

Audited Project Financial Statements

Project Number: 44318-025

Loan/Grant Number: 3039

Period covered: 24 October 2013 to 31 December 2013 and 1 January 2014 to 31 December 2014.

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

Prepared by National Bank for Foreign Economic Activity of the Republic of Uzbekistan

For the Asian Development Bank

Date received by ADB: 11 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}.



NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

Special Purpose Financial Statements and Independent Auditors' Report

For the periods from 1 January 2014 to 31 December 2014 and from 24 October 2013 to 31 December 2013, based on the financial reporting provisions of Article IV, Section 4.06 of the Loan Agreement dated 11 October 2013 between the Republic of Uzbekistan and the Asian Development Bank.

ASIAN DEVELOPMENT BANK
1686, Shattuck Boulevard
Manila, Philippines
Tel: 632 8173 1000
Fax: 632 8173 1001
www.adb.org

INDEPENDENT AUDITOR'S REPORT

To: Shareholder and Board of Directors of National Bank for Foreign Economic Activity of the Republic of Uzbekistan

We have audited the accompanying special purpose financial statements of National Bank for Foreign Economic Activity of the Republic of Uzbekistan ("the Bank"), which comprise the statement of utilisation of funds for the periods from 1 January 2014 to 31 December 2014 and 24 October 2013 to 31 December 2013, 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 agreement dated 11 October 2013 signed between the Republic of Uzbekistan and the Asian Development Bank ("the Loan Agreement").

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 Agreement, 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 auditor's 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.



Opinion

In our opinion, the special purpose financial statements of National Bank for Foreign Economic Activity of the Republic of Uzbekistan for the period from 1 January 2014 to 31 December 2014 and from 24 October 2013 to 31 December 2013 are prepared, in all material respects, in accordance with the financial reporting provisions of Article IV, Section 4.06 of the Loan Agreement.

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 Agreement 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 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.

Deloitte & Touche

9 July 2015

Tashkent, Uzbekistan

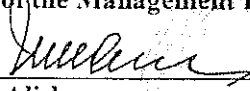
NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF
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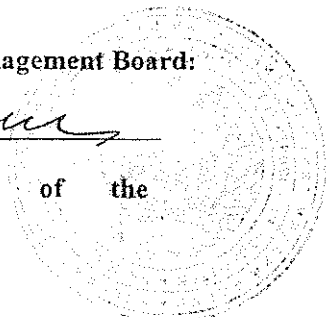
STATEMENT OF UTILISATION OF FUNDS
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014 AND FROM 24 OCTOBER 2013
TO 31 DECEMBER 2013
(in thousands of Uzbek Soums)

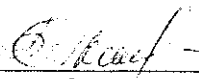
Project Name: Housing for Integrated Rural Development Investment Program
Loan No: 3039 - UZB

	Notes	24 October – 31 December 2013	1 January – 31 December 2014	Cumulative to date
Opening balance		-	20,579,084	-
Received from ADB through Ministry of Finance	1	31,543,100	49,981,154	81,524,254
Loans issued to sub- borrowers	3	(10,964,016)	(70,560,238)	(81,524,254)
Closing balance		20,579,084	-	-

On behalf of the Management Board:


Mirzatov Alisher
Deputy chairman of the
Management Board
9 July 2015
Tashkent, Uzbekistan




Rakhimova Guzal
Chief Accountant

9 July 2015
Tashkent, Uzbekistan

The notes on pages 5-7 form an integral part of these special purpose financial statement

**NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF
UZBEKISTAN**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014 AND FROM 24 OCTOBER 2013
TO 31 DECEMBER 2013**

(in thousands of Uzbek Soums, unless otherwise indicated)

1. BACKGROUND, NATURE OF OPERATIONS AND ACTIVITIES

On 11 October 2013, the Asian Development Bank (hereinafter "the ADB") and the Republic of Uzbekistan signed the Loan Agreement for financing the Housing for Integrated Rural Development Investment Program ("the HIRD") in the Republic of Uzbekistan for USD 200 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 re-lent to National Bank for Foreign Economic Activity of the Republic of Uzbekistan ("the Bank") to finance the HIRD for 2013-2014 period totaling to USD 35,736 thousand. The full amount was re-lent to the Bank in Uzbek Soums.

Replenishments from ADB in 2013

On 19 November 2013, the MOF received USD 14,376 thousand from the Loan Agreement and re-lent UZS 31,543,100 thousand to the Bank on 9 December 2013.

Replenishments from ADB in 2014

In 2014, the MOF has received two streams of financing from the Loan Agreement on 5 June 2014 and 30 December 2014 in the amounts of USD 14,457 thousand and USD 6,903 thousand, respectively and re-lent them to the Bank in the amounts of UZS 33,259,605 thousand and UZS 16,721,549 thousand.

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", on 4 January 2013 financing of 1,198 sub-projects was assigned to the Bank.

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 participated in financing of the construction of 2,019 sub-projects under the Program. The ADB funds in the amount of UZS 95,306,293 thousand were claimed to finance 1,984 sub-loans of which UZS 13,782,039 thousand were disallowed.

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

In 2013

70% of funds of the Bank and 30% of the amount from the proceeds of the Loan re-lent by the MOF to the Bank;

In 2014

50% of funds of the Bank and 50% of the amount from the proceeds of the Loan re-lent by the MOF to the Bank.

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014 AND FROM 24 OCTOBER 2013 TO 31 DECEMBER 2013

(in thousands of Uzbek Soums, unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Statement of Utilization of Funds (the special purpose financial statements) 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 Agreement signed between the Republic of Uzbekistan and the ADB on 11 October 2013.

The accounting policies have been applied consistently throughout the periods from 1 January 2014 to 31 December 2014 and 24 October 2013 to 31 December 2013.

Reporting Period

The special purpose financial statements apply to the periods from 1 January 2014 to 31 December 2014 and from 24 October 2013 to 31 December 2013, respectively.

Reporting entity

The special purpose financial statements solely reflect 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 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.

**NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF
UZBEKISTAN**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIODS FROM 1 JANUARY 2014 TO 31 DECEMBER 2014 AND FROM 24 OCTOBER 2013
TO 31 DECEMBER 2013**

(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.

3. EXPENDITURES MADE FROM ADB FUNDS

During the period from 1 January 2014 to 31 December 2014 and from 24 October 2013 to 31 December 2013, the Bank issued 3,217 sub-loans under the HIRD program of which 1,984 sub-loans were issued using the ADB funds for the total amount of UZS 81,524,254 thousand.

During the period from 1 January 2014 to 31 December 2014 and from 24 October 2013 to 31 December 2013, the Bank submitted liquidations for the total amount of UZS 81,524,254 thousand.

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 1,198 sub-projects was assigned to the Bank. In 2013, the Bank has signed sub-loan agreements which were partially financed in 2013 and 2014 by means of funds from the Loan Agreement for the total amount of UZS 27,195,903 thousand (out of 31,543,100 thousand received). However, the Loan Agreement was signed on 11 October 2013, whereas the sub-loan agreements were signed before 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 2014, the expenditure in the amount of UZS 27,195,903 thousand the Bank has incurred prior to the Loan Agreement becoming effective were determined to be ineligible by ADB. As a result the respective Withdrawal Application and Statement of Expenditure were not approved by ADB.

For this reason it was decided that the funds used to finance ineligible expenditure (1,139 sub-loans) in the amount of UZS 27,195,903 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 re-lent by MOF.

The Statements of Expenditure ("SOE") for the period from 1 January 2014 to 31 December 2014 with regards to the Loan Agreement 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.