

Audited Project Financial Statements

Project Number: 44318-025

Loan/Grant Number: 3039

Period covered: 1 January 2016 to 31 December 2016

UZB: Housing for Integrated Rural Development Investment Project – Tranche 2

Prepared by JSCB “Qishloq Qurilish Bank”

For the Asian Development Bank

Date received by ADB: 30 June 2017

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 Ministry of Economy of Uzbekistan.

Aksiyadorlik tijorat banki

Qishloq qurilish bank

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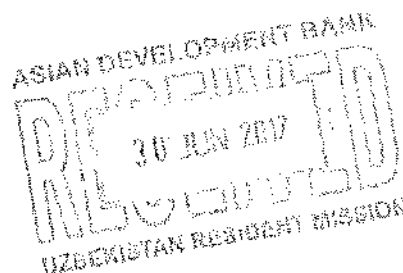
Asian Development Bank Uzbekistan Resident Mission

In accordance with section 3.06 of the Project Agreement between ADB and JSCB "Qishloq Qurilish Bank" on October 11, 2013 and section 3.06 of the Project Agreement between ADB and JSCB "Qishloq Qurilish Bank" on August 21, 2015 JSCB "Qishloq Qurilish Bank" is sending you the audited statements under Tranche 2 and Tranche 3.

The audited statements are attached

Deputy
Chairman of the Board

A. Muratov



PKF MAK ALYANS LLC



**Accountants &
business advisors**

**JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"
Housing for Integrated Rural Development Investment Program –
Tranche 2 ADB Loan Agreement No. 3039-UZB**

INDEPENDENT REASONABLE ASSURANCE REPORT

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Independent Reasonable Assurance Report

To The Board of Joint-Stock Commercial Bank "Qishloq Qurilish Bank" and Asian Development Bank

Subject Matters and Criteria

Our task was to conduct independent audit with reasonable assurance in connection with the following:

- compliance of Joint-Stock Commercial Bank "Qishloq Qurilish Bank" (hereinafter "the Bank") with the specific provisions of Loan agreement No. 3039-UZB dated from 11 October 2013 (hereinafter "Loan Agreement") between Asian Development Bank (hereinafter "ADB"): ADB's funds have been used for the purposes for which the funds were allocated in accordance 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 3 [a], 3 [b], 3 [d], 4 [a], 5 [a], 5 [b], 5 [c] and 6) for the period from 1 January to 31 December 2016;
- compliance of the Bank with the specific provisions of ADB's Loan Disbursement Handbook in relation to 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 liquidation of expenditures and replenishments for the period from 1 January to 31 December 2016;
- compliance of the Bank with specific provisions of ADB's Loan Disbursement Handbook in relation to Statement of Expenditure procedures, i.e. that adequate supporting documentation has been maintained according to ADB's requirements for liquidation of expenditures incurred and that the expenditures are eligible for financing under the Loan agreement signed between ADB and the Republic of Uzbekistan for the period 1 January to 31 December 2016.

The Bank's Management Responsibility

The Management is responsible for:

- compliance of the Bank with the specific provisions of the Loan agreement: ADB funds have been used for the purposes for which the funds were allocated in accordance with Article III (paragraphs 3.03 [a], 3.03 [b] and 3.05), Schedule 1 (paragraphs 1 [a] and 2 [b]) and Schedule 5 (paragraphs 3 [a], 3 [b], 3 [d], 4 [a], 5 [a], 5 [b], 5 [c] and 6) for the period from 1 January to 31 December 2016;
- compliance of the Bank with the specific provisions of ADB's Loan Disbursement Handbook in relation to 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 liquidation of expenditures and replenishments for the period from 1 January to 31 December 2016;
- compliance of the Bank with specific provisions of ADB's Loan Disbursement Handbook in relation to Statement of Expenditure procedures, i.e. that adequate supporting documentation has been maintained according to ADB's requirements for liquidation of expenditures incurred and that the expenditures are eligible for financing under the Loan agreement signed between ADB and the Republic of Uzbekistan for the period 1 January to 31 December 2016.

Our responsibility

Our responsibility is to report on subject matters (as specified in the Section "Subject Matters and Criteria") based on our performed work.

We provided our services in accordance with International Standards on Assurance Engagements (ISAE) 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information". According to these standards we must comply with ethical requirements and plan, and perform assurance engagement to obtain reasonable assurance that the subject matters are in compliance, in all material respects, with the specified criteria (as specified in the Section "Subject Matters and Criteria").

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

Basis for Qualified Conclusion

Compliance with imprest account procedures

1. The amount of cash balances in the imprest account as at 1 January and 31 December 2016 was amounted to 34 456 thousand UZS more compared with the outstanding unliquidated replenishments of imprest funds due to the difference between the actual disbursements and liquidated expenses in previous years.

2. Outstanding balances of unliquidated imprest account replenishments occurred because of liquidation of eligible expenses in relation to loan replenishment. To confirm the eligibility of expenditures, there was a necessity to review the eligibility criteria of sub-borrowers, which is set out in 3 [a], 3 [b], 3 [c], and 3 [d] sub-projects in paragraphs 4 [a] and 4 [b]. Previous auditor was unable to obtain sufficient appropriate audit evidence about eligibility criteria set out in paragraphs 3 [c] and 4 [b], because these two paragraphs were excluded from their scope. Consequently, previous auditor was 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 Imprest Account procedures in terms of presentation accurate outstanding balances on unliquidated replenishments.

Reasonable Assurance Opinion

In our opinion, except for the matters discussed in the Basis for Qualified Conclusion paragraphs:

➤ The Bank complied, in all material respects, with the specific provisions of the Loan agreement: ADB funds have been used 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 3 [a], 3 [b], 3 [d], 4 [a], 5 [a], 5 [b], 5 [c] and 6) in the period from 1 January to 31 December 2016 (please refer to Annex 1 for excerpt from Loan agreement);

➤ The Bank complied, in all material respects, with the specific provisions of ADB's Loan Disbursement Handbook in relation to 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 liquidations and replenishments in the period from 1 January to 31 December 2016;

➤ The Bank complied, in all material respects, with the specific provisions of ADB's Loan disbursement Handbook in relation to Statement of Expenditure procedures, i.e. that adequate supporting documentation has been maintained to support claims to ADB for liquidation of expenditures incurred and that the expenditures are eligible for financing under the Loan Agreement between ADB and Uzbekistan in the period from 1 January to 31 December 2016.

Inherent limitation

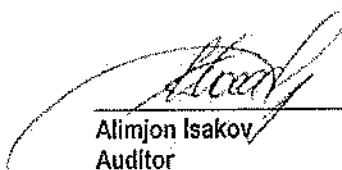
Without modifying our reasonable assurance opinion, we draw attention to the fact that inherent limitations exist in assurance engagements, due to the selective testing of the information. Therefore, fraud, error or non-compliance may occur and not be detected. Non-financial data may be subject to more 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 matters against the criteria (as specified in Section "Subject Matters and Criteria" above).

Restriction on Use and Distribution

This independent reasonable assurance report is provided solely for the use of the Board of the Bank and ADB and only for the purposes of the Project and should not be used for any other purpose or distributed to any other parties.


Ravshan Asfandiyarov
General Director
Auditor's qualification certificate
No. 14/1 dated 26 June 2015




Alimjon Isakov
Auditor
Auditor's qualification certificate
No. 04475 dated 5 December 2012

Audit Company PKF MAK ALYANS LLC
22 June 2017
22, Aviasozlar Street, 1st Avenue, Tashkent, Uzbekistan

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 3.05. 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.

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 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, PCBs and related bodies, improvement of enabling environment for rural micro and small sized enterprises, and project management support ("Part 2").

Schedule 5 – Execution of Project; Financial Matters

Qualified Subborrower

3. The Borrower shall cause 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 and he/she is only entitled to 1 Qualified Subproject for the purposes of this Investment Program;

(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;

(d) he/she agrees to occupy, and not to sell or transfer ownership of, the house purchased under his/her Qualified Subproject for at least 5 years from the date he/she receives the legal title to the house.

Qualified Subproject

4. The Borrower shall cause 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 9 to 15 of this Schedule.

Subloan

5. The Borrower shall cause PCBs to ensure that:

(a) each Subloan made by a PCB 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;

(b) each Subloan made by a PCB in 2014 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 5 years and equal to 90% of the market rate (wherein the CBU refinancing rate will be used as a proxy) for the remaining 10 years; and

(c) each Subloan shall not exceed 50,000 USD equivalent.

6. The Borrower shall cause 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 QOI activities under the Rural Housing Scheme.) Each such Subloan approved by PCB, for which a loan agreement is entered into between PCB and a Qualified Subborrower, in 2013 shall comprise 70% of its amount from PCB's funds and 30% of the amount from the proceeds of the Loan relent by the Borrower to PCB. Each such Subloan approved by a PCB in 2014 shall comprise 50% of its amount from PCB's funds and 50% of the amount from the proceeds of the Loan relent by the Borrower to PCB.

7. 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.

Financial Covenants

8. PCBs shall remain financially sound throughout the Project Implementation period. Specifically, PCB shall:

(a) maintain a capital adequacy ratio of not less 12%. For the purpose of this subparagraph, capital adequacy ratio means the ratio of regulatory capital to risk assets, expressed as a percentage. Regulatory capital means the aggregate of equity share capital, general reserves and subordinate debt. Risk assets mean the aggregate of total assets less risk-free assets (i.e. cash in hand, with CBU and other banks, and holdings of securities issued by the Borrower and by governments of countries of the Organisation for Economic Cooperation and Development) plus off-balance sheet contingencies;

(b) maintain a return on average assets ratio of not less than 0.5% for each of the last two completed fiscal years. For the purpose of this subparagraph, return on assets ratio means the division of net profit by the sum of the total assets at the end of the year in issue and the total assets at the end of the previous year, expressed as a percentage;

(c) ensure that its non-performing loans (i.e. debts requiring 100% loan-loss provisioning as defined by CBU) are less than 5% of its total loan portfolio.

Imprest account replenishments and liquidations statement

In thousands of UZS

Imprest account	
Balance as at 1 January 2016	710 544
Imprest account replenishments	-
Imprest account Liquidations based on Statement of Expenditures	-
Returned funds to MOF	(710 544)
Balance as at 31 December 2016	-

The Imprest account replenishments and liquidations statement is prepared based on replenishments and liquidations made in accordance with Chapter 10 of the Asian Development Bank Loan Disbursement Handbook (hereinafter "ADB").

Imprest account replenishments

According to Loan Agreement No. 3039-UZB dated 11 October 2013 (the Loan Agreement), ADB disbursed loan to the Ministry of Finance (hereinafter "MOF") which further disburses them to the Joint Stock Commercial Bank "Qishloq Qurilish Bank" (hereinafter "the Bank").

In 2016, the Bank did not receive funds, as MOF issued all the funds under the Loan Agreement in 2013 and 2014

Imprest account liquidations

According to the Chapter 9 of the ADB Loan Disbursement Handbook the client recognizes liquidation based on the Statement of Expenditure submitted to the Bank. Statement of Expenditure presents based actual eligible expenses that should be liquidated against replenishment received under the Loan agreement.

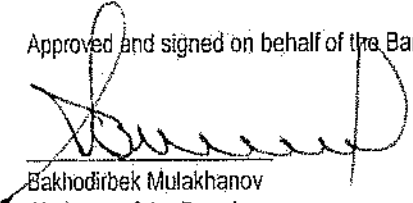
The Bank has not submitted any Statement of Expenditure in 2016 under this Loan agreement since all liquidations on Imprest Account where made in prior years.


Balances as at 1 January 2016 and 31 December 2016

Balances as at 1 January 2016 and 31 December 2016 represent outstanding balances of unliquidated imprest account replenishments on 1 January 2016 and 31 December 2016 respectively. Balances may not always represent actual cash balances on imprest account. Actual cash balance as at 1 January and 31 December 2016 represents 745 000 thousand UZS. Difference for 34 456 thousand UZS between actual cash balance and balance as per Imprest Account Replenishments and Liquidations Statement resulted due to the difference in actual disbursements and liquidated expenses in prior years.

Cash balance of imprest account as at 31 December 2016, 745 000 thousand UZS was transferred to the MOF in 2016.

Approved and signed on behalf of the Bank's Management Board on 21 June 2017.


Bakhodirbek Mulakhanov
Chairman of the Board


Muzaffar Nigmatov
Chief Accountant

Aksiyadorlik tijorat banki

Qishloq qurilish bank

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Asian Development Bank Uzbekistan Resident Mission

In accordance with section 3.06 of the Project Agreement between ADB and JSCB "Qishloq Qurilish Bank" on October 11, 2013 and section 3.06 of the Project Agreement between ADB and JSCB "Qishloq Qurilish Bank" on August 21, 2015 JSCB "Qishloq Qurilish Bank" is sending you the audited statements under Tranche 2 and Tranche 3.

The audited statements are attached

Deputy
Chairman of the Board

A. Muratov



PKF MAK ALYANS LLC



**Accountants &
business advisors**

JOINT-STOCK COMMERCIAL BANK "QISHLOQ QURILISH BANK"

Housing for Integrated Rural Development Investment Program

Tranche 2 and Tranche 3

ADB Loan Agreements No. 3039-UZB and No. 3271-UZB

Special-Purpose Cash Basis Financial Statement

for the year ended 31 December 2016

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Independent Auditor's Report

To the Board and Management of Joint-Stock Commercial Bank "Qishloq Qurilish Bank"

Auditor's opinion

We have audited the attached Special-purpose financial statement prepared on a cash basis of Housing for Integrated Rural Development Investment Program financed from the funds of the Asian Development Bank under ADB Loan agreement ADB Loan agreement No. 3039-UZB dated from 11 October 2013 (tranche 2), ADB Loan agreement No. 3271-UZB dated from 21 August 2015 (tranche 3) and the contribution of the Joint-stock Commercial Bank "Qishloq Qurilish Bank" (hereinafter "the Bank"), which includes a Statement on sources and uses of funds for the year ended 31 December 2016 and the principal accounting policies and other notes to the financial statement.

In our opinion, the attached special-purpose cash basis financial statement for the year ended 31 December 2016 in all material respects prepared in accordance with the International Public Sector Accounting Standard Financial Reporting under the Cash Basis of Accounting.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further in the Auditor's Responsibilities for the Audit of the Special-purpose financial statement prepared on a cash basis of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statement in Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

An audit involves performing procedures to obtain audit evidence about the amounts of data and information contained in the special-purpose financial statement in accordance with International standard on auditing 800 (ISA 800). The selection of procedures depends on the auditor's professional judgment, including the assessment of risks of material misstatement of the special-purpose financial statement prepared on a cash basis, due to fraud or error. In the process of assessing the risks the auditor considers the internal control system related to the preparation and fair presentation of the special-purpose financial statement prepared on a cash basis of organization, in order to develop necessary audit procedures under the circumstances, but not for the purpose of expressing an opinion on the efficiency of the internal control system of the organization. An audit also includes evaluating the relevance of accounting policies and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the special-purpose financial statement prepared on a cash basis in general.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the special-purpose cash basis financial statement of the current period. These matters do not exist in the context of our audit of the special-purpose cash basis financial statement and in forming our opinion thereon.

Other information

Within the audit of the special-purpose cash-basis financial statement, the auditor shall review the other information in order to identify whether the information contains significant inconsistencies with data from the special-purpose cash basis financial statement or with the information obtained during our audit engagement. If based on performed work we conclude that the information contains significant inconsistencies we shall inform about this fact. The facts we shall inform about, do not exist.

Management's responsibility in relation to the special-purpose financial statement prepared on a cash basis

The Financial Statement are the responsibility of the management of the Bank for the preparation and fair presentation of the special-purpose cash basis financial statement in accordance with the requirements of the International Public Sector Accounting Standard Financial Reporting under the Cash Basis of Accounting promulgated by the International Federation of Accountants and for maintaining internal control system that management considers necessary for preparation of the special-purpose cash basis financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the special-purpose cash basis financial statement management is responsible for assessing the Bank's ability to continue its operations consistently, for the disclosure of appropriate information related to business consistency, and the use of the principle of consistency as the basis of accounting, except when the management intends to liquidate the organization to cease its activities or when it does not have any alternative other than liquidation or termination of its activities.

Auditor's responsibility for the audit of the special purpose financial statement prepared on a cash basis

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

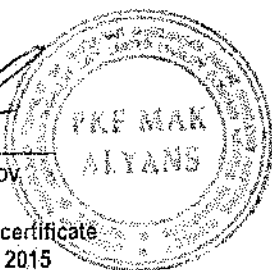
We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for expressing the auditor's opinion.

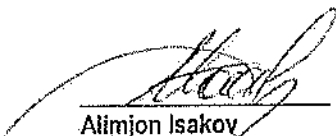
Accounting principles Restrictions on distribution and use

By not changing our opinion, we draw Your attention to Appendix 3 to the attached special-purpose cash basis financial statement, which specifies the accounting principles. These special-purpose cash basis financial statement prepared to assist the Bank in complying with the terms of the financial statement indicated in the above-mentioned Loan agreements. Hence, the special-purpose cash basis financial statement shall not be used for any other purpose.

This report is intended solely for consideration and use of the Board and Management of the Bank, and the Asian Development Bank and should not be distributed to or used by other parties for any other purpose.


Ravshan Asfandiyarov
General Director
Auditor's qualification certificate
No. 14/1 dated 26 June 2015




Alimjon Isakov
Auditor
Auditor's qualification certificate
No. 04475 dated 5 December 2012

Audit Company PKF MAK ALYANS LLC

22 June 2017

22, Aviasozlar Street, 1st Avenue, Tashkent, Uzbekistan

Joint-Stock Commercial Bank "Qishloq Qurilish Bank"

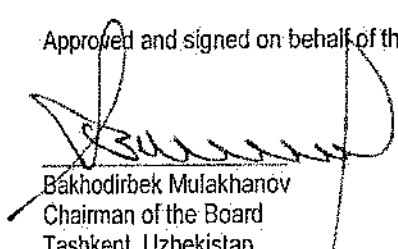
Housing for Integrated Rural Development Investment Program Tranche 3
ADB Loan Agreement No. 3271-UZB


(in thousands of UZS)

Statement of sources and uses of funds for Loan Agreement No. 3271-UZB

	Note	2016	Cumulative as at 31 December 2016	2015	Cumulative as at 31 December 2015
Opening cash balance:	5	13 464 895	-	-	-
Cash receipts:					
ADB replenishments to imprest account	6	-	166 732 363	166 732 363	166 732 363
Returned cash funds:					
Withdrawn funds for ineligible activities	7	-	-	-	-
Unused funds by the Bank's branches	8	-	386 100	386 100	386 100
Total cash funds available		-	167 118 463	167 118 463	167 118 463
Cash payments:					
Funds disbursed to issue of sub-loans	9	(13 143 733)	(166 797 301)	(153 653 568)	(153 653 568)
Withdrawn funds for ineligible activities		-	-	-	-
Funds returned to Ministry of Finance of the Republic of Uzbekistan	4	(321 162)	(321 162)	-	-
Total cash payments		(13 464 895)	(167 118 463)	(153 653 568)	(153 653 568)
Closing cash balance:	5	-	-	13 464 895	13 464 895

Approved and signed on behalf of the Bank's Management Board on 21 June 2017.


Bakhodirbek Mulakhanov
Chairman of the Board
Tashkent, Uzbekistan


Muzaffar Nurmatov
Chief Accountant
Tashkent, Uzbekistan

Notes to the special-purpose cash basis financial statement on pages 7 – 11 are integral part of these statement.
See for independent Auditor's Conclusion on pages 3 – 4.

Joint-Stock Commercial Bank "Qishloq Qurilish Bank"

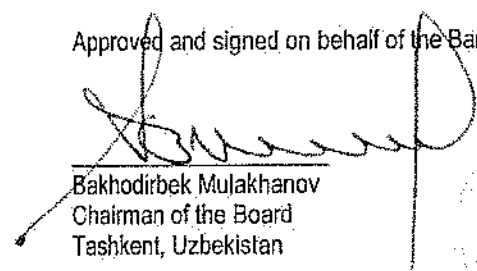
Housing for Integrated Rural Development Investment Program Tranche 2
ADB Loan Agreement No. 3039-UZB

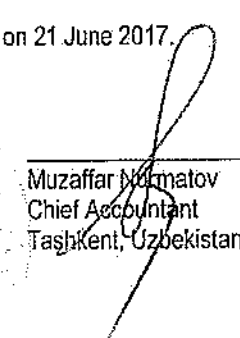
(in thousands of UZS)

Statement of sources and uses of funds for Loan Agreement No. 3039-UZB

	Note	2016	Cumulative as at 31 December 2016	2015	Cumulative as at 31 December 2015
Opening cash balance:	5	745 000	-	745 000	-
Cash receipts:					
ADB replenishments to imprest account	6	-	367 962 204	-	367 962 204
Returned cash funds:					
Withdrawn funds for ineligible activities	7	-	14 800 000	-	14 800 000
Unused funds by the Bank's branches	8	-	1 901 697	-	1 901 697
Total cash funds available		-	384 663 901	745 000	384 663 901
Cash payments:					
Funds disbursed to issue of sub-loans	9	-	(369 118 901)	-	(369 118 901)
Withdrawn funds for ineligible activities	7	-	(14 800 000)	-	(14 800 000)
Funds returned to Ministry of Finance of the Republic of Uzbekistan	4	(745 000)	(745 000)	-	-
Total cash payments		(745 000)	(384 663 901)	-	(383 918 901)
Closing cash balance:	5	-	-	745 000	745 000

Approved and signed on behalf of the Bank's Management Board on 21 June 2017.


Bakhodirbek Mulkhanov
Chairman of the Board
Tashkent, Uzbekistan


Muzaffar Normatov
Chief Accountant
Tashkent, Uzbekistan

Notes to the special-purpose cash basis financial statement on pages 7 – 11 are integral part of these statement.
See for Independent Auditor's Conclusion on pages 3 – 4.

1. Principal activity

Joint-Stock Commercial Bank "Qishloq Qurilish Bank" (hereinafter "the Bank") was established on basis of resolution of the president of the Republic of Uzbekistan No. ПП-1083 dated from 30 March 2009 "On establishment of Joint-Stock Commercial Bank "Qishloq Qurilish Bank" based on Joint-Stock Commercial Bank "Galla Bank". As at 31 December 2016, the Ministry of Finance of the Republic of Uzbekistan owns 78.88% shares of the Bank (2015: 76.76% respectively).

The Bank carries out its main activities based on a banking license for banking operations issued by the Central Bank of the Republic of Uzbekistan No. 77, the license was updated in 4 August 2014. The Bank also has General license for foreign currency transaction issued by the Central Bank of the Republic of Uzbekistan No. 60 dated from 4 August 2014.

The Bank is a member of the Banks Association of the Republic of Uzbekistan, Republican currency exchange and the Fund of guarantee of deposits of citizen at banks.

The Bank participates in a system of deposits protection scheme of banks of the Republic of Uzbekistan through Fund of guarantee of deposits of citizen at banks in line with Law of the Republic of Uzbekistan "On guarantees of protection of deposits of citizen at banks". The system of deposits protection scheme of banks guarantees repayment of deposits in case the Central Bank of Uzbekistan recalls the license for banking activity, in full volume pursuant to the balance of deposits, to be reflected in interim liquidation balance of the bank at the expense of the Bank and the Fund. Guaranteed repayments by the Fund of the deposits of citizen do not spread in case of reorganization of a bank.

Principal activity of the Bank is commercial and retail bank operations in the territory of the Republic of Uzbekistan and its beyond. These operations include operations with securities, foreign currency, attracting deposits and issuance of commercial loans in Uzbek Soums, and in freely convertible currencies, rendering services to customers in realization of export and import operations.

A significant part of the Bank's activities includes a role of a government agent in improving the living conditions of the rural population and financing construction in rural villages by issuing long-term mortgage loans to residents living in such areas. These activities represent a significant part of the Bank's assets, financial sources and income generation and carried out in accordance with the Loan agreement between Asian Development Bank and the Government of the Republic of Uzbekistan on Housing for Integrated Rural Development Investment Program.

The Bank operates through Head Office in Tashkent and 42 branches within the territory of the Republic of Uzbekistan (2015: 42 branches).

Legal address of the Bank: 18 A, Alisher Navoi Street, 100060, Tashkent, Republic of Uzbekistan.

Housing for Integrated Rural Development ("HIRD") Investment Program

In order to improve the quality of life of the rural population through the construction of modern individual housing based on approved design, utilities, and social infrastructure, on 31 August 2011, the Board of Directors of the Asian Development Bank ("ADB") approved multi-tranche financing for the HIRD Investment Program ("Program") in the amount of 500 000 thousands US dollars.

The Government of Uzbekistan signed a Framework Financing Agreement ("FFA") dated 29 July 2011 for 500 000 thousand USD with ADB. According to the FFA (i) ADB makes series of loans (tranches) to Uzbekistan, each of which is governed by a separate loan agreement and (ii) mortgage loans ("sub-loans") to eligible sub-borrowers are made through participating commercial banks ("PCB") that, in turn, borrow funds from Uzbekistan in accordance with one or more subsidiary loan agreements with Uzbekistan.

According to terms of the FFA, the Government of Uzbekistan signed a Loan Agreement No. 2775-UZB dated 16 February 2012 (tranche 1), a Loan Agreement No. 3039-UZB dated 11 October 2013 (tranche 2) and a Loan Agreement No. 3271-UZB dated 21 August 2015 (tranche 3) for USD 300 000 thousands, USD 200 000 thousands and USD 100 000 thousands with ADB respectively. According to these loan agreements, ADB agreed to lend, through the Ministry of Finance of Uzbekistan (hereinafter "MOF").

MOF converted abovementioned funds into Uzbek Soums ("UZS") and disbursed to the PCBs in UZS. PCBs as mentioned above provided sub-loans financed partially by these funds to sub-borrowers according to the ADB terms.

According to terms of the loans, the PCBs pays to the MOF interest for provided loans and returns loans principle. The ultimate responsibility for repayment of the principal loan amount and the respective charges lies with the Government of Uzbekistan.

According to the President Decree of the Republic of Uzbekistan No. ПП-1687 dated 14 January 2012 "On the program of constructing standardized models of houses for individuals in rural areas in 2012" the Bank participated in financing 8 510 houses under construction in 2012. 8 363 out of 8 510 houses under construction were financed partially by the ADB, i.e. 65% of each 8 363 sub-loans were financed from the ADB funds.

According to the President Decree of the Republic of Uzbekistan No. ПП-1902 dated 4 January 2013 "On the program of constructing standardized models of houses for individuals in rural areas in 2013" the Bank participated in financing 8 182 houses under construction in 2013. 1 895 out of 8 182 houses under construction were financed partially by the ADB, i.e. 30% of each 1 895 sub-loans were financed from the ADB funds.

According to the President Decree of the Republic of Uzbekistan No. ПП-2068 dated 15 November 2013 "On the program of constructing standardized models of houses for individuals in rural areas in 2014" the Bank participated in financing 7 779 houses under construction in 2014. 7 642 out of 7 779 houses construction were financed partially by the ADB, i.e. 20% of each 7 642 sub-loans were financed from the ADB funds.

According to the President Decree of the Republic of Uzbekistan No. ПП-2282 dated 7 January 2015 "On the program of constructing standardized models of houses for individuals in rural areas in 2015 and main parameters of construction in 2016" the Bank participated in financing 5 571 houses under construction in 2015. 1 874 out of 5 571 houses under construction were financed partially by the ADB, i.e. 75% of each 1 827 sub-loans were financed from the ADB funds.

2. Authorization Date

The Special-Purpose Cash Basis Financial Statement for the year ended 31 December 2016 was prepared in accordance with the method of accounting on a cash income and expenditure was authorized for issue in accordance with a decision of the management (Chairman of Board, Bakhodirbek Mulakhanov, and Chief Accountant, Muzaffar Nurmatov) on 21 June 2017.

3. Basis for presentation of Statement

These Special-Purpose Cash Basis Financial Statement have been prepared in accordance with the International Public Sector Accounting Standard Financial Reporting under the Cash Basis of Accounting ("IPSAS Cash basis") promulgated by the International Federation of Accountants ("IFAC") as required in "Financial Management Technical Guidance Note: Project Financial Reporting and Auditing", issued by the ADB in March 2015, as well as the requirements of the Loan agreement and the agreement on the refinancing of ADB's part of the loan.

The Special-Purpose Cash Basis Financial Statement consists of Statement of sources and uses of funds and notes to the special-purpose statement for the year ended 31 December 2016. The Special Purpose Cash Basis Financial Statement is prepared on a comparative basis and includes financial results under the Loan Agreements No. 3039-UZB and No. 3271-UZB, which is a comprehensive basis of accounting and differs from International financial reporting standards.

These Special-Purpose Cash Basis Financial Statement present information only on granting initial loans using the borrowed funds from ADB. Presentation of information about repayment of sub-loans and their subsequent re-lending in this Special-Purpose Cash Basis Financial Statement is not required.

4. Summary of significant accounting policy

Cash basis accounting

The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the Bank. Financial statement prepared under the cash basis provide information about the sources of cash funds during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statement is balances of cash and changes therein.

Borrowings from other banks and international financial organizations (including MOF) are generally lead to cash receipts. Sub-loans provided to the sub-borrowers are considered to give rise to cash outflows (cash payments). Cash receipts and payments are reported on a gross basis, except that cash receipts and payments reported on a net basis when:

- (a) They arise from transactions which the Bank administers on behalf of other parties and which are recognized in the Statement of sources and uses of funds; and
- (b) They are for items in which turnover is quick, the amounts are large, and the maturities are short.

Reporting currency

The reporting currency of the Special-Purpose Cash Basis Financial Statement is Uzbek Soums (hereinafter "UZS") since the Bank received financing from the MOF in UZS and further provided sub-loans to the sub-borrowers in UZS respectively.

Total loans provided in Uzbek Soums were converted to US dollars at the official rate of the Central Bank of the Republic of Uzbekistan.

Imprest account

A separate bank account (Imprest account) is opened at the Bank for depositing replenishments according to the Agreement on re-lending the part of ADB's loan by MOF and for the exclusive use within the Program.

The Bank uses the Imprest account to obtain replenishments for lending sub-loans to sub-borrowers within the Program. A balance of Imprest account at the end of the reporting period represented in Note 5.

Cash funds controlled by the Bank

The Bank controls cash funds when the Bank can use the cash funds for the achievement of its own objectives or otherwise benefit from the cash funds and exclude or regulate the access of others to that benefit. Cash funds collected by, or appropriated or granted to the Bank and which the Bank can use to fund its operating objectives, acquire capital assets or repay its debt are controlled by the Bank.

ADB's replenishment to the Imprest account

ADB's replenishment to the Imprest account represents funds received from the MOF in UZS as ADB funds provided for the Program financing. The MOF receives from the ADB loans in USD, converts them into the UZS, and further disburses to the Bank.

ADB's replenishment to the Imprest account is recognized whenever the cash received by the Bank and considered as cash receipts.

Returned unused funds by the Bank's branches to the Bank

The Bank disburses funds for sub-loans to its branches, which finances houses construction and issues sub-loans to the sub-borrowers. Extra funds from the issue of sub-loans are returned to the Bank's imprest account as unused funds. Returned funds are recognized when the Bank receives funds from its branches.

Funds disbursed to issue of sub-loans

Funds held in the Imprest account are disbursed to the branches of the Bank, which in their turn finances houses construction in accordance with Program and issues sub-loans. Funds disbursed to issue of sub-loans are considered as cash payments whenever the cash disbursed into the branches.

Returned funds to the MOF

After achieving set objectives according to the Loan agreement remaining funds held in the Imprest account is subject for returning to the MOF. Returned funds are considered as returned on the date of cash outflow, i.e. cash payment.

Funds disbursed for ineligible activities

The ADB's funds disbursed to the Bank should be used for the Program implementation. The Bank should follow the Loan Agreements No. 3039-UZB and No. 3271-UZB requirements in implementing Program. If the funds of the ADB are not used in accordance with requirements, then such payments are considered as ineligible (disallowed) and the Bank should return ineligible payments.

5. Cash and Cash equivalents

The opening and closing balances presented in Statement of sources and uses of funds represents funds held by the Bank on 1 January 2016 and 31 December 2016 accordingly under the Loan Agreements No. 3039-UZB and No. 3271-UZB.

Opening cash balance under the Loan Agreement No. 3039-UZB was 745 000 thousand UZS which was paid back to the MOF during 2016.

Opening cash balance under the Loan Agreement No. 3271-UZB was 13 464 895 thousand UZS, which should be used for financing construction of the houses and issuing of sub-loans to the sub-borrowers. In 2016, part of funds in the amount of 13 143 733 thousand UZS have been used for financing the construction of houses within the Program and provide sub-loans to sub-borrowers to finance the purchase of houses in rural areas, and the remaining amount of 321 162 thousand UZS was paid back to MOF.

6. ADB replenishments to Imprest account

During 2016 the Bank did not receive any funds from MOF within the Loan Agreement No. 3271-UZB (in 2015, the Bank received a loan in the amount of 166 732 363 thousand UZS).

During 2016 the Bank did not receive any funds from the MOF within the Loan Agreement No. 3039-UZB, as the amount of the loan was issued in 2013 and 2014 (2015: 0 thousand UZS respectively).

7. Returned funds withdrawn for ineligible activities

According to the Loan Agreements No. 3039-UZB and No. 3271-UZB, ADB funds should be used for the sub-loans for sub-projects financed under the Program. If ADB finds any payments made by the Bank as ineligible, then such amounts should be returned by the Bank to the Imprest account of the Bank. In 2016, there were no ineligible payments that was noted by ADB.

However, in November 2013 ineligible payments for 14 800 000 thousand UZS were recognized. The Bank has transferred 14 800 000 thousand UZS temporarily to an account of that related to the Program. Subsequently, these funds were transferred back to Imprest Account and were used for the purpose for which they were originally provided.

8. Returned unused funds by the Bank's regional branches to the Bank

In 2016 the branches of the Bank did not return the Bank any funds under the Loan Agreement No. 3271-UZB (in 2015, the Bank's branches returned funds in the amount of 386 100 thousand UZS, these funds further were allocated to other branches).

Under the Loan Agreement No. 3039-UZB, the branches of the Bank did not return the Bank any funds in 2016 as the amount of loan to issue was provided in 2013 and 2014 (2015: 1 302 561 UZS thousand respectively).

9. Funds disbursed to issue of sub-loans and financing houses construction

According to the President Decree of the Republic of Uzbekistan No. ПП-2282 dated 7 January 2015 "On the program of constructing standardized models of houses for individuals in rural areas in 2015 and main parameters of construction in 2016" the Bank participated in financing 5 571 houses under construction, 1 874 out of 5 571 houses under construction were financed partially by ADB according to Loan Agreement No. 3271-UZB, i.e. 75% of each 1 874 sub-loans were financed from ADB funds.

Under the Loan Agreement No. 3039-UZB, the Bank has not disbursed any funds for construction of houses in 2016 as the amount of the loan was issued in 2013 and 2014.