

# Audited Project Financial Statements

---

Project Number: 44318-023 and 44318-025

Loan/Grant Number: 2775 and 3039

Period covered: For Project 1 – 20 April 2012 to 31 December 2012, 1 January 2013 to 31 December 2013 and 1 January 2014 to 31 December 2014. For Project 2 – 24 October 2013 to 31 December 2013 and 1 January 2014 to 31 December 2014.

## UZB: Housing for Integrated Rural Development Investment Program – Projects 1 and 2

Prepared by Qishloq Qurilish Bank

For the Asian Development Bank

Date received by ADB: 10 July 2015

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the {borrower's counterpart agency or executing agency or implementing agency}.

# **JOINT-STOCK COMMERCIAL BANK “QISHLOQ QURILISH BANK”**

## **Special Purpose Financial Statements and Independent Auditors’ Report**

**For the periods from 1 January 2014 to 31 December 2014, from 1 January 2013 to 31 December 2013 and from 20 April 2012 to 31 December 2012, based on the financial reporting provisions of Article IV, Section 4.06 of the Loan Agreements dated 16 February 2012 and 11 October 2013, between the Republic of Uzbekistan and the Asian Development Bank.**

ASIAN DEVELOPMENT BANK  
**RECEIVED**  
10 JUL 2015  
UZBEKISTAN RESIDENT MISSION

## INDEPENDENT AUDITORS' REPORT

To: Shareholders and Council of JSCB "Qishloq Qurilish Bank"

We have audited the accompanying special purpose financial statements of JSCB "Qishloq Qurilish Bank" (hereinafter – "the Bank"), which comprise the statement of utilisation of funds for the periods from 1 January 2014 to 31 December 2014, from 1 January 2013 to 31 December 2013 and from 20 April 2012 to 31 December 2012, and a summary of significant accounting policies and other explanatory information. The special purpose financial statements have been prepared by management of the Bank based on the financial reporting provisions of Article IV, Section 4.06 of the loan agreements dated 16 February 2012 and 11 October 2013 between the Republic of Uzbekistan and the Asian Development Bank ("the Loan Agreements").

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of these special purpose financial statements in accordance with the financial reporting provisions of Article IV, Section 4.06 of the Loan Agreements, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements in accordance with International Standard on Auditing 800 (ISA 800). The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the special purpose financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose financial statements.

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

# Deloitte.

## *Opinion*

In our opinion, the special purpose financial statements of JSCB "Qishloq Qurilish Bank" for the periods from 1 January 2014 to 31 December 2014, from 1 January 2013 to 31 December 2013 and from 20 April 2012 to 31 December 2012 are prepared, in all material respects, in accordance with the financial reporting provisions of Article IV, Section 4.06 of the Loan Agreements.

## *Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to Note 2 to the special purpose financial statements, which describe the basis of accounting. The special purpose financial statements are prepared to assist the Bank to comply with the financial reporting provisions of the Loan Agreements referred to above. As a result, the special purpose financial statements may not be suitable for another purpose.

This report is intended solely for use by the Bank in communicating to the Asian Development Bank information about the Bank's compliance with the financial reporting provisions of the Loan Agreements referred to above. This report is not intended for the benefit of the Asian Development Bank or any other third parties and we accept no responsibility or liability to any party other than the Bank in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties.

*Deloitte & Touche*

Tashkent, Uzbekistan  
8 July 2015

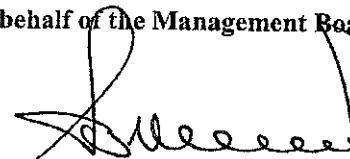
**JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"**

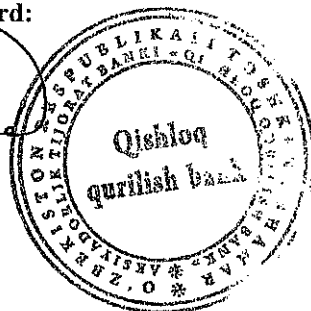
**STATEMENT OF UTILISATION OF FUNDS  
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014, FROM 1 JANUARY  
2013 TO 31 DECEMBER 2013 AND FROM 20 APRIL 2012 TO 31 DECEMBER 2012**  
(in thousands of Uzbek Soums)


**Project Name:** Housing for Integrated Rural Development Investment Program  
**Loan No:** 2775-UZB and 3039-UZB

Loan	Details	Notes	20 April - 31 December 2012	1 January - 31 December 2013	1 January - 31 December 2014	Cumulative to date
<i>Tranche 1</i> (Loan 2775)	Opening Balance		-	26,733	36,177,118	-
	Received from ADB through MOF	1	303,483,172	84,699,145	-	388,182,317
	Loans issued to sub-borrowers	3	(303,456,439)	(48,548,760)	(35,688,629)	(387,693,827)
	Closing balance		26,733	36,177,118	488,489	488,489
				24 October - 31 December 2013	1 January - 31 December 2014	Cumulative to date
<i>Tranche 2</i> (Loan 3039)	Opening Balance			-	-	-
	Received from ADB through MOF	1		167,843,574	200,118,630	367,962,205
	Loans issued to sub-borrowers	3		(167,843,574)	(199,373,631)	(367,217,205)
	Closing balance			-	745,000	745,000

On behalf of the Management Board:

  
Mullakhonov B.M.  
Chairman of the Board



  
Nurmatov M.D.  
Chief Accountant

8 July 2015  
Tashkent, Uzbekistan

8 July 2015  
Tashkent, Uzbekistan

## **JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"**

### **NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014, FROM 1 JANUARY 2013 TO 31 DECEMBER 2013 AND FROM 20 APRIL 2012 TO 31 DECEMBER 2012** *(in thousands of Uzbek Soums, unless otherwise indicated)*

#### **1. BACKGROUND, NATURE OF OPERATIONS AND ACTIVITIES**

On 16 February 2012 ("Tranche 1") and 11 October 2013 ("Tranche 2") the Asian Development Bank (hereinafter "the ADB") and the Republic of Uzbekistan signed loan agreements for financing the Housing for Integrated Rural Development Investment Program (HIRD) in the Republic of Uzbekistan for USD 400 million in total.

The HIRD is a 5-year multisector program to achieve more inclusive growth through improved rural living conditions and livelihood opportunities. The Program comprises a series of financial intermediation loans to help provide housing loans for new modern rural housing to targeted beneficiaries: moderate- and lower income households, young families, single-headed households, and rural teachers and health workers (two occupations in which women predominate).

The ADB provided a loan facility to the Ministry of Finance of the Republic of Uzbekistan ("the MOF") to relend to JSCB "Qishloq Qurilish Bank" ("the Bank") to finance the HIRD for 2012-2014 period totaling to USD 362.4 million. The full amount was re-lent to the Bank in Uzbek Soums.

#### ***Replenishments from ADB in 2012***

The first stream of financing from Tranche 1 amounting to USD 157.9 million was received by the MOF on 20 July 2012 and relent to the Bank on 27 July 2012 in the amount of UZS 300,051,500 thousand. USD 1,7 million from the same tranche was received by the MOF on 18 December and relent to the Bank on 27 December 2012 in the amount of UZS 3,431,672 thousand.

#### ***Replenishments from ADB in 2013***

ADB provided USD 19.2 million to the MOF on 20 February 2013 which in turn relent the funds to the Bank on 11 March 2013 in the amount of UZS 38,963,740 thousand as part of Tranche 1 financing of the HIRD for 2012. USD 77.4 million from Tranche 2 was received by the MOF on 24 October 2013 and relent to the Bank on 28 October 2013 in the amount of UZS 167,843,574 thousand; and USD 20.8 million from Tranche 1 was received by the MOF on 26 December 2013 and relent to the Bank on 30 December 2013 in the amount of UZS 45,735,405 thousand.

#### ***Replenishments from ADB in 2014***

In 2014 MOF has received three streams of financing from Tranche 2: USD 56.2 million on 29 May 2014, USD 25.2 million on 24 December 2014 and USD 4 million on 29 December 2014, and relent them to the Bank on 5 June 2014 and 30 December 2014 in the amounts of UZS 129,374,735 thousand and UZS 70,743,895 thousand, respectively.

#### ***Project activity of the Bank in 2012***

In accordance with the Decree of the President of the Republic of Uzbekistan # PP-1687 "On the program for housing construction on the model projects in rural areas in 2012" dated 14 January 2012 the Bank has participated in financing of construction of 8,510 houses where ADB funds were used for 8,363 sub-loans.

#### ***Project activity of the Bank in 2013***

In 2013, in accordance with the Decree of the President of the Republic of Uzbekistan # PP-1902 "On the program for housing construction on the model projects in rural areas in 2013" dated 4 January 2013 the

**JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014, FROM 1 JANUARY  
2013 TO 31 DECEMBER 2013 AND FROM 20 APRIL 2012 TO 31 DECEMBER 2012**

*(in thousands of Uzbek Soums, unless otherwise indicated)*

Bank has participated in financing of the construction of an additional 8,182 houses. The ADB funds were used for financing of 1,895 sub-loans in this regard.

***Project activity of the Bank in 2014***

In 2014 in accordance with the Decree of the President of Uzbekistan #PP -2068 "On the program for housing construction on the model projects in rural areas in 2014" dated 15 November 2013 the Bank has financed 7,779 sub-projects under the Program where ADB funds were used for 7,642 sub-loans.

In accordance with the Loan Agreements each such sub-loan approved by the Bank under the HIRD program shall comprise as follows:

***In 2012***

35% of funds of the Bank and 65% of the amount from the proceeds of the Loans relented by the MOF to the Bank;

***In 2013***

70% of funds of the Bank and 30% of the amount from the proceeds of the Loans relented by the MOF to the Bank;

***In 2014***

50% of funds of the Bank and 50% of the amount from the proceeds of the Loans relented by the MOF to the Bank.

**JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014, FROM 1 JANUARY  
2013 TO 31 DECEMBER 2013 AND FROM 20 APRIL 2012 TO 31 DECEMBER 2012  
(CONTINUED)**

*(in thousands of Uzbek Soums, unless otherwise indicated)*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

The Statement of Utilization of Funds (the special purpose financial statement) has been prepared in accordance with the cash receipts and disbursements basis of accounting. Accordingly, they are prepared for the special purposes of the project management and the ADB in accordance with the financial reporting provision set out in Article IV, Section 4.06 of the Loan Agreements signed between the Republic of Uzbekistan and the ADB on 16 February 2012 and 11 October 2013.

The accounting policies have been applied consistently throughout the periods from 1 January 2014 to 31 December 2014, from 1 January 2013 to 31 December 2013 and from 20 April 2012 to 31 December 2012.

**Reporting entity**

The special purpose financial statements solely reflects the financial status and position of the ADB funds provided for financing of the Housing for Integrated Rural Development Investment Program that is being implemented by the Ministry of Economy of the Republic of Uzbekistan.

**Reporting Period**

The special purpose financial statement applies to the periods from 1 January 2014 to 31 December 2014, from 1 January 2013 to 31 December 2013 and from 20 April 2012 to 31 December 2012, respectively.

**Reporting currency**

The currency of reporting is Uzbek Soum (UZS). All financial transactions of the Bank related to the HIRD are denominated in UZS. The Bank received a loan from the Ministry of Finance in UZS and all sub-loans issued are denominated in UZS. The amount in UZS is directly transferred from Ministry of Finance to the account of the Bank

**Liquidations and Replenishments**

After eligible expenditures are incurred and paid from the Imprest Account, the Bank requests liquidation and replenishment of the Imprest Account by submitting a Withdrawal Application and Statement of Expenditures (SOE). Advances paid from the Imprest Account to sub-accounts are not considered to be incurred, and such amounts are still subject to liquidation by project expenditures actually incurred.



**JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014, FROM 1 JANUARY  
2013 TO 31 DECEMBER 2013 AND FROM 20 APRIL 2012 TO 31 DECEMBER 2012  
(CONTINUED)**

*(in thousands of Uzbek Soums, unless otherwise indicated)*

**Cash and Cash Equivalent**

Opening and closing positions within the Statement of Utilization of Funds represent cash and cash equivalents. Cash and cash equivalents represent the balance remaining in the Imprest Account held with the Bank.

**JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014, FROM 1 JANUARY  
2013 TO 31 DECEMBER 2013 AND FROM 20 APRIL 2012 TO 31 DECEMBER 2012  
(CONTINUED)**

*(in thousands of Uzbek Soums, unless otherwise indicated)*

**3. EXPENDITURES MADE FROM ADB FUNDS**

In the periods from 1 January 2014 to 31 December 2014, from 1 January 2013 to 31 December 2013 and from 20 April 2012 to 31 December 2012 the Bank issued 24,471 sub-loans under HIRD program of which 17,900 sub-loans were issued using the ADB funds for the total amount of UZS 754,911,032 thousand.

In the periods from 1 January 2014 to 31 December 2014, from 1 January 2013 to 31 December 2013 and from 20 April 2012 to 31 December 2012 the Bank submitted liquidations for the total amount of UZS 760,978,849 thousand of which UZS 6,033,361 thousand was disallowed.

In November 2013 funds for the total amount of UZS 14,800,000 thousand were temporarily transferred to an account other than of Housing for Integrated Rural Development program. Subsequently, these funds were transferred back to Imprest Account and were ultimately used for the purposes for which they were originally provided for.

According to the Decree of the President of the Republic of Uzbekistan #PP-1902 "On the program for housing construction on the model projects in rural areas in 2013" dated 4 January 2013 financing of 8,182 sub-projects was assigned to the Bank. Construction was financed partially by means of funding from Tranche 1 for the total amount of UZS 45,246,915 thousand and partially by means of funds from Tranche 2 for the total amount of UZS 144,384,219 thousand (out of UZS 167,843,574 thousand received). However, the loan agreement # 3039 – UZB was signed on 11 October 2013 whereas actual financing of the program was completed prior to that date. In accordance with ADB Loan Disbursement Handbook and with reference to the Memorandum of Understanding signed between the Republic of Uzbekistan and ADB on 23 October 2013, the expenditures in the amount of UZS 144,384,219 thousand the Bank has incurred and paid prior to the loan agreement # 3039 – UZB becoming effective were determined to be ineligible by ADB.

For this reason it was decided that the funds used to finance ineligible expenditure (6,047 sub-loans) in the amount of UZS 144,384,219 thousand incurred in 2013 will be transferred to finance sub-loans in 2014 by change of participation proportion to 50% financing from the Bank and 50% from the ADB funds relented by MOF.

Also, the management of the Bank has decided to use UZS 23,459,355 thousand (out of UZS 167,843,574 thousand received) from the funds of Tranche 2 to finance sub-projects of Tranche 1. However, the management has then reallocated these funds back to sub-projects of Tranche 2 in 2014 from the funds of Tranche 1 received on 30 December 2013.

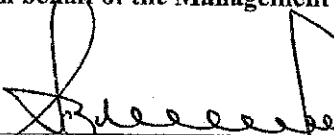
**JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014, FROM 1 JANUARY  
2013 TO 31 DECEMBER 2013 AND FROM 20 APRIL 2012 TO 31 DECEMBER 2012  
(CONTINUED)**

*(in thousands of Uzbek Soums, unless otherwise indicated)*


The Statements of Expenditure ("SOE") for the period from 24 October 2013 to 31 December 2014 with regards to Tranche 2 do not reflect actual amounts charged from Imprest Account which explains the difference between amounts reported in SOEs and actual cash movements represented in the Statement of Utilization of Funds.

**On behalf of the Management Board:**

  
Mullakhonov B.M.  
Chairman of the Board

8 July 2015  
Tashkent, Uzbekistan



  
Nurmatov M.D.  
Chief Accountant

8 July 2015  
Tashkent, Uzbekistan

# **JOINT-STOCK COMMERCIAL BANK “QISHLOQ QURILISH BANK”**

**Report on compliance with procedures on Imprest Account and Statement of Expenditures and requirements on usage of the Asian Development Bank funds for the purposes set out in Article III (paragraphs 3.03[a], 3.03[b] and 3.05), Schedule 1 (paragraphs 1[a] and 2[a]), and Schedule 5 (paragraphs 2[a], 2[b], 3[a], 4[a], 4[b], 5, and 6) of the Loan Agreement dated 16 February 2012, between Government of Uzbekistan and the Asian Development Bank for the period from 1 January 2013 to 31 December 2013.**

ASIAN DEVELOPMENT BANK  
**RECEIVED**  
10 JUL 2015  
UZBEKISTAN RESIDENT MISSION

## INDEPENDENT ASSURANCE REPORT

To: Shareholders and Council of JSCB "Qishloq Qurilish Bank"

### *Introduction*

We have audited, in accordance with International Standards on Auditing, the consolidated financial statements of JSCB Qishloq Qurilish Bank ("the Bank") and its subsidiaries ("the Group") prepared in accordance with International Financial Reporting Standards, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information (collectively - the "financial statements") and have expressed an unqualified opinion thereon dated 16 April 2014.

### *Scope and Subject Matter Information*

We have performed our examination of the report on compliance to determine whether under the Loan Agreement with the Asian Development Bank ("the ADB") dated 16 February 2012 ("the Loan Agreement"), in all material respects, based on the criteria defined in the paragraph 8 and Annex "Excerpts from each Loan Agreement" of Attachment 1 to the Terms of Reference:

- a. The ADB funds have been used for the purposes for which the funds were provided as set out in Article III (paragraphs 3.03[a], 3.03[b] and 3.05), Schedule 1 (paragraphs 1[a] and 2[a]), and Schedule 5 (paragraphs 2[a], 2[b], 3[a], 4[a], 4[b], 5, and 6) of the Loan Agreement for the period from 1 January 2013 to 31 December 2013.
- b. The Bank has complied with the Imprest Account procedures, i.e. that the Imprest Account gives a true and fair view of the receipts collected and payments made and supports Imprest Account liquidations and replenishments during the period from 1 January 2013 to 31 December 2013; and
- c. The Bank has complied with Statement of Expenditure procedures, i.e. that supporting documentation has been maintained to support claims to the ADB for reimbursement of expenditures incurred and that the expenditures are eligible for financing under the Loan Agreement for the period from 1 January 2013 to 31 December 2013.

### *Responsibilities for the Subject Matter*

Management is responsible for preparing and maintaining of books and records on Imprest Account and Statement of Expenditure and for compliance with Imprest Account and Statement of Expenditure procedures through maintaining supporting documentation on replenishments and receipts collected and withdrawals and payments made from the Imprest Account as well as claims to the ADB for reimbursement of expenditure incurred and that the expenditure is eligible for financing under the Loan Agreement for the period from 1 January 2013 to 31 December 2013. Management is also responsible for compliance with Article III (paragraphs 3.03[a], 3.03[b] and 3.05), Schedule 1 (paragraphs 1[a] and 2[a]), and Schedule 5 (paragraphs 2[a], 2[b], 3[a], 4[a], 4[b], 5, and 6) of the Loan Agreement in terms of using the ADB funds. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the above information that is free from material misstatement, whether due to fraud or error.



Our responsibility is to express a conclusion on the subject matter discussed above based on our reasonable assurance engagement. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 applicable to assurance engagements. This standard requires that we plan and perform our examination on the subject matter referred to above and perform other procedures as we consider necessary in the circumstances. We believe that our work provides a reasonable basis for our qualified conclusion.

Inherent limitations exist in assurance engagements, due to the selective testing of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Non-financial data may be subject to more inherent limitations than financial data, given its nature and the methods used for determining or estimating such data. These inherent limitations may influence the evaluation of the subject matter against criteria as defined in the paragraph 8 and Annex "Excerpts from each Loan Agreement" of Attachment 1 to the Terms of Reference.

Our audit of the Bank's consolidated financial statements as at and for the year dated 31 December 2013 was not directed primarily towards obtaining knowledge of the subject matter referred to above.

#### *Basis for Qualified Conclusion*

Article III paragraph 3.03[b] requires that the proceeds of the Loan described in Section 3.01[a] of the Loan Agreement be used only for making sub-loans to qualified sub-borrowers for qualified sub-project. Schedule 5 of the Loan Agreement sets specific eligibility criteria for sub-borrowers and sub-project to qualify for the project. The eligibility criteria for sub-borrowers are set out in paragraphs 2[a], 2[b] and 2[c] and for sub-project in paragraphs 3[a] and 3[b]. We were unable to obtain sufficient appropriate audit evidence about eligibility criteria set out in paragraphs 2[c] and 3[b] because these two paragraphs were excluded from our scope. Consequently, we were unable to determine whether sub-borrowers and sub-project met the eligibility criteria described in these two paragraphs to be in full compliance with the requirements of Article III paragraph 3.03[b].

The Bank did not comply with paragraph 2[a] of Schedule 5 requiring the Bank to ensure that each qualified sub-borrower is a citizen and resident of a rural area of the Republic of Uzbekistan. During our examination we have noted 7 instances within our sample size when sub-loans were issued to sub-borrowers who were residents of cities at the time of signing the sub-loan agreements.

The Bank did not comply with the Imprest Account procedures as stipulated in the Loan Disbursement Handbook which prohibits the use of funds from the Imprest Account for the purposes other than that of the project. Specifically, our examinations identified that in November 2013 the Bank has temporarily transferred UZS 14,800,000 thousand from Imprest Account to an account other than of Housing for Integrated Rural Development program. In 10 days these funds were transferred back to Imprest Account.

The Bank did not comply with the requirements set out in paragraph 4[a] of Schedule 5 revised as a result of addendum to the Loan Agreement signed on 20 December 2013. Specifically, this addendum requires the sub-loans made by the Bank in 2013 to charge interest at the rate of 7% per annum for the first 10 years and equal to the refinancing rate of the Central Bank of the Republic of Uzbekistan for the remaining 5 years while originally interest rate was set at 7% for the whole term of the sub-loans. These sub-loan agreements were signed with sub-borrowers based on the original terms before the addendum to the Loan Agreement was signed. Due to the volume of sub-loans the management of the Bank has informed us that they intend to sign additional agreements with sub-borrowers to change the interest rate of sub-loans prior to the date when revised interest rate becomes effective provided the sub-borrowers have no objections.

The Bank did not comply with the requirement set out in paragraph 5 of Schedule 5 according to which each sub-loan issued to qualified sub-borrower in 2013 shall comprise 70% of its amount from the Bank's funds and 30% of the amount from the proceeds of the Loan Agreement relent by the Ministry of Finance of the Republic of Uzbekistan to the Bank. During our examination we have identified that as at 31 December 2013 all sub-loans issued in 2013 have been fully financed from the Bank's own funds.

## *Qualified Conclusion*

In our opinion, except for the matters discussed in the Basis for Qualified Conclusion paragraphs, in all material respects, based on the criteria defined in the paragraph 8 and Annex "Excerpts from each Loan Agreement" of Attachment 1 to the Terms of Reference:

- a. The ADB funds have been used for the purposes for which the funds were provided as set out in Article III (paragraphs 3.03[a], 3.03[b] and 3.05), Schedule 1 (paragraphs 1[a] and 2[a]), and Schedule 5 (paragraphs 2[a], 2[b], 3[a], 4[b], 5, and 6) of the Loan Agreement for the period from 1 January 2013 to 31 December 2013, and as detailed in Attachments 1 and 3 to this report;
- b. The Bank has complied with the Imprest Account procedures, i.e. that the Imprest Account gives a true and fair view of the receipts collected and payments made and supports Imprest Account liquidations and replenishments during the period from 1 January 2013 to 31 December 2013 and as detailed in Attachment 2 to this report; and
- c. The Bank has complied with Statement of Expenditure procedures, i.e. that supporting documentation has been maintained to support claims to the ADB for reimbursement of expenditure incurred and that the expenditure is eligible for financing under the Loan Agreement for the period from 1 January 2013 to 31 December 2013.

This qualified conclusion has been formed on the basis of, and is subject to the inherent limitations outlined elsewhere in this report. A copy of the relevant schedules for identification purposes only are attached as Attachments 1, 2 and 3.

## *Restriction on Use*

This report is intended solely for use by the Bank in communicating to the Asian Development Bank information about the subject matter referred to above. This report is not intended for the benefit of the Asian Development Bank or any other third parties and we accept no responsibility or liability to any party other than the Bank in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties.

*Deloitte & Touche*

8 July 2015  
Tashkent, Uzbekistan

Attachment 1

Excerpt from Attachment 1 to the Terms of Reference

C. SCOPE OF SERVICES

8. This reasonable assurance engagement will be undertaken in accordance with International Standard on Assurance Engagements (ISAE) 3000, and will involve a positive form of expression of the practitioner's conclusion, in accordance with ISAE 3000, as to whether for the period from 1 January 2013 to 31 December 2013 for Loan-2775:
  - a. ADB funds have been used only for the purposes for which the funds were provided as defined in Article III (paragraphs 3.03[a], 3.03[b] and 3.05), Schedule 1 (paragraphs 1[a] and 2[a]), and Schedule 5 (paragraphs 2[a], 2[b], 3[a], 4[a], 4[b], 5, and 6) of the Loan Agreement dated 16 February 2012 (Loan Number 2775-UZB);
  - b. QQB has complied with the financial covenants in the Loan Agreement(s) (Schedule 5, paragraph 7 of Loan-2775). Where noncompliance is present, the auditor should indicate the extent of noncompliance by comparing required and actual performance measurements for each financial covenant for the financial year concerned;
  - c. QQB has complied with the imprest account procedures (to confirm or otherwise, whether the imprest account gives a true and fair view of the receipts collected and payments made and supports imprest liquidations and replenishments during the year); and
  - d. QQB has complied with statement of expenditure procedures, including confirming or otherwise, whether adequate supporting documentation has been maintained to support claims to ADB for reimbursement of expenditures incurred and that the expenditures are eligible for financing under one of the loan agreements between ADB and Uzbekistan.

However, a specific audit assurance with regard to compliance with the financial covenants of the loan and project agreements will not be required, if these are disclosed in the notes to the financial statements of QQB



**ANNEX: Excerpts from each Loan Agreement**

**Article III: Use of Proceeds of the Loan**

Section 3.03.

(a) The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

(b) Notwithstanding the generality of subsection (a) hereinabove and except as ADB may otherwise agree, the proceeds of the Loan described in Section 3.01(a) of this Loan Agreement shall be used only for making Subloans to Qualified Subborrowers\* for Qualified Subprojects\* and shall be applied exclusively for the financing of expenditures under Part 1 of the Project.

Section 3.04.

Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.05.

Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

\* Please note that for the purposes of other assurance reporting requirements set out in Schedule 5 paragraphs 2 [c] and 3 [b] have been excluded in accordance with ADB Terms of References.

**Schedule 1: Description of the Project**

1. The objective of the Investment Program is to improve housing for targeted beneficiaries in the rural communities through financing projects aimed to:
  - (a) finance housing loans provided by PCBs to targeted beneficiaries for their purchase of new residential housing under the Rural Housing Scheme;
  - (b) improve capacity of local governments to prepare integrated rural development plans and investment promotion strategies; and
  - (c) improve enabling environment for rural micro and small sized enterprises.
2. As a part of the Investment Program, the Project shall support:
  - (a) financing of housing loans provided by the PCBs to targeted beneficiaries for their purchases of new residential housing under the Rural Housing Scheme of the Borrower ("Part 1"); and
  - (b) capacity development of local governments, the MOE, the PCBs and related bodies, improvement of enabling environment for rural micro and small sized enterprises, and project management support ("Part 2").

**Joint-Stock Commercial Bank "Qishloq Qurilish Bank"**

**Schedule 5: Execution of Project; Financial Matters (selected)**

Qualified Subborrower

9. The Borrower shall cause the PCBs to ensure that each Qualified Subborrower shall meet and maintain the following eligibility criteria:
- (a) he/she is a citizen, and resident of a rural area, of the Borrower;
  - (b) he/she agrees to use the Subloan only for the financing of his/her Qualified Subproject;
  - (c) he/she meets the middle-income, or low-income, threshold of the Rural Housing Scheme (to be defined annually as a multiple of the national minimum wage); and

Qualified Subproject

10. The Borrower shall cause the PCBs to ensure that each Qualified Subproject meets the following eligibility criteria:
- (a) the Qualified Subproject is for the purchase by the Qualified Subborrower of a house under the Rural Housing Scheme of the Borrower;\* and
  - (b) the Qualified Subproject shall adhere to the safeguards requirements set forth in paragraphs 8 to 12 and 15 of this Schedule.

\*Please note that Qualified Subproject amount is preliminarily agreed with the Qualified Subborrower in the financing agreement signed between the PCB and the Qualified Subborrower. However, actual amount of the Qualified Subproject may vary depending on prices for goods and services used.

Subloan

11. The Borrower shall cause the PCBs to ensure that:
- (a) Subloan made by QQB in 2012 shall charge interest at the rate of 7% per annum and have a term of 15 years, including a grace period of 12 months;  
  
Subloan made by QQB in 2013 shall: (i) have a term of 15 years, including a grace period of 12 months; and (ii) charge interest at the rate of 7% per annum for the first 10 years and equal to the market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 5 years; and
  - (b) all Subloans shall not exceed \$50,000 equivalent.

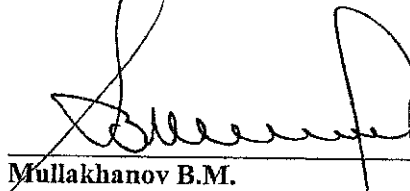
12. The Borrower shall cause the PCBs to ensure that for each Qualified Subproject, at least 25% of the subproject costs shall be paid by the Qualified Subborrower. The remainder of such costs shall be financed by way of a Subloan. (For the avoidance of doubt, the Subloan shall not finance any costs relating to QQI activities under the Rural Housing Scheme.) Each such Subloan approved by a PCB, for

**Joint-Stock Commercial Bank "Qishloq Qurilish Bank"**

which a loan agreement is entered into between the PCB and a Qualified Subborrower, in 2013 shall comprise 70% of its amount from the PCB's funds and 30% of the amount from the proceeds of the Loan relented by the Borrower to the PCB.

13. In the event that any eligibility criteria for a Qualified Subborrower, Qualified Subproject or Subloan is not complied with, whether at the time of Subloan approval or thereafter, ADB reserves the right to exclude such Subloan from the Project.

**On behalf of the Management Board:**

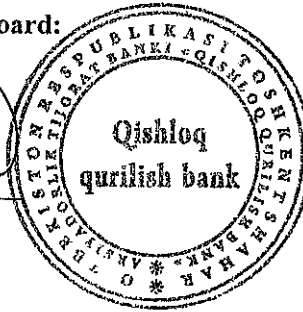


**Mullakhanov B.M.**

**Chairman of the Board**

8 July 2015

Tashkent, Uzbekistan



**Nurmatov M.D.**

**Chief Accountant**

8 July 2015

Tashkent, Uzbekistan

**Joint-Stock Commercial Bank "Qishloq Qurilish Bank"**

*(in thousands of Uzbek Soums, unless otherwise indicated)*

**Attachment 2**

**IMPREST ACCOUNT REPLENISHMENTS AND LIQUIDATIONS**

	<u>Imprest account</u>
<b>Balance as at 1 January 2013</b>	<b>303,483,172</b>
Replenishments	84,699,145
Liquidations	(342,446,912)
<b>Balance as at 31 December 2013</b>	<b>45,735,404</b>
Replenishments	-
Liquidations	(45,246,915)
<b>Balance as at 31 December 2014</b>	<b>488,489</b>


The above movement is built on the basis of replenishments and liquidations made in accordance with Chapter 10, paragraph 10.17 of the ADB Loan Disbursement Handbook and liquidations may not always represent actual cash disbursements made from Imprest Account which amounted to UZS 35,688,629 thousand and UZS 48,548,760 thousand for the periods from 1 January 2014 to 31 December 2014 and from 1 January 2013 to 31 December 2013, respectively.

In 2013, the Bank has prepared and submitted the Withdrawal Applications and Statements of Expenditure for liquidation of expenditure related to sub-loans signed in 2012 of which UZS 38,990,474 thousand were disbursed in 2013 and UZS 303,456,439 thousand in 2012.


On 12 May 2014, the Bank has prepared and submitted the Withdrawal Application and Statement of Expenditure for liquidation of expenditure related to sub-loans signed in 2013 of which UZS 12,717,762 thousand were disbursed in 2014 and UZS 32,529,153 thousand in 2013.

In November 2013 funds for the total amount of UZS 14,800,000 thousand were temporarily transferred to an account other than of Housing for Integrated Rural Development (HIRD) program. Subsequently, these funds were transferred back to Imprest Account and were ultimately used for the purposes for which they were originally provided for.

**On behalf of the Management Board:**

  
Murlakhanov B.M.  
Chairman of the Board



  
Nurmatov M.D.  
Chief Accountant

8 July 2015

8 July 2015

**Joint-Stock Commercial Bank "Qishloq Qurilish Bank"**

*(in thousands of Uzbek Soums, unless otherwise indicated)*

Tashkent, Uzbekistan

Tashkent, Uzbekistan

**Attachment 3**

**STATEMENT OF EXPENDITURE**

The following Statement of Expenditure represents expenditure incurred and paid in relation to sub-loans signed with sub-borrowers under the HIRD program in 2013. The Statement of Expenditure was submitted to ADB on 12 May 2014, the date when the Management of the Bank determines the expenditure to be liquidated unless otherwise communicated by ADB.

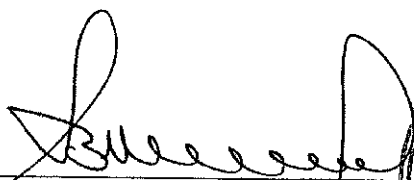
All of the sub-loans were provided at 7% interest rate per annum as initially stipulated in the Loan Agreement. On 20 December 2013 addendum to the Loan Agreement has been signed to change interest rate of sub-loans issued in 2013 from 7% for the whole term of the loan to 7% for the first 10 years and the market rate (wherein the CBU refinancing rate will be used as proxy) for the remaining 5 years.

Since all of the sub-loan agreements were signed before the addendum to the Loan Agreement came into effect the management of the Bank plans to sign additional agreements with sub-borrowers to change the interest rate for the remaining 5 years of the sub-loans to CBU refinancing rate effective as at the date of signing the sub-loan agreements. The management of the Bank intends to make these changes prior to the date when revised interest rate becomes effective provided the sub-borrowers have no objections.

As at 31 December 2013 all sub-loans issued in 2013 have been fully financed from the Bank's own funds. As at 31 December 2014, however, the proportion of the Bank's funds and proceeds of the Loan Agreement used to finance sub-loans issued in 2013 has changed and comprised 70% of the Bank's funds and 30% - from proceeds of the Loan Agreement.


The Management has not prepared any report on compliance for the period from 1 January 2014 to 31 December 2014 as there were no sub-loan agreements signed in 2014 in relation to the Loan Agreement.

**On behalf of the Management Board:**

  
**Mullakhanov B.M.**  
**Chairman of the Board**



8 July 2015  
Tashkent, Uzbekistan

  
**Nurmatov M.D.**  
**Chief Accountant**

8 July 2015  
Tashkent, Uzbekistan