

# Audited Project Financial Statements

---

Project Number: 47305-002  
Loan/Grant Number: 3471-UZB (SF)  
Period covered: 1 January 2018 to 31 December 2018

## UZB: Horticulture Value Chain Development Project

Prepared by Joint Stock Commercial Mortgage Bank "Ipak Yuli"

For the Asian Development Bank  
Date accepted by ADB: 16 October 2019

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 Access to Information Policy and as agreed between ADB and the Joint Stock Commercial Mortgage Bank "Ipak Yuli".

**JOINT - STOCK INNOVATION  
COMMERCIAL BANK "IPAK YULI"**

**Horticulture Value Chain Development  
Project  
ADB LOAN 3471-UZB (SF)**

**Special Purpose Project Financial  
Statements for the year ended  
31 December 2018**

**And Independent Auditors' Report**

**Joint-Stock Innovation Commercial Bank "Ipak Yul"**  
**Horticulture Value Chain Development Project (ADB LOAN 3471-UZB (SF))**

---

<b>TABLE OF CONTENTS</b>	<b>Page</b>
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018	1
INDEPENDENT AUDITORS' REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018:	
Statement of Cash Receipts and Payments	4
Statement of Utilisation of Funds	5
Statement of Expenditures	6
Notes to the Special Purpose Project Financial Statements	7-8

**Joint-Stock Innovation Commercial Bank "Ipak Yuli"  
Horticulture Value Chain Development Project (ADB LOAN 3471-UZB (SF))**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF  
THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

Management of Joint-Stock Innovation Commercial Bank "Ipak Yuli" (hereafter – "the Bank") is responsible for the preparation of the Special Purpose Project Financial Statements for the year ended 31 December 2018 of "Horticulture Value Chain Development Project" (hereafter "the Project") financed by the Asian Development Bank, that are prepared in accordance with relevant financial reporting provisions of the Loan Agreement 3471-UZB (SF) dated 3 March 2017.

In preparing the Special Purpose Project Financial Statements, management is responsible for:

- Selecting suitable accounting policies and applying them consistently;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures when compliance with the specific requirements in relevant financial reporting provisions of the Loan Agreement 3471-UZB (SF) dated 3 March 2017 are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Bank's special purpose project financial statements; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the cash balance of the Project in the imprest Account, and which enable them to ensure that Special Purpose Project Financial Statements of the Bank comply with the cash receipts and disbursements basis of accounting;
- Maintaining statutory accounting records in compliance with legislation of the Republic of Uzbekistan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The Special Purpose Project Financial Statements of the Project for the year ended 31 December 2018 were approved by the Bank's management on 7 September 2019.

On behalf of the Management:

  
  
Saidabror S. Akhmedov  
Chairman of  
the Management Board

7 September 2019  
Tashkent, Uzbekistan

  
Rustam Chirpanov  
Chief Accountant

7 September 2019  
Tashkent, Uzbekistan

## INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Council of the Joint-Stock Innovation Commercial Bank "Ipak Yuli"

### *Opinion*

We have audited the accompanying special purpose project financial statements for the year ended 31 December 2018 of Joint-Stock Innovation Commercial Bank "Ipak Yuli" ("the Bank") of "Horticulture Value Chain Development Project" ("the Project"), financed by the Asian Development Bank (the "ADB") under the Loan Agreement 3471-UZB (SF) dated 3 March 2017, which comprise the statement of cash receipts and payments, the statement of utilisation of funds and the statement of expenditures, and a summary of significant accounting policies and other explanatory information.

In our opinion, the special purpose project financial statements for the year ended 31 December 2018 are prepared, in all material respects, in accordance with relevant financial reporting provisions of the Loan Agreement 3471-UZB (SF) dated 3 March 2017.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of Matter*

#### *Imprest Account*

As discussed in the Statement of Cash Receipts and Payments and Note 3(b) to the special purpose project financial statements, although the Bank is required to utilise an Imprest account or Subaccount to accumulate ADB funds and finance the related Project eligible expenditure, in 2017 the Bank transferred out the ADB's advances from Imprest Account to its current (nostro) account prior to eligible expenditures under the Project have been incurred and/or paid. Our opinion is not modified in respect of this matter.

#### *Basis of Accounting and Restriction on Distribution and Use*

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Bank to comply with the financial reporting provisions of the Loan Agreement referred to above. As a result, the special purpose project 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 Agreement 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. Our opinion is not modified in respect of this matter.

#### *Management's Responsibility for the Special Purpose Project Financial Statements*

Management is responsible for the preparation of the special purpose project financial statements in accordance with relevant financial reporting provisions of the Loan Agreement 3471-UZB (SF) dated 3 March 2017 and for such internal control as management determines is necessary to enable the preparation of the

special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose project financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### ***Auditors' Responsibility for the Audit of the Special Purpose Project Financial Statements***

Our objectives are to obtain reasonable assurance about whether the special purpose project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose project financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*AO "Deloitte & Touche" LLC*

"Deloitte & Touche" Audit Organisation LLC

License authorizing audit of companies registered  
by the Ministry of Finance of the Republic of  
Uzbekistan under #00776 dated 5 April 2019

Certificate authorizing audit of banks registered by  
the Central Bank of the Republic of Uzbekistan  
under #3 dated 14 October 2013

7 September 2019  
Tashkent, Uzbekistan

**Joint-Stock Innovation Commercial Bank "Ipak Yuli"  
Horticulture Value Chain Development Project (ADB LOAN 3471-UZB (SF))**

**Statement of Cash Receipts and Payments  
for the year ended 31 December 2018  
(in US Dollars)**

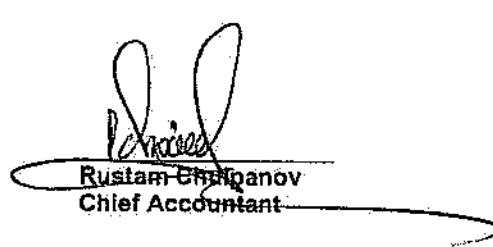
	2018	From 3 March 2017 to 31 December 2017
<b>Opening Cash Balance in Imprest Account</b>	-	-
<b>Add: Sources</b>	-	10,000,000
ADB replenishments made in advance	-	10,000,000
Bank's own funds allocated to the Project	-	-
<b>Cash Receipts to Imprest Account</b>	-	10,000,000
<b>Less: Transferred out to current (nostro) account of the Bank via Imprest Account to finance</b>		
- Approved and disbursed subloans	-	9,400,000
- Approved and not yet disbursed subloans	-	600,000
<b>Cash Payments from Imprest Account</b>	-	10,000,000
<b>Closing Cash Balance in Imprest Account</b>	-	-

In 2017, the Bank has transferred out USD 600,000 of the advances received from ADB to its current (nostro) account which remained undischursed for eligible expenditure as at 31 December 2017. In 2018, the Bank has financed eligible expenditure in the amount of USD 600,000 from its current (nostro) account.

On behalf of the Management:

  
Saidaboy Saydakhmedov  
Chairman of  
the Management Board

7 September 2019  
Tashkent, Uzbekistan

  
Rustam Ghojanov  
Chief Accountant

7 September 2019  
Tashkent, Uzbekistan


Joint-Stock Innovation Commercial Bank "Ipak Yulii"  
Horticulture Value Chain Development Project (ADB LOAN 3471-UZB (SF))

Statement of Utilisation of Funds  
for the year ended 31 December 2018  
(in US Dollars)


Subloan No.	Name and Address of Subborrower	Amount Sanctioned by the Bank	Currency of Subloan	Cumulative amount received from ADB up to the end of previous financial year	Amount disbursed during current period from ADB share	Total amount received till the end of current financial year
1	* LLC "Asl Tabiat Bog'lari"	4,000,000	USD	3,600,000	400,000	4,000,000
2	* LLC "Jahon Ideal Service"	200,000	USD	-	200,000	200,000
	<b>Total</b>	<b>4,200,000</b>		<b>3,600,000</b>	<b>600,000</b>	<b>4,200,000</b>

\* Sub-loans approved in 2017 and fully disbursed in 2018

On behalf of the Management:

  
Saidator Saydakhmetov  
Chairman of  
the Management Board

7 September 2019  
Tashkent, Uzbekistan

  
Rustam Chirpachov  
Chief  
Accountant

7 September 2019  
Tashkent, Uzbekistan





**Joint-Stock Innovation Commercial Bank "Ipak Yulii"  
Horticulture Value Chain Development Project (ADB LOAN 3471-UZB (SF))**

**Statement of Expenditures  
for the year ended 31 December 2018  
(in US Dollars)**

Sub-loan No.	Sub-Borrower	Industry Sector/SIC Code	Project Purpose and Description	Country of Origin	Subproject Cost	Subloan Amount Approved	ADB's Disbursement Percentage	Subloan Amount to be Financed by ADB	Amount of Individual Payment Claimed	Date Paid	Cumulative Amount of Disbursement for the Subloan
1	LLC "Ast Tabiat Bog'lari"	Agriculture	Equipment, goods and materials for greenhouse	UZB	5,334,650	4,000,000	75%	4,000,000	400,000	25/06/2018	4,000,000
2	LLC "Jahon Ideal Service"	Agriculture	Equipment, goods and materials for greenhouse	UZB	270,000	200,000	74%	200,000	200,000	12/06/2018	200,000
<b>Total</b>						<b>4,200,000</b>		<b>4,200,000</b>	<b>600,000</b>		<b>4,200,000</b>

**On behalf of the Management:**


  
**Saidabek Saydakhmetov**  
**Chairman of the Management Board**  
 7 September 2019  
 Tashkent, Uzbekistan


  
**Rustam-Chuipbarov**  
**Accountant**

7 September 2019  
 Tashkent, Uzbekistan

**Joint-Stock Innovation Commercial Bank "Ipak Yuli"  
Horticulture Value Chain Development Project (ADB LOAN 3471-UZB (SF))**

**Notes to the Special Purpose Project Financial Statements  
for the year ended 31 December 2018  
(in US dollars, unless otherwise indicated)**

---

**1. Introduction**

These Special Purpose Project Financial Statements for the year ended 31 December 2018 have been prepared by the Joint Stock Innovation Commercial Bank "Ipak Yuli" ("the Bank") in accordance with relevant financial reporting provisions of the Loan Agreement 3471-UZB (SF) dated 3 March 2017.

The Bank was incorporated and is domiciled in the Republic of Uzbekistan. The Bank is a joint stock company limited by shares and was set up in the accordance with the legislation of the Republic of Uzbekistan.

**Principal Activity.** The Bank's principal activity is commercial and retail banking operations within the Republic of Uzbekistan. The Bank was incorporated in April 1990 and has operated under a full banking licence No. 10 issued by the Central bank of the Republic of Uzbekistan ("CBU") on 21 October 2017 (succeeded the license No. 10 and No.65 both issued on 29 August 2015 by the CBU for full banking operations and general license for foreign currency operations). The bank participates in the state deposit insurance scheme, which was introduced by Law of the Republic of Uzbekistan # 360-II "Insurance of Individuals Bank Deposit" dated 5 April 2002. The State Deposit Insurance Fund guarantees repayment of 100 % of individual deposits regardless of the deposit amount in the case of withdrawal of a licence of a Bank.

The Bank has 15 (2017:15) branches within the Republic of Uzbekistan and no branches overseas.

**Registered address and place of business.** The Bank's registered address is: 2A, Qodiriy Street, Tashkent 100017, Uzbekistan

**Project description.** The proposed project will support the government strategy in horticulture value chain development through increasing outreach of participating financial institutions (PFI) to horticulture farmers and entrepreneurs in all twelve regions nationwide and the Republic of Karakalpakstan. It will improve access to market-based bank finance for farmers, agro-processing enterprises, owners and operators of cold storage facilities, trading and logistics service suppliers involved in the horticulture value chain. The project will help increase farm productivity, processing and storage capacity, and reduce post-harvest losses through upgrading and setting up intensive orchards, modern and efficient greenhouses, processing, storage and refrigeration facilities. This will in turn promote long-term economic and environmental sustainability, and enhance profitability for farmers and agribusiness enterprises. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum, and such other terms and conditions set forth in the draft loan and project agreements. Subloans should have a repayment period not exceeding 10 years, and the maximum subloan size is currently set at USD 5,000,000.

**2. Basis of preparation**

The Special Purpose Project Financial Statements have been prepared in accordance with the financial reporting provisions of the Loan Agreement 3471-UZB (SF) dated 3 March 2017.

**3. Summary of Significant Accounting Policies**

**a. Cash basis of accounting**

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

Borrowings from Asian Development Bank are considered to give rise to cash inflows. Cash is controlled by the Bank when the Bank can use the cash for achievement of its project objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to the Bank, which the Bank can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the Bank.

**Joint-Stock Innovation Commercial Bank "Ipak Yul"**  
**Horticulture Value Chain Development Project (ADB LOAN 3471-UZB (SF))**

**Notes to the Special Purpose Project Financial Statements**  
**for the year ended 31 December 2018**  
*(in US dollars, unless otherwise indicated)*

---

Subloans are reflected in the Statements of Utilisation of Funds and the Statement of Expenditures in the period subloans are approved to qualified subborrowers. The Bank prepares information on cash receipts, payments and balances on a gross basis.

*Statement of Utilisation of Funds.* It is an accounting statement that summarizes the usage of funds by subloans approved and reimbursed by ADB with the cumulative disbursements to date and the disbursement during the reporting period

*Statement of Expenditures.* It is a statement that provides information on contracts and disbursements of individual payments.

*Approved and disbursed subloans.* These are loans for which the Bank has completed acceptance procedures and agreed contractual terms and corresponding loan proceeds have been fully or partially disbursed.

*Reporting entity*

The special purpose project financial statements solely reflects the financial status and position of the ADB funds provided for financing of the Project that is being implemented by the Bank.

*Reporting currency and translation methodology*

The reporting currency of the Project's Special Purpose Project Financial Statements is USD. Loan proceeds from ADB are received in USD.

The official rates of exchange established by the Central Bank of Uzbekistan ("CBU") were as follows:

31 December 2018-USD 1 / UZS 8339.55  
31 December 2017-USD 1 / UZS 8120.07

The amount of loans issued in UZS was translated into USD using the CBU rate of exchange effective at the date of transferring funds to Subborrowers account or Subborrower's cash withdrawal.

***b. Imprest accounts at the Bank***

A separate bank account for the Imprest account is opened at the Central Bank of Uzbekistan. The currency of the Imprest account is US Dollars. The Bank, as appropriate, uses the Imprest account to pay contractors, suppliers, and other third parties, or to reimburse the Bank's account for ADB's share of eligible project expenditures incurred. Any use of the advance funds (including any amounts advanced to subaccounts) for activities other than eligible project activities may invoke corrective actions deemed appropriate by ADB.

***c. Liquidation and Replenishments***

After eligible expenditure are incurred and paid from the Imprest Account, the Bank request 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 INNOVATION  
COMMERCIAL BANK "IPAK YULI"**

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 Schedule: Execution of Project; Financial Matters (paragraphs 5[b], 5[c], 6[a], 6[b], 6[c], 6[d], 6[e], 7[a], 7[b], 7[c], 7[d], 7[e]) of the Project Agreement dated 3 March 2017, between the Asian Development Bank and Joint-Stock Innovation Commercial Bank "Ipak Yuli" signed under the Loan Agreement № 3471-UZB(SF) dated 3 March 2017, between the Republic of Uzbekistan and the Asian Development Bank for the year ended 31 December 2018

Joint Stock Innovation Commercial Bank "Ipak Yuli"  
Horticulture Value Chain Development Project (ADB LOAN № 3471-UZB(SF))

**STATEMENT OF MANAGEMENT'S COMPLIANCE WITH PROVISIONS OF THE PROJECT AGREEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

---

The Republic of Uzbekistan has signed a Loan Agreement 3471-UZB (SF) (the "Loan Agreement") dated 3 March 2017 for Special Drawing Rights ("SDR") 111.585 million with the Asian Development Bank ("ADB").

On 3 March 2017 a Project Agreement has been signed between Joint-Stock Innovation Commercial Bank "Ipak Yuli" (the "Bank") and the ADB under the Loan Agreement for SDR 7.246 million (the "Project Agreement") to finance "Horticulture Value Chain Development Project" (the "Project").

**Management's responsibility**

Management is responsible for the Bank's compliance with the provisions stipulated in the Project Agreement and ADB's Loan Disbursement Handbook, implementation and maintenance of internal controls, preparing and maintaining of books and records, maintenance of adequate supporting documentation to support claims to ADB for reimbursements of expenditures incurred, which are eligible for financing under the Project Agreement and ADB's Loan Disbursement Handbook.

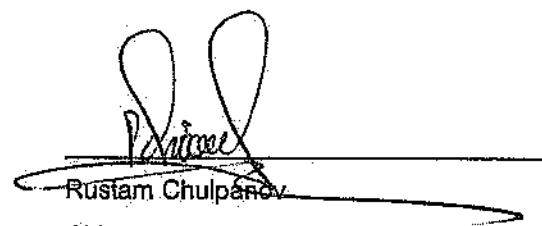
**Management's confirmation**

Management confirms that all utilizations of proceeds of loans under the Project for the year ended 31 December 2018 are in full compliance with the provisions of the Project Agreement described in Attachment 1 and ADB's Loan Disbursement Handbook.

On behalf of the Management Board:

  
Saidabrор Saydakhmedov  
Chairman of the Management Board

7 September 2019  
Tashkent, Uzbekistan

  
Rustam Chulpanov  
Chief Accountant

7 September 2019  
Tashkent, Uzbekistan

## INDEPENDENT ASSURANCE REPORT

To: Shareholders and the Council of the Joint-Stock Innovation Commercial Bank "Ipak Yuli"

### Introduction

We have performed an independent examination of the compliance of Joint-Stock Innovation Commercial Bank "Ipak Yuli" (the "Bank") to determine whether under the Project Agreement signed between the Bank and the Asian Development Bank (the "ADB") dated 3 March 2017 (the "Project Agreement") signed under the Loan Agreement 3471-UZB (SF) between the Government of Uzbekistan and ADB (the "Loan Agreement"), in all material respects, based on the criteria defined in the Attachment 1:

- a. The ADB funds were used only for the purposes for which the funds were provided as set out in Schedule: Execution of Project; Financial Matters (paragraphs 5[b], 5[c], 6[a], 6[b], 6[c], 6[d], 6[e], 7[a], 7[b], 7[c], 7[d], 7[e]) of the Project Agreement for the year ended 31 December 2018;
- b. The Bank has complied with the Imprest Account and Statement of Expenditure procedures for the year ended 31 December 2018.

### Management's Responsibility for the Subject Matter

Management is responsible for compliance with Imprest Account and Statements of Expenditure procedures through maintaining the records and supporting documentation for the 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 Project Agreement for the year ended 31 December 2018. Management is also responsible for compliance with conditions set forth in the Schedule: Execution of Project; Financial Matters (paragraphs 5[b], 5[c], 6[a], 6[b], 6[c], 6[d], 6[e], 7[a], 7[b], 7[c], 7[d], 7[e]) of the Project Agreement. Management is also responsible for such internal control as management determines is necessary to enable the compliance with conditions set out above and the preparation of the above information that is free from material misstatement whether due to fraud or error.

### Scope of Assurance Engagement

Our responsibility is to issue 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 (ISAE) 3000 (Revised) 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. The firm applies International Standard on Quality Control (ISQC) 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.



We have audited, in accordance with International Standards on Auditing, the financial statements of the Bank as at and for the year ended 31 December 2018 and have expressed an unqualified opinion thereon dated 4 June 2019. Our audit of the Bank's financial statements was not directed primarily towards obtaining knowledge of the subject matter referred to above.

Our assurance procedures in this engagement were limited primarily to examination for compliance with the subject matter. We believe that our work provides a reasonable basis for our qualified conclusion.

### **Basis for Qualified Conclusion**

During the examination of the Bank's compliance with Imprest Account and Statement of Expenditure procedures for the year ended 31 December 2018, we noted that the Withdrawal Application #IYL02 (Appendix 7A) on the liquidation of advances was prepared together with the respective Statement of Expenditure of USD 4,200,000 stating that this amount, was incurred and paid in full during 2018. However, only USD 600,000 was incurred and paid during 2018 and the remaining USD 3,600,000 was incurred and paid during 2017, having been omitted from the prior period Withdrawal Applications.

Further, we noted that during 2017 the Bank has transferred the advances received from ADB from its Imprest Account to its current account, which is not a separate bank account as required by 8.25 of the ADB Loan Disbursement Handbook 2017. As a result, the current year's opening balance of the advances received from ADB were understated to USD 600,000. Consequently, we were unable to obtain assurance whether during the period prior to disbursing the funds for eligible expenditures the Bank has temporarily used the ADB funds deposited in the current account for purposes other than those stipulated in the Project Agreement.

### **Qualified Conclusion**

In our opinion, except for the effects of the matters described in the Basis for Qualified Conclusion paragraphs above, based on the work described in this report and the criteria defined in Attachment 1:

- a. The ADB funds have been used, in all material respects, for the purposes for which the funds were provided as set out in Schedule: Execution of Project: Financial Matters (paragraphs 5[b], 5[c], 6[a], 6[b], 6[c], 6[d], 6[e], 7[a], 7[b], 7[c], 7[d], 7[e]) of the Project Agreement for the year ended 31 December 2018, and as detailed in Attachment 1 to this report;
- b. The Bank has complied, in all material respects, with the Imprest Account and Statement of Expenditure procedures for the year ended 31 December 2018.

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 provisions of the Project Agreement for identification purposes only is attached as Attachment 1.

### **Other matter – Inherent limitations**

We draw attention to the fact that 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 specified in "Scope of Assurance Engagement" paragraph above).



#### Restriction on Use

The report is intended solely for use by the Shareholders and the Council of 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 above mentioned 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.

*AD "Deloitte & Touche" LLC*

7 September 2019  
Tashkent, Uzbekistan



Attachment 1

ANNEX: EXCERPTS FROM PROJECT AGREEMENT

SCHEDULE

Execution of Project; Financial Matters

Criteria for Qualified Subborrowers

5. Ipak Yuli Bank shall ensure that each Qualified Subborrower:

- (b) is not a related party with respect to Ipak Yuli Bank under the laws and regulations of the Borrower and CBU regulations; and
- (c) is determined to be acceptable based on due diligence undertaken by Ipak Yuli Bank in accordance with its prevailing credit and risk management policies and procedures that are consistent with appropriate commercial banking criteria.

Criteria for Qualified Subprojects

6. Ipak Yuli Bank shall ensure that each Qualified Subproject shall be for activities that:

- (a) relate to one of the following: (i) manufacture and/or supply of farm technology, machinery and infrastructure, and the supply of farm inputs and services appropriate to the production of horticultural produce; (ii) production of horticultural produce; or (iii) post-harvest handling, storage, processing and marketing of horticultural produce;
- (b) do not involve any involuntary resettlement or indigenous peoples impacts, all within the meaning of the SPS;
- (c) do not involve any environmental impacts, which can be categorized as Category A, all within the meaning of the SPS or class 1 or 2 of all applicable laws and regulations of the borrower relating to the environment;
- (d) are not included in the list of prohibited investment activities set out in Appendix 5 of the SPS; and
- (e) do not involve mining or genetically modified organisms.

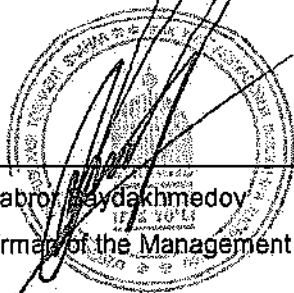
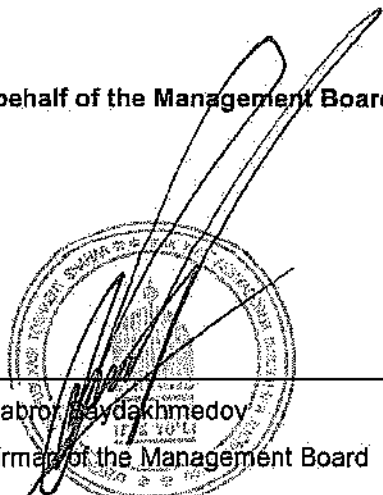
Criteria for Subloans

7. Ipak Yuli shall ensure that each Qualified Subloan:

- (a) does not exceed the maximum Subloan amount of \$5,000,000 equivalent;
- (b) is used for investment purposes (being purchase of capital assets) only and not for financing of working capital;

- (c) has a maximum tenor of 10 years;
- (d) carries interest at a market-based rate as determined by Ipak Yuli bank based on its prevailing risk management policies and procedures
- (e) is secured or collateralized with realizable and otherwise unencumbered assets with a value of at least 125% of the Subloan; and


**On behalf of the Management Board:**



---

Saidabror Saydakhmedov  
Chairman of the Management Board

7 September 2019  
Tashkent, Uzbekistan



---

Rustam Chulpanov  
Chief Accountant

7 September 2019  
Tashkent, Uzbekistan

