



# KAPITALBANK

**“Kapitalbank” Joint-Stock**

**Commercial Bank**

Consolidated financial statements for the year ended  
on December 31, 2018 and auditor’s conclusion of independent  
auditors



# AUDITOR'S CONCLUSION OF INDEPENDENT AUDITORS

**To the shareholders and the Council of Joint-Stock Commercial Bank  
“Kapitalbank”**

## Opinion

We have audited consolidated financial statements of Joint-Stock Commercial Bank “Kapitalbank” (hereinafter referred to as the “Bank”) and its subsidiaries (hereinafter referred to as the “Group”) consisting of the consolidated statement of financial position as of December 31, 2018, consolidated profit and loss statement and other aggregated income, changes in capital and cash flow for the year ended on the specified date, as well as notes consisting of key accounting policies and other explanatory information.

In our opinion, consolidated financial statements attached adequately reflect in all material respects the consolidated financial position of the Group as of December 31, 2018, as well as its consolidated financial results and consolidated cash flow for the year ended on the specified date in compliance with the International Standards Financial Statements (IFRS).

## Basis for expressing opinion

We have carried out the audit in compliance with the International Auditing Standards. According to these standards our responsibility is further described in the section “Auditors’ responsibility for auditing consolidated financial statements” of our conclusion. We are independent in relation to the Group in compliance with the independence requirements applicable to our audit of consolidated financial statements in the Republic of Uzbekistan and the Code of Ethics of Professional Accountants of the International Ethics Standards for Board for Accountants (IESBA Code), and we have fulfilled our other ethical obligations in compliance with these requirements and the IESBA Code. We assume that the audit evidence obtained by us is adequate and appropriate to constitute a basis for the expressing our opinion.

*Audited entity: Joint-Stock Commercial Bank “Kapitalbank”. Registered by the Central Bank of the Republic of Uzbekistan №69 as of April 7, 2001  
Tashkent city, Republic of Uzbekistan*

*JCS LLC “KPMG Audit”, Company, registered in compliance with the legislation of the Republic of Uzbekistan, a member of network of independent firms KPMG incorporated in the Association KPMG International Cooperative (“KPMG International”), registered according to the legislation of Switzerland*



## Key issues of the audit

Key audit issues are those that, according to our professional judgment, have been considered the most relevant to our audit of consolidated financial statements for the current period. These issues have been considered in terms of our audit of the consolidated financial statements as a whole and in formulating our opinion on these statements, and we do not express a separate opinion on these issues.

<b>Assessment of expected credit losses (ECL) on the loans extended to the customers</b>	
<b>See notes 5,9 to the consolidated financial statements</b>	
<b>Key audit issue</b>	<b>Audit procedures in relation to a key audit issue</b>
Loans extended to customers constitute 51% of assets and are reflected after deduction of expected credit losses (hereinafter referred to as "ECL") which are assessed on a regular basis and is sensitive to the assumptions used.	We have analyzed key aspects of the Group's methodology and policies regarding the evaluation of the ECL for compliance with IFRS 9 requirements, including by involving professionals in financial risk management in the analysis.
From January 1, 2018, the Group switched to a new model for assessing the ECL which requires the management to apply professional judgment and make assumptions in the following basic areas:	To analyze the adequacy of the professional judgment applied by the management and the assumptions made in calculating the reserve for the ECL, we, inter alia, have undertaken the following audit procedures:
- detection of a considerable increase in credit risk and default event on loans to customers (referring to Stages 1, 2 and 3 in compliance with IFRS 9) in due time;	- Tested the organization and operational efficiency of internal controls for timely referring the loans to the Stage of Credit Risk; - By a sample of loans, the potential change in the ECL assessment which may make a significant impact on the consolidated financial statements, we have tested the accuracy of the Stage assigned by the Group by analyzing financial and non-financial information on selected borrowers, as well as the Group's assumptions and professional judgments.



<p>- assessment of the Probability of Default (PD) and Loss Given Default (LGD);</p>	<p>- For the loans extended to large corporate borrowers which are subject to the ECL assessment by the Group with the application of own rating model, we have assessed the overall adequacy of the ECL total value by analyzing credit ratings assigned by independent rating agencies and the ECL's own model which has been created with the help of publicly available information on the financial position and defaults of companies.</p> <p>- For the loans extended to customers referred to Stages 1 and 2 which are subject to the ECL assessment by the Group on a collective basis, we have tested the working principles of the respective models, as well as compared the initial data of the models with the primary documents on a sample basis.</p>
<p>- forecast of expected flows on loans extended to customers referred to Stage 3.</p> <p>Due to the considerable volume of loans extended to customers, transition to the new ECL model, as well as uncertainty peculiar to assessing the amount of reserve under the ECL, this issue is considered to be a key audit issue.</p>	<p>- For selected loans referred to Stage 3, the ECL reserves on which are assessed on an individual basis, we have critically assessed assumptions used by the Group in calculating future cash flows, including estimates of the value of collateral realized and the timing of their realization proceeding from our understanding and available market information. We have paid a particular attention to loans extended to customers who could potentially have the most significant impact on the consolidated financial statements.</p> <p>- We have assessed overall predictive ability of the models used by the Group to calculate the ECL. In addition, we have become convinced that the disclosures in the consolidated financial statements adequately reflect the Group's exposure to credit risk.</p>



<b>Transition to IFRS 9 "Financial instruments"</b>	
See notes 4 to the consolidated financial statements	
Key audit issue	Audit procedures in relation to a key audit issue
<p>The basic performance of the Group is related to operations with financial instruments wherein financial assets represent the majority of the Group's assets.</p> <p>From January 1, 2018, the Group switched to a new accounting standard for financial instruments - IFRS 9, which has considerably changed classification and accounting of financial assets.</p> <p>Due to the introduction of new requirements that to a great extent change current accounting for financial instruments, as well as significant impact that the new standard has made on the financial position and results of operations of the Group, this issue is considered to be a key audit issue.</p>	<p>By surveying responsible employees, examining internal documentation of the Group and analyzing internal business processes for selected material portfolios of financial instruments we have analyzed determination of business models within which framework the Group maintains financial assets.</p> <p>We have verified that the Group has accurately assessed and reflected significant modifications of lending terms of loan extended to customer both by general analysis of the basic areas of reconsideration of lending terms by the Group and by analyzing the primary documentation for the selected financial instruments.</p> <p>In addition, we have become convinced that the disclosures in the consolidated financial statements adequately describe key aspects in the classification and accounting of financial instruments, and also reflect the effects of the Group's transition to IFRS 9.</p> <p>Biz, konsolidatsiyalangan moliyaviy hisobotdagi ochib berishlar moliyaviy instrumentlarning tasnifi va hisobi yuzasidan eng muhim jihatlarni to'g'ri yoritishiga, shuningdek Guruhning MHXS (IFRS) 9 ga o'tish samaralarini aks ettirishiga ham ishonch hosil qildik.</p>



#### **Other matter**

The audit of the consolidated financial statements of the Group as of December 31, 2017 and for the year ended on the specified date was carried out by other auditors whose opinion as of April 30, 2018 contained an unmodified opinion on those statements.

#### **Liability of the management and persons responsible for corporate governance and consolidated financial statements**

The management is responsible for the preparation and fair presentation of these consolidated financial statements in compliance with the IFRS and for the internal control system that management considers required for preparing consolidated financial statements that do not contain material misstatements due to fraud or errors.

When preparing consolidated financial statements, management is responsible for assessing the ability of the Group to continue to operate continuously, in case of necessity for disclosing the data related to the performance continuity, as well as compiling the reporting on the basis of the assumption of the performance continuity unless the management intends to wind to win up the Group, terminate its performance or when it has no other real alternative than winding up or termination of its performance.

The persons responsible for corporate governance hold liable for supervising the preparation of the consolidated financial statements of the Group.

#### **Konsolidatsiyalangan moliyaviy hisobotning auditi uchun auditorlarning javobgarligi**

Our aim is to obtain reasonable assurance that the consolidated financial statements do not contain material misstatements due to fraud or error, and to release an audit conclusion containing our opinion. Reasonable assurance is a high degree of certainty, but it does not guarantee that an audit carried out in compliance with the International Auditing Standards always reveals significant distortions, if any. Distortions can be the result of fraud or errors and are considered material if it can reasonably be assumed that, individually or collectively, they can affect the economic decisions of users made on the reliance of these consolidated financial statements.

Within the framework of an audit carried out in compliance with the International Auditing Standards we apply professional judgment and maintain professional skepticism throughout the auditing process. In addition, we undertake the following steps:

- we detect and assess the risks of material misstatement of the consolidated financial statements due to fraud or errors; we develop and carry out audit procedures in response to these risks; we obtain audit evidence that is adequate and appropriate to constitute a basis for expressing our opinion. The risk of not detecting material misstatement as a result of fraud is higher than the risk of not detecting material misstatement as a result of an error, as fraud can include collusion, forgery, intentional omission, distorted information or actions to bypass the internal control system;



*ATB "Kapitalbank"*  
*Audit conclusion of independent auditors*  
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- we obtain an understanding of the internal control system that is essential for the audit with the aim of developing audit procedures suitable for the circumstances, but not with the aim of expressing an opinion on the efficiency of the Group's internal control system;
- we assess appropriately formulated nature of the accounting policies applied and relevance of accounting estimates and appropriate disclosure of the information prepared by management;
- make a conclusion on the legitimacy of how management assumes the use of the business continuity and on the basis of the audit evidence obtained - a conclusion on if is a significant uncertainty regarding events or conditions that may result in considerable doubts about the ability of the Group to continue its performance. If we conclude that there is significant uncertainty, we must attract attention in our audit report to appropriate disclosures in the consolidated financial statements or, if such disclosures are inappropriate, modify our opinion. Our conclusions are based on audit evidence obtained prior to the date of our audit report. However, future events or conditions may result in the fact that Group will lose its ability to hold its continuous performance;
- we assess representation of the consolidated financial statements as a whole, their structure and content, including disclosure, and whether consolidated financial statements present underlying operations and events in such a way as to ensure their fair presentation.
- we obtain adequate appropriate audit evidence related to the financial information of agencies or activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the management, control and audit of the Group. We remain entirely responsible for our audit opinion.

We perform informational interaction with persons responsible for corporate governance, bringing to their notice, inter alia, the information about planned scope and terms of the audit, as well as significant comments on the results of the audit, including considerable drawbacks in the internal control system which we detect in the audit process.

In addition, we provide those in charge of corporate governance with a statement that we have complied with all relevant ethical requirements regarding independence and informed these persons about all relations and other matters that can reasonably be considered to impact the independence of auditors, and, if necessary, about appropriate precautions.

Among those issues that we have brought to the notice of those responsible for corporate governance, we determine the issues that represented the major importance for the audit of the consolidated financial statements for the current period and, therefore, are considered to be key audit issues. We describe these issues in our audit report except for cases when public disclosure of information on these issues is prohibited by law or regulation, or when in on-off cases we conclude that information on any issue should not be communicated in our conclusion because it can reasonably be assumed that the negative consequences of communicating such information will exceed the socially significant benefits of its communication.

The head of the task on which results this auditor's conclusion of independent auditors has been issued:



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auditning muhim masalalari hisoblangan masalalarni aniqlaymiz. Biz o'z auditorlik xulosamizda ushbu masalalarni, ushbu masalalar to'g'risidagi axborotni ommaviy yoritish qonun yoki me'yoriy hujjat bilan taqiqlangan yohud juda kam hollarda biron-bir masala to'g'risidagi axborot bizning xulosamizda ma'lum qilinmasligi kerak bo'lgan, chunki bunday axborotni ma'lum qilishning salbiy oqibatlari uni ma'lum qilishning ijtimoiy muhim foydasidan kattaroq bo'ladi degan xulosaga kelgan holatlardan tashqari ravishda yoritamiz.

Mustaqil auditorlarning ushbu auditorlik xulosasi chiqrilishiga asos bo'lib xizmat qilgan topshiriq rahbari:

*Round stamp:*

*The Republic of Uzbekistan, Tashkent city,*

*Audit Company in the form of Limited Liability Company*

*KPMG AUDIT*

*signature*

*Signature*

Saidov S.K.  
Project Director  
Director General of JSC "KPMG Audit" LLC

Kuznetsov A.A.  
Project Partner

Qualification certificate of the auditor for the right to carry out audit of banks №16/3 as of February 1, 2019 issued by the Central Bank of the Republic of Uzbekistan.

"KPMG Audit" LLC  
Tashkent city, Uzbekistan

June 21, 2019



## Consolidated Statement on financial position

(in thousand UZS)	Note	December 31, 2018	December 31, 2017 reconsidered data*
<b>ASSETS</b>			
Cash and its equivalents	7	1 201 895 276	930 835 594
Funds in credit organizations	8	581 842 163	204 261 814
Loans extended to customers	9	2 432 796 104	1 612 868 781
Asset intended for sale	10	16 545 376	4 203 509
Investment financial assets		70 220	2 696 753
Fixed assets	11	475 968 141	458 203 449
Preliminary payment on the profit tax		4 062 984	-
Intangible assets	11	8 655 917	1 944 857
Deferred tax assets	24	12 066 261	8 899 572
Other assets	12	74 105 867	445 015 893
<b>TOTAL ASSETS</b>		<b>4 808 008 309</b>	<b>3 668 930 222</b>
<b>LIABILITIES</b>			
Funds of credit organizations	13	165 602 798	258 880 240
Funds of customers	14	4 173 922 094	3 051 461 993
Debt securities issued	15	4 620 000	2 070 575
Financial leasing obligations	16	5 739 913	-
Other borrowed funds	17	54 897 960	15 363 435
Other liabilities	18	5 851 124	10 413 436
<b>TOTAL LIABILITIES</b>		<b>4 410 633 619</b>	<b>2 411 676 977</b>
<b>CAPITAL</b>			
Equity	19	104 363 852	80 331 797
Additional capital		350 000	350 000
Fund for fixed asset revaluation		1 924 529	112 795 731
Retained earnings		290 736 309	137 263 015
<b>TOTAL CAPITAL</b>		<b>397 374 691</b>	<b>330 740 543</b>
<b>LIABILITIES AND CAPITAL, TOTAL</b>		<b>4 808 008 309</b>	<b>3 668 930 222</b>

\* The Group began applying IFRS 9 since January 1, 2018. As a result of applying IFRS 9, the Group changed the procedure for presenting certain clauses; presentation of comparative data has also been changed appropriately (see Note 5).

Approved and signed on behalf of the Group management:

Khalbekov N.N.  
*signature*

Acting Chairman of the Executive Board of the  
Bank

June 21, 2019

*Official stamp:*

Tyan Ye.B.  
*signature*

Acting Chief accountant of the Bank

*Republic of Uzbekistan, Tashkent city*

*Joint-Stock Commercial Bank*

**KAPITALBANK**

*The notes enclosed herewith constitute an integral part of these consolidated financial statements.*

# Consolidated Statement on Profit and Loss and other aggregated income

(in thousand UZS)	Note	2018	2017 reconsidered data*
Interest income calculated with the method of effective interest rate	20	277 248 812	229 957 361
Other interest income	20	10 332 496	19 314 979
Interest expenses	20	(156 338 397)	(95 958 341)
<b>Net interest income</b>		<b>131242 911</b>	<b>153 313 999</b>
Creating reserves on expected credit losses (ECL) by loans extended to customers, deposit with the banks, as well as cash and its equivalents	7, 8, 9	(25 264 176)	(25 649 786)
<b>Net interest income after creating reserves on the ECL of assets on which interest is accrued</b>		<b>105 978 735</b>	<b>127 664 213</b>
Fee and commission income	21	215 445 727	164 641 613
Fee and commission expenses	21	(39 071 940)	(28 373 786)
Net income deducting expenses on foreign exchange transactions	22	18 880 538	(52 313 546)
Losses from depreciation of other financial assets and contingent liabilities of a credit nature and other reserves	(1 414 565)	(7 488 780)	(1 414 565)
Loss from initial recognition of loans	-	(9 432 133)	-
Other income	12 026 103	18 699 972	12 026 103
Other expenses	-	(9 047)	-
Expenses on the personnel and other operational expenses	23	(198 954 785)	(175 261 110)
Net loss from withdrawal of the subsidiary		(4 177 956)	-
<b>Profit before expenses on the profit tax</b>		<b>108 711 857</b>	<b>38 127 396</b>
Expenses on the profit tax	24	(44 452 582)	(18 831 595)
<b>NET PROFIT FOR A PERIOD</b>		<b>64 259 275</b>	<b>19 295 801</b>
<b>Net profit from the continuing operations</b>		<b>65 628 923</b>	<b>18 270 396</b>
Net loss (profit) from the terminated operations		(1 359 648)	1 025 405
<b>Other aggregated income</b>			<b>75 395 711</b>
Revaluation of buildings			75 395 711
<b>Other aggregated income before taxation</b>			<b>75 395 711</b>
<b>Total aggregated income for a period</b>		<b>64 259 275</b>	<b>94 691 512</b>

\* The Group began applying IFRS 9 since January 1, 2018. As a result of applying IFRS 9, the Group changed the procedure for presenting certain clauses; presentation of comparative data has also been changed appropriately (see Note 5).

Approved and signed on behalf of the Group management:

Khalbekov N.N.  
*signature*

Acting Chairman of the Executive Board of the Bank  
June 21, 2019

Tyan Ye.B.  
*signature*

Acting Chief accountant of the Bank

*Official stamp:*

*Republic of Uzbekistan, Tashkent city*

*Joint-Stock Commercial Bank*

**KAPITALBANK**

*The notes enclosed herewith constitute an integral part of these consolidated financial statements.*

## Consolidated Statement in the changes in the capital

<i>(ming UZSda)</i>	Equity	Additional capital	Fund for fixed assets revaluation	Retained earnings	Total capital
<b>Balance as of January 1, 2017</b>	<b>80 331 797</b>	<b>350 000</b>	<b>37 400 020</b>	<b>117 967 214</b>	<b>236 049 031</b>
Net profit for a period	-	-	-	19 295 801	19 295 801
Other aggregated income	-	-	75 395 711	-	75 395 711
Transfer of buildings' depreciation	-	-	-	-	-
Transfer of the fund for fixed assets revaluation	-	-	-	-	-
Withdrawal of subsidiaries	-	-	-	-	-
<b>Balance as of December 31, 2017</b>	<b>80 331 797</b>	<b>350 000</b>	<b>112 795 731</b>	<b>137 263 015</b>	<b>330 740 543</b>
Effect from application of the IFRS 9 as of January 1, 2018 (note 5)	-	-	-	(2 325 146)	(2 325 146)
<b>Adjusted balance as of January 1, 2018</b>	<b>80 331 797</b>	<b>350 000</b>	<b>112 795 731</b>	<b>134 937 869</b>	<b>328 415 397</b>
Net profit for a period	-	-	-	64 259 275	64 259 275
Payout of dividends	-	-	-	(9 720 031)	(9 720 031)
Issuance of shares	9 612 005	-	-	(9 612 005)	-
Conversion of preference shares into ordinary shares	14 420 050	-	-	-	14 420 050
Transfer of the fund for fixed assets revaluation	-	-	(110 871 202)	(110 871 202)	-
Other aggregated income	-	-	-	-	-
<b>Balance as of December 31, 2018</b>	<b>104 363 852</b>	<b>350 000</b>	<b>1 924 529</b>	<b>290 736 310</b>	<b>397 374 691</b>

\*Guruh 2018 yil 1 yanvardan MHXS (IFRS) 9 ni qo'llashni boshladi. MHXS (IFRS) 9 ni qo'llash natijasida Guruh muayyan moddalarni taqdim etish tartibini o'zgartirdi, qiyosiy ma'lumotlarni taqdim etish ham tegishli ravishda o'zgartirildi (5-Izohga qarang).

Guruh rahbariyati nomidan tasdiqlangan va imzolangan:

Xalbekov N.N.

m.o'.

Tyan YE.B.

Bank Boshqaruv Raisi v.v.b.

Bank Bosh Hisobchisi v.v.b.

2019 yil 21 iyun

*Ilova qilingan izohlar ushbu konsolidatsiyalangan moliyaviy hisobotning ajralmas qismi hisoblanadi.*

## Consolidated Cash Flow Statement

<i>(in thousand UZS)</i>	<b>December 31, 2018</b>	<b>December 31, 2017 reconsidered data*</b>
Cash flow from operative business	277 728 521	240 938 648
Interest received	(156 364 922)	(96 912 256)
Interest paid	214 778 580	167 088 607
Commission fee received	(39 071 940)	(28 373 786)
Commission fee paid	380 560 391	139 089 159
Net proceed from foreign exchange transactions	12 887 711	12 922 293
Other operational income received	(84 666 469)	(70 420 280)
Personnel expenses paid	277 728 521	240 938 648
Administrative expenses paid and other operational expenses	(87 898 178)	(83 462 710)
Cash flow received from operative business before changes in operative assets and liabilities	<b>517 953 694</b>	<b>280 869 675</b>
<i>Net (growth) reduction by:</i>		
Funds in credit organizations	(370 601 483)	220 165 014
Loans of customers	(839 902 151)	(452 227 280)
Other assets	(23 281 004)	(5 686 659)
<i>Net (growth) reduction by:</i>		
Funds of credit organizations	(93 782 138)	102 973 037
Funds of customers	1 100 437 307	595 043 851
Debt securities issued	2 850 000	(3 275 206)
Financial leasing obligations	-	(19 097 055)
Other liabilities	(3 300 552)	(1 539 472)
<b>Net cash flow from operative business before paying a profit tax from the continuing operations</b>	<b>290 373 673</b>	<b>717 225 905</b>
Profit tax paid	(51 606 787)	(26 243 927)
<b>Net cash flow from operative business from the continuing operations</b>	<b>238 755 886</b>	<b>690 981 978</b>
<b>Net cash flow (used in) received from operative business or terminated performance</b>	<b>(861 608)</b>	<b>2 140 985</b>
<b>Cash flows from operative business, total</b>	<b>237 905 278</b>	<b>693 122 963</b>
<b>Cash flow from investment activities</b>		
Purchase of fixed assets and intangible assets	(216 898 731)	(186 743 716)
Proceeds from sales of the fixed assets and intangible assets	168 642 593	2 464 643
Redemption of the bonds issued	(300 575)	-
Proceeds from realization of assets available for sale	4 203 509	4 952 096
Proceeds from realization of investment financial assets	2 626 533	4 715 480
Proceeds from withdrawal of the subsidiary deducting cash withdrawn	21 478 887	2 087 857
<b>Net cash flow used in the investment activity from the continuous operations</b>	<b>(20 247 784)</b>	<b>(172 523 640)</b>
<b>Net cash flow received from (used in) the investment activity from the terminated operations</b>	<b>659 078</b>	<b>(2 087 857)</b>
<b>Net cash flow used from investment activities, total</b>	<b>(19 588 706)</b>	<b>(174 611 497)</b>

## Cash flows from financial activities (continuation)

<i>(ming UZSda)</i>	2018 yil	2017 yil qayta ko'rib chiqilgan ma'lumotlar*
Proceeds from the other borrowed funds	53 919 092	175 383
Dividends paid	(9 720 031)	-
<b>Net cash flows from financial activities from continuous operations</b>	<b>44 199 061</b>	<b>175 383</b>
<b>Net cash flows from financial activities from terminated operations</b>	<b>-</b>	<b>-</b>
<b>Net cash flows from financial activities, total</b>	<b>44 199 061</b>	<b>175 383</b>
Exchange rate impact on the cash and it equivalents	<b>8 616 892</b>	<b>(62 586 197)</b>
<b>Net growth of cash and its equivalents</b>	<b>271 132 526</b>	<b>456 100 652</b>
Cash flow and its equivalents as of the beginning of the year	930 835 594	474 734 942
Impact of the change of the ECL on the amount of cash flow and its equivalents	(72 844)	-
<b>Cash flow and its equivalents as of the end of the year</b>	<b>1 201 895 276</b>	<b>930 835 594</b>

\* The Group began applying IFRS 9 since January 1, 2018. As a result of applying IFRS 9, the Group changed the procedure for presenting certain clauses; presentation of comparative data has also been changed appropriately (see Note 5).

Approved and signed on behalf of the Group management:

Khalbekov N.N.  
*signature*

Acting Chairman of the Executive Board of the Bank  
June 21, 2019

Tyan Ye.B.  
*signature*

Acting Chief accountant of the Bank

*Official stamp:*

*Republic of Uzbekistan, Tashkent city*

*Joint-Stock Commercial Bank*

**KAPITALBANK**

*The notes enclosed herewith constitute an integral part of these consolidated financial statements.*