017</b>		<b>40,444,206</b>	<b>241,559,136</b>	<b>282,003,342</b>
Profit for the year		-	234,651,596	234,651,596
Other comprehensive income		-	-	-
Total comprehensive income for 2017		-	<b>234,651,596</b>	<b>234,651,596</b>
<b>Balance at 31 December 2017</b>		<b>40,444,206</b>	<b>476,210,732</b>	<b>516,654,938</b>
<b>Adoption of IFRS 9: remeasurement for expected credit losses, net of tax</b>		-	1,629,038	1,629,038
<b>Restated balance at 1 January 2018</b>		<b>40,444,206</b>	<b>477,839,770</b>	<b>518,283,976</b>
Profit for the year		-	64,687,213	64,687,213
Other comprehensive income		-	-	-
Total comprehensive income for 2018		-	<b>64,687,213</b>	<b>64,687,213</b>
Share issue	15	62,321,391		62,321,391
Dividends declared	15	-	(148,691,005)	(148,691,005)
<b>Balance at 31 December 2018</b>		<b>102,765,597</b>	<b>393,835,978</b>	<b>496,601,575</b>



**JOINT-STOCK COMPANY "KDB BANK UZBEKISTAN"**  
**Statement of Cash Flows**

<i>In thousands of Uzbekistan Soums</i>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Interest income calculated using the effective interest method received		129,286,172	84,650,478
Interest paid		(3,270,606)	(109,421)
Fee and commission received		46,754,244	63,712,113
Fee and commission paid		(10,059,681)	(9,321,847)
Income received from trading in foreign currencies		6,344,978	3,330,960
Other operating income received		1,193,162	1,034,681
Staff costs paid		(49,160,774)	(39,580,783)
Administrative and other operating expenses paid		(18,837,370)	(19,488,839)
Income tax paid		(20,189,664)	(18,666,105)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>			
		<b>82,060,461</b>	<b>65,561,236</b>
<i>Net (increase) / decrease in:</i>			
- due from other banks		1,431,197,308	(122,354,023)
- loans and advances to customers, including finance lease receivables		(172,236,768)	(88,165,400)
- other assets		153,912,208	21,218,121
<i>Net increase / (decrease) in:</i>			
- due to other banks		1,914,060	(17,878,671)
- customer accounts		(1,095,461,632)	(82,427,926)
- other liabilities		12,601	(3,923)
<b>Net cash from / (used) in operating activities</b>		<b>401,398,238</b>	<b>(224,050,586)</b>
<b>Cash flows from investing activities</b>			
Acquisition of premises, equipment and intangible assets		(2,124,985)	(932,811)
<b>Net cash used in investing activities</b>		<b>(2,124,985)</b>	<b>(932,811)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	15	(86,369,618)	-
<b>Net cash used in financing activities</b>		<b>(86,369,618)</b>	<b>-</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(4,785,335)</b>	<b>1,727,512,725</b>
<b>Net increase in cash and cash equivalents</b>		<b>308,118,300</b>	<b>1,502,529,330</b>
Cash and cash equivalents at the beginning of the year	7	3,429,670,057	1,927,140,727
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>3,737,788,357</b>	<b>3,429,670,057</b>
Share issue via capitalization of retained earnings	15	62,321,387	-
Non-cash investment activates - reclassification fixed assets as investment property		-	2,762,048