

Joint Stock Commercial Bank with Foreign capital “Hamkorbank”

Consolidated financial statements

*Year ended 31 December 2018
together with independent auditor's report*

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Independent auditor's report

To the Shareholders and Council of the Joint-Stock Commercial Bank "Hamkorbank"

Opinion

We have audited the consolidated financial statements of the Joint-Stock Commercial Bank "Hamkorbank" (hereinafter the Bank) and its subsidiary (hereinafter the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other 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.

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 2018 and its consolidated financial performance and its consolidated 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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the key audit matter

Provision for impairment of loans to customers and financial lease receivables

Assessment and creation of provisions for expected credit losses on loans to customers and finance lease receivables are developed based on the requirements of IFRS 9 "Financial instruments" ("IFRS 9") and is a key area of the Group's management judgement.

Assessment of events affecting significant increase in credit risk, probability of default, the distribution of credit risk across three stages, and the analysis of transition criteria between stages are aspects where significant use of professional judgment and assumptions are applied.

Assessment of provisions for expected credit losses involve the use of valuation techniques with unobservable input data, including determination of the value of probability of default, the magnitude of credit requirement at the risk of default and the level of credit losses based of available historical and projected data.

The use of various models and assumptions can significantly affect the level of provisions for expected credit losses on the loans to customers and finance lease receivables. Due to the materiality of loan amounts, including finance lease receivables as well as the significant use of professional judgment, the estimated credit loss is a key audit issue.

Information on the provision for expected credit loss and the Group's management approach to estimating the reserve for expected credit losses and credit risk management is described in Notes 9 and 24 to the consolidated financial statements.

Our audit procedures included the analysis of methodology with respect to assessment of provisions for expected credit losses on the loans to customers and financial lease receivables, testing of controls on the customer lending process, including testing of controls on overdue debt accounting, procedures for assessing events affecting significant credit risk increases by borrowers, based on internal classification, and the calculation of the allowance for expected credit losses. We analyzed the Group's management judgment sequence on calculation of expected credit losses.

As part of audit procedures, on a random basis we have performed testing of input data and assumptions which were used by Group for calculation of expected credit loss, and analysis of the Model, checked probability of default and an estimate cash flows from the loans. On selected loans, we performed the estimation of cash flows from realization of pledge, sale of collateral and cash repayments, as well as the distribution of provided loans by impairment stages. We recalculated the allowance for expected credit losses.

The abovementioned audit procedures were performed as at 31 December 2018, as well as for the date of transition to IFRS 9 as at 1 January 2018.

We conducted our audit procedures related to information on the provision for the expected credit losses on loans to customers, including financial lease receivables, disclosed in the notes to the consolidated financial statements.

Other matter

The consolidated financial statements of the Joint-Stock Commercial Bank "Hamkorbank" as at 31 December 2017 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements in this audit report on 23 April 2018.

Responsibilities of management Council of the Bank for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

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

Auditor's 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 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 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 auditor's 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

auditor's 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 Council of the Bank 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 of the Bank 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 of the Bank, 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 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.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

23 May 2019
Tashkent, Uzbekistan

Audit company, Ernst & Young LLC

«Ernst & Young» Audit organization LLC

Certificate authorizing audit of banks registered by the
Central Bank of the Republic of Uzbekistan under #11 dated
23 August 2013

A. Azamov

Anvarkhon Azamov

Qualified auditor

Auditor qualification certificate authorizing audit of banks
#11/4 dated 11 May 2017 issued by the Central Bank of the
Republic of Uzbekistan

Head of Uzbekistan practice
«Ernst & Young» Audit organization LLC

Consolidated statement of financial position**as of 31 December 2018***(thousands of Uzbek Soums)*

	Notes	2018	2017
Assets			
Cash and cash equivalents	5	1,272,583,478	1,716,599,923
Trading securities	6	131,823,921	-
Due from other banks	7	154,740,002	393,490,726
Derivative financial assets	8	29,113,230	-
Loans to customers, including financial lease receivables	9	5,004,964,381	3,133,942,283
Investments available for sale		-	420,057
Investment securities		126,520	-
Property and equipment	10	165,643,260	133,115,933
Intangible assets	10	6,972,265	6,416,086
Current income tax prepayment	11	6,213	6,149,750
Deferred income tax assets	11	-	10,964,310
Other assets	13	19,126,193	32,651,918
Total assets		6,785,099,463	5,433,750,986
Liabilities			
Due to other banks	14	27,269,030	12,869,843
Customer accounts	15	3,395,739,465	3,287,401,183
Debt securities in issue	16	44,951,192	50,321,726
Other borrowed funds	17	2,342,078,282	1,469,850,529
Subordinated debt	18	129,092,013	41,863,511
Current income tax liability	11	172,164	2,827,990
Deferred income tax liability	11	7,600,225	-
Other liabilities	13	37,518,947	28,190,944
Total liabilities		5,984,421,318	4,893,325,726
Equity	19		
Share capital		104,540,699	79,568,326
Share premium		12,313,994	12,313,994
Retained earnings		683,823,452	448,542,940
Total equity		800,678,145	540,425,260
Total equity and liabilities		6,785,099,463	5,433,750,986

Signed and authorised for release on behalf of the Management Board of the Bank.

Khasanov J.I.

Chairman of the Management Board

Kadirov B.M.

Chief Accountant

23 May 2019



The accompanying notes on pages 11 to 69 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss**for the year ended 31 December 2018***(thousands of Uzbek Soums)*

	Notes	2018	2017
Interest income			
Loans to customers, including financial lease receivables		758,427,915	537,018,936
Due from other banks		26,668,171	8,957,491
Other interest revenue		888,665	10,614
Total interest income at amortised cost		785,984,751	545,987,041
Trading securities		553,767	-
Other interest income		553,767	-
		786,538,518	545,987,041
Interest expense			
Customer accounts		(207,283,963)	(129,856,068)
Other borrowed funds		(97,983,682)	(46,130,619)
Debt securities in issue		(6,150,330)	(5,083,910)
Subordinated debt		(10,783,501)	(2,582,027)
Due to other banks		(389,605)	(2,530,286)
Other interest expenses		(18,455,757)	(1,583,491)
		(341,046,838)	(187,766,401)
Net interest income		445,491,680	358,220,640
Credit loss expense	12	(10,815,894)	(13,907,120)
Net interest income after credit loss expenses		434,675,786	344,313,520
Fee and commission income	21	192,850,639	142,828,825
Fee and commission expense	21	(40,605,906)	(30,286,824)
Net loss from trading securities		(1,742,579)	-
Gains less losses from trading in foreign currencies		16,233,040	(36,180,491)
Gains less losses from financial derivatives		35,121,203	18,507,130
Gains less losses from foreign exchange translation		(13,396,871)	(32,526,960)
Other operating income	22	31,269,648	20,473,244
Non-interest income		219,729,174	82,814,924
Personnel expenses	23	(207,519,927)	(153,560,340)
Other operating expenses	23	(130,520,611)	(94,767,301)
Depreciation and amortisation	10	(20,753,116)	(12,932,739)
Other impairment and provisions (reversal)		-	(2,569,319)
Non-interest expense		(358,793,654)	(263,829,699)

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Chief Accountant

23 May 2019



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Consolidated statement of profit or loss**for the year ended 31 December 2018***(thousands of Uzbek Soums)*

	<i>Notes</i>	2018	2017
Profit before income tax		295,611,306	163,298,745
Income tax expense	11	(63,287,365)	(31,151,019)
Profit for the year		232,323,941	132,147,726
Other comprehensive income		-	-
Total comprehensive income for the year		232,323,941	132,147,726
Basic and diluted earnings per preference share (expressed in UZS in share)	19	82	47
Basic and diluted earnings per ordinary share (expressed in UZS in share)	19	82	47

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Kadirov B.M.

23 May 2019



Chairman of the Management Board

Chief Accountant

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Consolidated statement of changes in equity**for the year ended 31 December 2018***(thousands of Uzbek Soums)*

	<i>Share capital</i>	<i>Share premium</i>	<i>Retained earnings</i>	<i>Total equity</i>
1 January 2017	79,568,326	12,313,994	316,382,390	408,264,710
Profit for the year	-	-	132,147,726	132,147,726
Other comprehensive income for the year	-	-	12,824	12,824
Total comprehensive income for the year	79,568,326	12,313,994	448,542,940	540,425,260
31 December 2017	79,568,326	12,313,994	448,542,940	540,425,260
Impact of adopting IFRS 9	-	-	31,467,414	31,467,414
Restated opening balance under IFRS 9	79,568,326	12,313,994	480,010,354	571,892,674
Profit for the year	-	-	232,323,941	232,323,941
Total comprehensive income for the year	79,568,326	12,313,994	712,334,295	804,216,615
Dividends to shareholders of the Bank (Note 19)			(763,762)	(763,762)
Issue of share capital (Note 19)	24,972,373	-	(27,747,081)	(2,774,708)
31 December 2018	104,540,699	12,313,994	683,823,452	800,678,145

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Chief Accountant

23 May 2019



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Consolidated statement of cash flows**for the year ended 31 December 2018***(thousands of Uzbek soums)*

	Note	2018	2017
Cash flows from operating activities			
Interest received		791,303,338	539,871,397
Interest paid		(321,597,387)	(167,434,910)
Fees and commissions received		194,120,912	143,202,936
Fees and commissions paid		(40,605,906)	(29,690,093)
Income received from financial derivatives		-	18,507,130
Income received from trading in foreign currencies		16,233,040	(36,180,491)
Other operating income received		34,386,968	19,669,335
Personnel expenses paid		(199,941,079)	(153,560,340)
Other operating expenses paid		(182,522,295)	(94,737,336)
Cash flows from operating activities before changes in operating assets and liabilities		291,377,591	239,647,628
<i>Net (increase)/decrease in operating assets</i>			
Due from other banks		235,087,941	589,427,049
Loans to customers, including financial lease receivables		(1,792,064,336)	(194,732,662)
Trading securities		(133,560,000)	
Other assets		(20,843,735)	57,415,206
<i>Net increase/(decrease) in operating liabilities</i>			
Due to other banks		41,222,026	(14,737,482)
Customer accounts		76,013,646	(175,882,525)
Other liabilities		31,452,480	(9,201,053)
Net cash flows from operating activities before income tax		(1,271,314,387)	491,936,161
Income tax paid		(46,446,430)	(39,416,559)
Net cash from / (used in) operating activities		(1,317,760,817)	452,519,602

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23 May 2019



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Consolidated statement of cash flows**for the year ended 31 December 2018***(thousands of Uzbek soums)*

	Note	2018	2017
Cash flows from investing activities			
Proceeds from sale of investment securities		293,537	-
Acquisition of property and equipment		(62,830,717)	(52,746,210)
Proceeds from sale of property and equipment		10,313,502	3,711,725
Acquisition of intangible assets		(575,272)	(2,505,629)
Net cash from / (used in) investing activities		(52,798,950)	(51,540,114)
Cash flows from financing activities			
Proceeds from debt securities in issue	28	28,470,534	28,400,311
Repayment of debt securities in issue	28	(33,970,534)	(28,330,311)
Proceeds from other borrowed funds	28	1,564,652,689	176,919,415
Repayment of other borrowed funds	28	(728,571,336)	(207,534,826)
Proceeds from subordinated loans	28	85,913,708	17,796,670
Dividends paid	19	(3,538,472)	(218,007)
Net cash from / (used in) financing activities		912,956,589	(12,966,748)
Effect of exchange rates changes on cash and cash equivalents		13,603,129	458,145,643
Effect of expected credit losses on cash and cash equivalents		(16,396)	-
Net increase/(decrease) in cash and cash equivalents		(444,016,445)	846,158,383
Cash and cash equivalents, beginning		1,716,599,923	870,441,540
Cash and cash equivalents, ending	5	1,272,583,478	1,716,599,923

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23 May 2019



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