PRIVATE JOINT STOCK COMMERCIAL BANK "ORIENT FINANS" AND ITS SUBSIDIARY

Consolidated financial statements and independent auditor's report

For the year ended 31 December 2021

Contents

PRIVATE JOINT STOCK COMMERCIAL BANK "ORIENT FINANS" AND ITS SUBSIDIARY

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2021

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Private Joint-Stock Commercial Bank "Orient Finans" and its subsidiary, (collectively - "the Group") as at 31 December 2021, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group'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 Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Uzbekistan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved by the Management Board on 10 June 2022.

On behalf of the Management Board:

Djunaydullaev Tokhir Fakhriddinovich	**Rakhimov Dilshod Tulkinovich**
Chairman of the Management Board	**Chief Accountant**

10 June 2022

Tashkent, Uzbekistan

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Independent auditor's report

To the Shareholders and Supervisory Board of Private Joint Stock Commercial Bank "Orient Finans"

Opinion

We have audited the consolidated financial statements of Private Joint Stock Commercial Bank "Orient Finans" and its subsidiary (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of 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.

Other matters

The consolidated financial statements of the Group for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on June 4, 2021.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the circumstance described in the *Other Matters* section of our report, we have identified the following matters as key audit matters that need to be disclosed in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans to customers Assessment of expected credit losses ("ECL") on loans to customers based on the requirements of IFRS 9 Financial Instruments ("IFRS 9") is a key area of management's judgment. The assessment of events that cause a significant increase in credit risk, the determination of probability of default, the distribution of assets into three stages of impairment, and the analysis of the criteria for transition between stages involve significant professional judgment and use of assumptions. The calculation of the ECL involves the use of estimation methods with unobservable inputs, including the determination of the probability of default, the exposure at default and loss given default on the basis of available historical data, adjusted for forecast information, including forecast macroeconomic parameters. The use of different models and assumptions can lead to significantly different estimates of the provision for ECL for loans to customers. Due to the significance of the carrying amount of loans to customers for the Group's consolidated financial position, as well as the complexities and judgments associated with the assessment of the ECL, we considered this area a key audit matter. Information on the provision for ECL and the management's approach to assessing the provision and managing credit risk is disclosed in Notes 7 and 26 to the consolidated financial statements.	Our audit procedures included evaluating the methodology developed by the Group for calculating ECL on loans to customers, testing controls over the customer lending process, including testing controls on accounting for overdue debts, procedures for assessing events that cause a significant increase in credit risk for borrowers based on internal classification, and procedures for calculating the provision for ECL. We have analysed the consistency of judgments applied by the Group's management in calculating the provision for ECL. For allowance calculated on a portfolio basis, we evaluated the underlying models, key inputs and assumptions used by the Group to calculate the ECL, as well as the allocation of loans to the stages. We assessed the management's judgement in relation to the determination of whether significant increase in credit risk has occurred on an individual basis. For the selected credit impaired loans, we have analysed the expected cash flows from the sale of collateral and cash repayment. We recalculated the provision for ECL. We evaluated the disclosures in the notes to the consolidated financial statements on the provision for ECL on loans to customers.

Responsibilities of management and the Supervisory Board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board 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.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Anvar Azamov.

Tashkent, Uzbekistan

10 June 2022

Audit organization "Ernst & Young LLC"

Audit Organization «Ernst & Young» LLC
Certificate authorizing audit of banks registered by the Central Bank of the Republic of Uzbekistan Under #11 dated 22 July 2019

A. Azamov

Anvarkhon Azamov
Qualified auditor
Auditor qualification certificate authorizing audit of banks #11/4 dated 11 May 2017 issued by the Central Bank of the Republic of Uzbekistan

Head of Uzbekistan practice
Audit Organization «Ernst & Young» LLC

Consolidated statement of financial position

As at 31 December 2021

(in millions of Uzbekistan Soums)

	Notes	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	5	1,711,602	1,186,968
Due from other banks	6	111,095	103,424
Loans and advances to customers	7	3,711,462	3,575,643
Premises, equipment and intangible assets	8	245,628	218,925
Financial assets at fair value through other comprehensive income	9	17,192	15,272
Current income tax prepayment		1,758	8,043
Deferred income tax asset	20	10,797	4,185
Other assets	10	22,652	13,715
Total assets		**5,832,186**	**5,126,175**
Liabilities			
Due to other banks	11	763,145	1,177,047
Customer accounts	12	3,477,567	2,670,280
Other borrowed funds	13	287,496	177,301
Other liabilities	14	17,654	10,161
Total liabilities		**4,545,862**	**4,034,789**
Equity			
Share capital	16	903,426	768,500
Share premium	16	2,105	2,105
Retained earnings		371,383	312,907
Revaluation reserve of financial assets measured at FVTOCI		9,410	7,874
Total equity		**1,286,324**	**1,091,386**
Total liabilities and equity		**5,832,186**	**5,126,175**

On behalf of the Management Board

Djunaydullaev Tokhir Fakhriddinovich
Chairman of the Management Board

Rakhimov Dilshod Tulkinovich
Chief Accountant

10 June 2022
Tashkent, Uzbekistan

The notes on pages 8-58 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

(in millions of Uzbekistan Soums)

	Notes	*2021*	*2020*
Interest revenue calculated using effective interest rate	17	558,505	461,818
Other interest revenue	17	11,026	11,385
Interest expense	17	(158,645)	(130,846)
Net interest income before provision for expected credit loss on loans and advances to customers		**410,886**	**342,357**
Impairment losses on loans and advances to customers	26	(36,812)	(16,145)
Net interest income after provision for expected credit loss		**374,074**	**326,212**
Fee and commission income	18	186,178	168,573
Fee and commission expense	18	(55,692)	(42,959)
Net (loss)/gain from foreign exchange translation		(1,514)	8,085
Net gain from trading in foreign currencies		50,811	11,652
Other operating income		4,457	7,620
Administrative and other operating expenses	19	(197,210)	(173,717)
Impairment losses on other financial instruments	26, 23	(13,333)	233
Profit before tax		**347,771**	**305,699**
Income tax expense	20	(73,690)	(68,663)
Profit for the year		**274,081**	**237,036**
Items that will not be reclassified subsequently to profit or loss			
Fair value gain on financial assets at FVTOCI		1,920	1,904
Income tax relating to items that will not be reclassified subsequently to profit or loss		(384)	(381)
Total other comprehensive income		**1,536**	**1,523**
Total comprehensive income for the year		**275,617**	**238,559**
Basis and diluted earnings per ordinary share (expressed in UZS per share)		**379**	**328**

On behalf of the Management Board

Djunaydullaev Tokhir Fakhriddinovich	**Rakhimov Dilshod Tulkinovich**
Chairman of the Management Board	**Chief Accountant**

10 June 2022
Tashkent, Uzbekistan

The notes on pages 8-58 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2021

(in millions of Uzbekistan Soums)

	Note	*Share capital*	*Share premium*	*Retained earnings*	*Revaluation reserve of financial assets measured at FVTOCI*	*Total*
Balance at 31 December 2019		**562,171**	**2,105**	**294,809**	**6,351**	**865,436**
Profit for the year		–	–	237,036	–	237,036
Other comprehensive income for the year, net of income tax		–	–	–	1,523	1,523
Total comprehensive income for the year		**–**	**–**	**237,036**	**1,523**	**238,559**
Dividends directed for share capital increase		206,329	–	(206,329)	–	–
Dividends to shareholders of the Bank		–	–	(12,609)	–	(12,609)
Balance at 31 December 2020		**768,500**	**2,105**	**312,907**	**7,874**	**1,091,386**
Profit for the year		–	–	274,081	–	274,081
Other comprehensive income for the year, net of income tax		–	–	–	1,536	1,536
Total comprehensive income for the year		**–**	**–**	**274,081**	**1,536**	**275,617**
Dividends directed for share capital increase	16	134,426	–	(134,426)	–	–
Dividends to shareholders of the Bank	16	–	–	(81,179)	–	(81,179)
Issue of share capital	16	500	–	–	–	500
Balance at 31 December 2021		**903,426**	**2,105**	**371,383**	**9,410**	**1,286,324**

On behalf of the Management Board:

Djunaydullaev Tokhir Fakhriddinovich | **Rakhimov Dilshod Tulkinovich**

Chairman of the Management Board | **Chief Accountant**

10 June 2022
Tashkent, Uzbekistan

The notes on pages 8-58 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

(in millions of Uzbekistan Soums)

	Notes	*2021*	*2020*
Cash flows from operating activities			
Interest received		571,668	464,397
Interest paid		(155,004)	(128,535)
Fee and commission received		186,828	169,461
Fee and commission paid		(55,692)	(44,369)
Income received from trading in foreign currencies		50,811	11,652
Other operating income received		2,477	6,118
Staff costs paid		(82,766)	(64,844)
Administrative and other operating expenses paid		(85,893)	(90,994)
Income tax paid		(73,503)	(72,706)
Cash flows from operating activity before changes in operating assets and liabilities		**358,926**	**250,180**
Changes in operating assets and liabilities			
Net (increase)/decrease in:			
- due from other banks		(16,017)	140,332
- loans and advances to customers		(166,909)	(765,566)
- other assets		(1,545)	331
Net increase/(decrease) in:			
- due to other banks		(412,372)	612,291
- customer accounts		772,856	(153,554)
- other liabilities		1,462	385
Net cash from operating activities		**536,401**	**84,399**

On behalf of the Management Board

Djunaydullaev Tokhir Fakhriddinovich

Chairman of the Management Board

Rakhimov Dilshod Tulkinovich

Chief Accountant

10 June 2022
Tashkent, Uzbekistan

The notes on pages 8-58 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

(in millions of Uzbekistan Soums)

	Notes	2021	2020
Cash flows from investing activities			
Purchase of financial assets at fair value through other comprehensive income	9	–	(3,037)
Acquisition of premises, equipment and intangible assets		(63,666)	(50,143)
Proceeds from sale of premises and equipment		4,140	17
Dividend income received		1,980	1,553
Net cash used in investing activities		**(57,546)**	**(51,610)**
Cash flows from financing activities			
Proceeds from other borrowed funds	15	308,879	84,669
Repayment of other borrowed funds	15	(198,896)	(271,855)
Dividends paid to shareholders of the Bank	16	(81,179)	(12,609)
Net cash from / (used in) financing activities		**28,804**	**(199,795)**
Effect of exchange rate changes on cash and cash equivalents		17,030	59,616
Effect of expected credit loss	5	(55)	(49)
Net increase/(decrease) in cash and cash equivalents		524,634	(107,439)
Cash and cash equivalents at the beginning of the year	5	1,186,968	1,294,407
Cash and cash equivalents at the end of the year	5	**1,711,602**	**1,186,968**

On behalf of the Management Board

ORIENTFINANSBANK

Djunaydullaev Tokhir Fakhriddinovich

Chairman of the Management Board

Rakhimov Dilshod Tulkinovich

Chief Accountant

10 June 2022
Tashkent, Uzbekistan

The notes on pages 8-58 form an integral part of these consolidated financial statements.

(in millions of Uzbekistan Soums)

1. Organization

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2021 for Private Joint Stock Commercial Bank "ORIENT FINANS" (the "Bank") and its subsidiary, (collectively – "the Group").

The Bank was incorporated on 19 June 2010 and is domiciled in the Republic of Uzbekistan. The Bank is a private joint stock commercial bank limited by shares and was set up in accordance with Uzbek regulations.

Principal activity

The Bank's principal activity is commercial and retail banking operations within the Republic of Uzbekistan. The Bank is operating under general banking license № 81 re-issued by the Central Bank of Uzbekistan (the "CBU") on 27 January 2018.

The Bank participates in the state deposit insurance program. The State Deposit Insurance Fund guarantees repayment of 100% of individual deposits in case of revocation of the banking license.

The Bank conducts its operations from its Head Office located in Tashkent, Uzbekistan and has seven branches (31 December 2020: seven).

Registered address and place of business

The Bank's registered address is: 5, Osiyo str, Mirzo-Ulugbek district, Tashkent 100052, Uzbekistan.

Shareholders

As at 31 December 2021 and 2020, the interest of the shareholders in the Bank's capital was as follows (in %):

in percentage	*31 December 2021*	*31 December 2020*
Individuals		
Polatov S. Dj.	22.48%	14.99%
Mirzaev P. R.	22.48%	14.99%
Pulatov D. I.	14.98%	14.99%
Umarov O. M.	14.98%	14.99%
Ahmedjanova S. B.	10.03%	10.04%
Others	0.055%	0.00%
Subtotal	**85%**	**70%**
Legal entities		
"ALWA" LLC	0.00%	15.01%
"Techexpertmash" LLC	11.24%	11.24%
"Metrafor" LLC	3.75%	3.75%
Subtotal	**15%**	**30%**
Total	**100%**	**100%**

Subsidiary

These consolidated financial statements include the following subsidiary as at 31 December 2021 and 2020:

		Proportion of ownership interest/voting rights (%)		
Name	*Country of operation*	*31 December 2021*	*31 December 2020*	*Type of operation*
"OFB Lizing" LLC	Uzbekistan	100	100	Leasing

Subsidiary company "OFB Lizing" LLC was formed on 15 March 2012 as Limited Liability Company under the law of the Republic of Uzbekistan and is domiciled in the Republic of Uzbekistan. Its principal business activity is providing finance leases to legal entities in the Republic of Uzbekistan.

(in millions of Uzbekistan Soums)

2. Significant accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4).

The Group is required to maintain its records and prepare its financial statements for regulatory purposes in Uzbekistan Soums in accordance with Uzbekistan Accounting Legislation and related instructions. These consolidated financial statements are based on the Bank's Uzbekistan Accounting Legislation books and records, adjusted and reclassified in order to comply with IFRS.

Going concern

These consolidated financial statements have been prepared assuming that the Group is a going concern, as the Group have the resources to continue in operation for the foreseeable future. In making this assessment, the management have considered a wide range of information in relation to present and future economic conditions, including projections of cash flows, profit and capital resources.

Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquire. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group's policies.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Recognition and measurement of financial instruments

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 *Financial Instruments* ("IFRS 9") are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- *Retention of an asset to obtain the cash flows stipulated by the contract.* This business model suggests financial asset management aims to realize cash flows by receiving principal and interest payments over the life of the financial instrument. Within the framework of this business model, holding a financial asset to maturity is a priority, but early disposal is not prohibited.
- *Retention of an asset with a view for obtaining contractual cash flows and sale of financial assets.* This business model assumes that the management of financial assets is aimed at both obtaining contractual cash flows and sale of financial assets. Within the framework of this business model, the receipt of cash from the sale of a
- financial asset is a priority, which is characterized by a greater frequency and volume of sales compared to "holding an asset to receive contractual cash flows" business model.
- *Retention of an asset for other purposes.* Within the framework of this business model, financial assets can be managed with the following purposes:
  - Management with a view to selling cash flows through the sale of financial assets;
  - liquidity management to meet daily funding needs;
  - A portfolio, which management and performance is measured on a fair value basis;
  - A portfolio, which matches the definition of held for trading. Financial assets are deemed to be held for trading if they were acquired mainly with a view to subsequent disposal in the near future (up to 180 days), gaining short-term profit, or represent derivative financial instruments (except for a financial guarantee or derivative financial instrument that was designated as a hedging instrument).

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Recognition and measurement of financial instruments (continued)

In accordance with IFRS 9, financial assets are classified as follows:

- Loans and advances to customer are classified as assets at amortised cost are contained within the framework of a business model which aims to receive cash flows exclusively for repayment of unpaid interest and principal stipulated by loan agreement and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding;
- Balances on correspondent accounts, interbank loans/deposits, repo transactions are classified, as a rule, as assets, estimated at amortised cost, since they are managed within the framework of a business model, which aims to receive cash flows stipulated by the contract, and that have contractual cash flows that are SPPI;
- Debt securities may be classified into any of the three classification categories, taking into account the selected business model and compliance with the SPPI criterion;
- Equity securities are generally classified as instruments at fair value through other comprehensive income;
- Trading securities and derivatives are classified as financial assets at fair value through profit or loss.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading, may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in net (loss)/gain on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Debt instruments at amortised cost or at fair value through other comprehensive income ("FVTOCI")

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

At initial recognition of a financial asset, the Group determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Expected credit loss (ECL) measurement – definitions

ECL is a probability-weighted measurement of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and should be determined by evaluating a range of possible outcomes.

An ECL measurement is based on four components used by the Group:

- *Exposure at Default (EAD)* – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
- *Probability of Default (PD)* – an estimate of the likelihood of default to occur over a given time period.
- *Loss Given Default (LGD)* – an estimate of a loss arising on default. It is based on the difference between contractual cash flows due and those that the lender would expect to receive, including from any collateral. It usually expressed as a percentage of EAD.
- *Discount Rate* – a tool to discount an expected loss from the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Default and credit-impaired assets

The financial asset is considered to be in default, or credit impaired, when it meets one or more of the following criteria:

For individually significant loans (except interbank exposures):

- The borrower is more than 90 days past due on its contractual payments (regulatory definition of default for individually significant loans);
- Significant deterioration of the borrower's operating results;
- The loan had experienced a restructuring due to deterioration in the borrower's creditworthiness one or more times within last 12 months;
- The misuse of borrowed funds;
- The borrower is deceased (retail loans);
- The Group has information about force majeure, as well as other circumstances that caused the borrower (co-borrower) significant material damage or do not allow him to continue its operations, including information about the deprivation/suspension of a license for operations or information on unemployment of borrower;
- A high probability of bankruptcy or another kind of financial reorganization, as well as involvement of the borrower (co-borrower) in litigation processes, which may worsen its financial condition;
- Significant changes in the quality of loan collateral or the quality of guarantees/warranties provided by third parties that are expected to reduce the economic incentive for the borrower to make scheduled payments or otherwise affect the likelihood of default;
- Absence of communication with borrower.

For collectively assessed loans:

- The borrower is more than 90 days past due on its contractual payments (regulatory definition of default for individually significant loans);
- The loan had experienced a restructuring due to deterioration in the borrower's creditworthiness one or more times within last 12 months;
- The loan has been classified as unsatisfactory, doubtful or hopeless in accordance with CBU classification.

For other financial assets, debt securities and other treasury assets:

- The counterparty or issuer rated at Caa1 (Moody's) or lower;
- The counterparty or issuer is more than 90 days past due;
- The counterparty or issuer has significant deterioration of operating results.

Significant increase in credit risk (SICR)

The SICR assessment is performed on an individual basis and on a portfolio basis. SICR for individually significant loans is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Group 's risk department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or subsidiary criteria have been met:

For individually significant and for collectively assessed loans:

- Significant changes in the quality of loan collateral or the quality of guarantees/warranties provided by third parties that are expected to reduce the economic incentive for the borrower to make scheduled payments or otherwise affect the likelihood of default;
- The number of days past due is more than 30 days but less than 90;
- The loan has been classified as substandard in accordance with CBU classification (Note 26);
- Restructuring due to the financial difficulties.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Significant increase in credit risk (SICR) (continued)

For other financial assets, debt securities and other treasury assets:

- Deterioration of the counterparty's or issuer's rating by 3 notch.

ECL measurement – description of estimation techniques

General principle

For financial assets that are not purchased or originated credit impaired ("POCI") assets. ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the borrower's credit risk has increased significantly in a three-stage model for ECL measurement:

- Stage 1: a group of financial instruments for which no significant increase in the credit risk level has been recorded since initial recognition and provisions for this group are created as 12-month ECL, and interest income is calculated based on the gross book value.
- Stage 2: a group of financial instruments for which a significant increase in the credit risk level has been recorded since the initial recognition and for which provisions equal the ECL amount for the instrument's lifetime, and interest income is calculated based on the gross carrying amount of the financial asset.
- Stage 3: a group of credit-impaired financial instruments, for which provisions equal the ECL amount for the instrument's lifetime, and interest income is accrued based on the carrying amount of the asset, net of the loss allowance.

The Group defines individually significant loans as loans with total outstanding balances exceeding the threshold of 1% of the Group's total equity. ECL for individually significant loans in Stage 3 are assessed on an individual basis, whereas, ECL for individually significant loans in Stage 1 and 2 are assessed on a collective basis.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), and at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset, A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in-financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy, which applies for corporate and retail lending.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Modification and derecognition of financial assets (continued)

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

Modification and derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include deposits with the Central Bank of Uzbekistan (the "CBU") and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Mandatory cash balances with the CBU

Mandatory cash balances with the CBU are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Due from the CBU include non-interest bearing mandatory reserve deposit held with the CBU which is not available to finance the Group's day to day operations, and hence is not considered as part of cash and cash equivalents for the purposes of these consolidated financial statements.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. However, restructuring, though being considered as not overdue, is an indicator of significant increase in credit risk and, hence is automatically classified to Stage 2.

Further loans can be recovered from Stage 2 to Stage 1 given all of the following criteria are met:

- No indicators of significant increase in credit risk exist as at reporting date;
- Borrower has executed not less than three consecutive payments according to new restructured schedule.

Restructured loans can be recovered from Stage 3 to Stage 2 given all of the following criteria are met:

- No impairment indicators relevant to credit impairment stage exist as at reporting date;
- Borrower has executed not less than three consecutive payments according to new restructured schedule.

Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Repossessed collateral

Repossessed collateral represents non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments

The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight-line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Premises and equipment (continued)

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the statement of profit and loss or other comprehensive income.

Depreciation

Construction in progress is not depreciated. Depreciation of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Building and premises	20-30
Office and computer equipment	5-10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the reporting period.

Intangible assets

The Group's intangible assets have definite useful lives and primarily comprise capitalized computer software. Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring them to use. All other costs associated with computer software, e.g., its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight-line basis over expected useful lives of five years.

Construction in progress

The Group's construction in progress is carried at cost, less any recognized impairment loss. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other borrowed funds

Other borrowed funds include some specific borrowings, which differ from the above items of liabilities and include funds received from the Government of Uzbekistan, foreign financial institutions and local commercial banks, credit lines and other specific items. Other borrowed funds are carried at amortized cost.

Income taxes

Income taxes are provided for in accordance with legislation enacted or substantively enacted by the end of the reporting period.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Income taxes (continued)

The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Trade payable and other liabilities

Trade payables and other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary and preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Revaluation reserve

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include revaluation reserve of financial assets at fair value through other comprehensive income.

Income and expense recognition

Interest income and expense are recorded in the statement of profit or loss and other comprehensive income for all debt instruments on an accrual basis using the effective interest method.

This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Income and expense recognition (continued)

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and fees for settlement transactions which represent the fee received by the Bank for processing of each transaction over the customer's accounts are earned on execution of the underlying transaction, and are recorded on its completion.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions

Wages, salaries, contributions to Uzbekistan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by employees. The Group has nolegal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Foreign currency translation

The functional currency of the Group, which is the currency of the primary economic environment in which the Group operates and the Group's presentation currency is the national currency of the Republic of Uzbekistan, Uzbekistan Soum ("UZS").

Monetary assets and liabilities are translated into Group's functional currency at the official exchange rate of the CBU at the end of respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Group's functional currency at year-end official exchange rates of the CBU are recognised in profit or loss for the year. Translation at the year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

(in millions of Uzbekistan Soums)

2. Significant accounting policies (continued)

Foreign currency translation (continued)

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) Components of equity are translated at the historic rate; and

(iv) All resulting exchange differences are recognised in other comprehensive income.

At 31 December 2021 the principle rate of exchange used for translating foreign currency balances was USD 1=UZS 10,837.66 (2020: 10,476.92) and EUR 1 = UZS 12,224.88 (2020: 12,786.03).

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting year. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Critical accounting judgements

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 26 for more details on allowance for ECL.

(in millions of Uzbekistan Soums)

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Refer to Note 25 for more details on fair value measurement.

Significant increase of credit risk

As explained in Note 2, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable information.

For treasury operations, the Group calculates ECL on a financial asset based not only on the current estimates of the credit quality of the counterparty/issuer at the reporting date, but also taking into account possible deterioration of the financial condition due to the adverse macroeconomic factors of the counterparty's/issuer's environment in the future. In particular, the level of ECL for treasury operations is affected by the rating outlook (positive, stable, negative) assigned by international rating agencies, which affects the probability of default ("PD").

For bank loans, the calculation of ECL takes into account the possible estimated effects migration of collective loans and collateral coverage.

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Exposure at default

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

Key sources of estimation uncertainty

Probability of default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

PD for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody's), which publish tabular data with the values of the probabilities of default. The probabilities of default are maintained up to date and are updated on a periodic basis as the default statistics are updated.

PD for individually assessed loans of corporate, small and medium businesses is basing on the quantitative and qualitative characteristics of the borrower. The calculation of PD on loans assessed on a collective basis is carried out on the basis of historical data using the migration matrices and roll-rates.

Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

LGD for treasury operations is determined according to the Default Study data from international rating agencies (S&P, Fitch, Moody's) and depends on the type of debt on the financial asset: senior secured/unsecured, subordinated, sovereign. In addition, LGD may be adjusted if collateral is provided for the asset, as well as if there are indications of impairment for the financial asset (Stage 2 or Stage 3).

LGD for collectively assessed loans is calculated based on an estimate of the recoverability of debt in case of the pledged collateral sale with a discount period that corresponds to the pledged collateral implementation terms.

(in millions of Uzbekistan Soums)

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are: The Group is expecting to achieve stable growth in net profit during following years and is planning to significantly enhance operations in retail sector.

4. Application of new and revised International Financial Reporting Standards (IFRSs)

New and amended IFRS Standards that are effective for the current year

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2.

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group. The Group's IBOR-based financial instruments comprise insignificant portion of all the assets and liabilities of the Group and they mature before 30 June 2023, the date of transition. The Group intends to use the practical expedients in future periods if they become applicable.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions* – amendment to IFRS 16 *Leases*.
The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.
The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

New and revised IFRS Standards in issue but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

(in millions of Uzbekistan Soums)

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

New and revised IFRS Standards in issue but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Group is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.

That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

(in millions of Uzbekistan Soums)

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

New and revised IFRS Standards in issue but not yet effective (continued)

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards.* The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies

and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS *Practice Statement 2 Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

(in millions of Uzbekistan Soums)

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

New and revised IFRS Standards in issue but not yet effective (continued)

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (continued)

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

5. Cash and cash equivalents

	31 December 2021	*31 December 2020*
Cash balances with the CBU	1,133,559	573,067
Correspondent accounts and overnight placements with other banks	329,662	429,034
Cash on hand	248,436	184,916
Less: allowance for impairment losses	(55)	(49)
Total cash and cash equivalents	**1,711,602**	**1,186,968**

As at 31 December 2021 and 2020, cash and cash equivalents in the amount of UZS 1,399,658 million (82%) and UZS 981,148 million (83%) were placed within five commercial banks and the Central Bank of Uzbekistan, respectively.

The credit quality of cash and cash equivalents balances at 31 December 2021 is as follows:

	Cash balances with the CBU	*Correspondent accounts and overnight placements with other banks*	*Total*
Central Bank of Uzbekistan	1,133,559	–	**1,133,559**
Moody's "Aa3" rated	–	6,993	**6,993**
Moody's "A1" rated	–	1,121	**1,121**
Moody's "A2" rated	–	110,679	**110,679**
Moody's "Aa2" rated	–	101,359	**101,359**
Moody's "Baa3" rated	–	20,699	**20,699**
Moody's "Ba3" rated	–	18,896	**18,896**
Moody's "B1" rated	–	65,060	**65,060**
Moody's "B2" rated	–	4,855	**4,855**
Total cash and cash equivalents, excluding cash on hand and provisions for expected credit loss	**1,133,559**	**329,662**	**1,463,221**

(in millions of Uzbekistan Soums)

5. Cash and cash equivalents (continued)

The credit quality of cash and cash equivalents balances at 31 December 2020 is as follows:

	Cash balances with the CBU	*Correspondent accounts and overnight placements with other banks*	*Total*
Central Bank of Uzbekistan	573,067	–	**573,067**
Moody's "Aa3" rated	–	55,730	**55,730**
Moody's "A1" rated	–	15	**15**
Moody's "A2" rated	–	65,710	**65,710**
Moody's "Baa3" rated	–	185	**185**
Moody's "Ba1" rated	–	66	**66**
Moody's "Ba3" rated	–	18,097	**18,097**
Moody's "B1" rated	–	271,572	**271,572**
Moody's "B2" rated	–	17,659	**17,659**
Total cash and cash equivalents, excluding cash on hand and provisions for expected credit loss	**573,067**	**429,034**	**1,002,101**

6. Due from other banks

Mandatory cash balance with the CBU include non-interest-bearing reserves against client deposits. The Group does not have the right to use these deposits for the purposes of funding its own activities.

	31 December 2021	*31 December 2020*
Mandatory reserve with CBU	52,602	30,163
Placements with other banks with original maturities of more than three months	43,633	57,789
Restricted cash	25,702	16,142
Less: allowance for impairment losses	(10,842)	(670)
Total due from banks	**111,095**	**103,424**

Restricted cash represents balances on correspondent accounts with foreign banks placed by the Group on behalf of its customers. The Group does not have the right to use these funds for the purpose of funding its own activities.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2021 is as follows:

	Mandatory cash balance with the CBU	*Placements with other banks with original maturities of more than three months*	*Restricted cash*	*Total*
- Central Bank of Uzbekistan	52,602	–	–	**52,602**
- Moody's "A1" rated	–	–	10,225	**10,225**
- Moody's "Aa3'" rated	–	–	10,923	**10,923**
- Moody's "B1" rated	–	32,053	–	**32,053**
- Moody's "Ba1" rated	–	–	3,248	**3,248**
- Moody's "Baa2" rated	–	–	1,301	**1,301**
- Moody's "Ba3" rated	–	11,580	5	**11,585**
Total due from other banks, excluding provision for expected credit loss	**52,602**	**43,633**	**25,702**	**121,937**

(in millions of Uzbekistan Soums)

6. Due from other banks (continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2020 is as follows:

	Mandatory cash balance with the CBU	*Placements with other banks with original maturities of more than three months*	*Restricted cash*	*Total*
- Central Bank of Uzbekistan	30,163	–	–	**30,163**
- Moody's "A1" rated	–	–	5,410	**5,410**
- Moody's "A3" rated	–	–	7,081	**7,081**
- Moody's "Ba3" rated	–	20,551	–	**20,551**
- Moody's "B1" rated	–	32,000	5	**32,005**
- Moody's "B2" rated	–	–	3,646	**3,646**
- Moody's "Caa" rated	–	5,238	–	**5,238**
Total due from other banks, excluding provision for expected credit loss	**30,163**	**57,789**	**16,142**	**104,094**

7. Loans and advances to customers

	31 December 2021	*31 December 2020*
Corporate loans	2,831,229	2,924,633
Consumer loans	944,927	681,068
Gross loans and advances to customers	**3,776,156**	**3,605,701**
Less: provision for expected credit loss	(64,694)	(30,058)
Total loans and advances to customers	**3,711,462**	**3,575,643**

As at 31 December 2021, corporate loans include finance lease receivables of UZS 33,851 million (31 December 2020: UZS 43,470 million).

Analysis by credit quality of loans and advances to customers as at 31 December 2021 is as follows:

	Gross loans	*Provision for expected credit loss*	*Net loans*
Collectively assessed on corporate loans			
Not past due	2,790,501	(41,224)	2,749,277
Overdue:			
- Up to 30 days	10,971	(167)	10,804
- From 30 to 90 days	936	(48)	888
- Over 90 days	28,821	(10,888)	17,933
Total collectively assessed corporate loans	**2,831,229**	**(52,327)**	**2,778,902**
Collectively assessed on consumer loans			
Not past due	930,135	(9,674)	920,461
Overdue:			
- Up to 30 days	4,356	(48)	4,308
- From 30 to 90 days	5,590	(853)	4,737
- Over 90 days	4,846	(1,792)	3,054
Total collectively assessed consumer loans	**944,927**	**(12,367)**	**932,560**
Total loans and advances to customers	**3,776,156**	**(64,694)**	**3,711,462**

(in millions of Uzbekistan Soums)

7. Loans and advances to customers (continued)

Analysis by credit quality of loans and advances to customers as at 31 December 2020 is as follows:

	Gross loans	*Provision for expected credit loss*	*Net loans*
Collectively assessed on corporate loans			
Not past due	2,885,904	(23,933)	2,861,971
Overdue:			
- Up to 30 days	6,237	(127)	6,110
- From 30 up to 90 days	31,392	(1,707)	29,685
- Over 90 days	1,100	(385)	715
Total collectively assessed corporate loans	**2,924,633**	**(26,152)**	**2,898,481**
Collectively assessed on consumer loans			
Not past due	664,482	(1,632)	662,850
Overdue:			
- Up to 30 days	9,113	(84)	9,029
- From 30 up to 90 days	5,611	(1,314)	4,297
- Over 90 days	1,862	(876)	986
Total collectively assessed consumer loans	**681,068**	**(3,906)**	**677,162**
Total loans and advances to customers	**3,605,701**	**(30,058)**	**3,575,643**

As at 31 December 2021, the Group continues to apply certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. In particular, the Group updated forward looking information, including forecasts of macroeconomic indicators and scenarios' weights.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31-December-2021 amount	*%*	*31-December-2020 amount*	*%*
Production	1,208,527	32%	1,253,702	35%
Services	945,685	25%	780,169	22%
Individuals	944,927	25%	681,068	19%
Trade	603,513	16%	691,906	19%
Agriculture	68,692	2%	185,101	5%
Oil & Gas	4,812	0%	13,755	0%
Gross loans and advances to customers	**3,776,156**	**100%**	**3,605,701**	**100%**

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2021 and 2020 would have been higher by:

	2021	*2020*
Corporate loans	17,897	4,058
Consumer loans	3,054	2,700
	20,951	**6,758**

The analysis of the finance lease receivables and their present value as at 31 December 2021 is as follows:

	Not later than 1 year	*Between 1 and 2 years*	*Between 2 and 3 years*	*Between 3 and 4 years*
Finance lease receivables at 31 December 2021	28,265	17,053	3,981	–
Unearned finance income	(7,107)	(6,732)	(1,609)	–
Impairment provision	(802)	(206)	(52)	–
Present value of finance lease receivables at 31 December 2021	**20,356**	**10,115**	**2,320**	**–**

(in millions of Uzbekistan Soums)

7. Loans and advances to customers (continued)

The analysis of the finance lease receivables and their present value as at 31 December 2020 is as follows:

	Not later than 1 year	*Between 1 and 2 years*	*Between 2 and 3 years*	*Between 3 and 4 years*
Finance lease receivables at 31 December 2020	34,236	19,389	12,077	156
Unearned finance income	(8,690)	(8,379)	(5,231)	(88)
Impairment provision	(2,547)	(778)	(442)	(9)
Present value of finance lease receivables at 31 December 2020	**22,999**	**10,232**	**6,404**	**59**

8. Premises, equipment and intangible assets

	Buildings and premises	*Office and computer equipment*	*Construction in progress*	*Total premises and equipment*	*Intangible assets*	*Intangible assets under development*	*Total*
Cost							
1 January 2020	112,783	80,945	21,240	214,968	14,788	7,502	237,258
Additions	9,993	29,517	13,333	52,843	1,220	2,737	56,800
Disposals	–	(680)	–	(680)	–	–	(680)
Transfer	4,370	-	(4,370)	–	1,889	(1,889)	–
31 December 2020	127,146	109,142	30,843	267,131	17,897	8,350	293,378
Accumulated depreciation							
1 January 2020	17,905	27,250	–	45,155	7,244	–	52,399
Depreciation/amortisation charge (Note 19)	4,441	15,785	–	20,226	2,440	–	22,666
Disposals	–	(612)	–	(612)	–	–	(612)
31 December 2020	22,346	42,423	–	64,769	9,684	–	74,453
Cost							
1 January 2021	127,146	109,142	30,843	267,131	17,897	8,350	293,378
Additions	55	34,304	20,274	54,633	1,565	1,521	57,719
Disposals	(4)	(4,255)	–	(4,259)	–	–	(4,259)
Transfer	24,370	–	(24,370)	–	6,834	(6,834)	–
31 December 2021	151,567	139,191	26,747	317,505	26,296	3,037	346,838
Accumulated depreciation							
31 December 2021	22,346	42,423	–	64,769	9,684	–	74,453
Depreciation/amortisation charge (Note 19)	4,700	18,569	–	23,269	3,607	–	26,876
Disposals	(1)	(118)	–	(119)	–	–	(119)
31 December 2021	27,045	60,874	–	87,919	13,291	–	101,210
Net book value							
31 December 2020	104,800	66,719	30,843	202,362	8,213	8,350	218,925
31 December 2021	124,522	78,317	26,747	229,586	13,005	3,037	245,628

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.

As at 31 December 2021, fully depreciated assets amounted to UZS 21,435 million (31 December 2020: UZS 16,503 million).

As at 31 December 2021 and 2020, the Group did not pledge premises, equipment and intangible assets as collateral.

(in millions of Uzbekistan Soums)

9. Financial assets at fair value through other comprehensive income

	Share %	*Country of registration*	*31 December 2021*	*31 December 2020*
Foreign Currency Exchange of the Republic of Uzbekistan	5.76%	Uzbekistan	13,595	11,997
Uzbekistan Mortgage Refinancing Company	3.33%	Uzbekistan	3,000	3,000
Credit Information Analytics Centre	3.22%	Uzbekistan	597	275
Total equity securities at fair value through other comprehensive income			**17,192**	**15,272**

As at 31 December 2021 and 2020, none of the securities in the table above were pledged under the Group's liabilities.

10. Other assets

	31 December 2021	*31 December 2020*
Other financial assets		
Receivable from money transfer systems	6,652	5,007
Total other financial assets	**6,652**	**5,007**
Other non-financial assets		
Prepayments to suppliers	12,179	5,055
Other	3,821	3,653
Total other non-financial assets	**16,000**	**8,708**
Total other assets	**22,652**	**13,715**

11. Due to other banks

	31 December 2021	*31 December 2020*
Time deposits	749,003	1,168,455
Correspondent accounts with other banks	14,142	8,592
Total due from banks	**763,145**	**1,177,047**

As at 31 December 2021 and 2020, time deposits in the amount of UZS 528,878 million (71%) and UZS 570,184 million (48%), respectively, were provided by three domestic banks.

12. Customer accounts

	31 December 2021	*31 December 2020*
Private and legal entities		
- Current/settlement accounts	2,201,444	1,606,243
- Term deposits	721,850	608,110
Individuals		
- Current/settlement accounts	489,250	385,502
- Term deposits	65,023	70,425
Total customer accounts	**3,477,567**	**2,670,280**

(in millions of Uzbekistan Soums)

12. Customer accounts (continued)

Economic sector concentrations within customer accounts are as follows:

	31 December 2021 Amount	*%*	*31 December 2020 Amount*	*%*
Government organizations	887,634	25.5%	557,924	20.9%
Trade	665,946	19.1%	377,265	14.1%
Service	594,237	17.1%	248,577	9.3%
Individuals	554,273	15.9%	455,927	17.1%
Manufacturing	427,613	12.3%	702,601	26.3%
Construction	184,223	5.3%	114,452	4.3%
Communication	64,142	1.8%	55,079	2.1%
Transportation	54,705	1.6%	84,863	3.2%
Oil and Gas	30,167	0.9%	56,799	2.1%
Agricalture	7,401	0.2%	13,004	0.5%
Other	7,226	0.2%	3,789	0.1%
Total customer accounts	**3,477,567**	**100%**	**2,670,280**	**100%**

As at 31 December 2021 and 2020, customer accounts amounting to UZS 116,352 million and UZS 92,274 million respectively, were pledged as collateral for letters of credit and other similar products issued by the Group. As at 31 December 2021, the Group had 10 customers (2020: 10 customers) with the aggregate balance of UZS 1,578,643 million (2020: UZS 907,923 million) or 45% (2020: 34%) of total customer accounts.

13. Other borrowed funds

	Currency	*Interest rate*	*31 December 2021*	*31 December 2020*
Landesbank Baden-Wurttemberg	EUR	1.15-4.4%	115,715	21,124
Asia Invest Bank	USD	5.50-6%	43,301	20,802
Gazprombank	USD	5.3-6%	41,829	70,014
Trustbank	UZS	15.0%	22,791	34,971
AKA Ausfuhrkredit-Gesellschaft MBH	EUR	1.04%	17,759	–
Export Promotion Agency under Ministry of Investments and Foreign Trade of the Republic of Uzbekistan	USD	2.0%	17,010	–
Ministry of Finance of the Republic of Uzbekistan	UZS	0-10%	15,222	24,210
Raiffeisen Bank International AG (Austria)	USD	4.75%	10,707	–
Fund for Financing State Development Programs of the Republic of Uzbekistan under the Cabinet of Ministers of the Republic of Uzbekistan	UZS	0.0%	3,162	3,300
Ipoteka bank	UZS	5.0%	–	2,880
Total other borrowed funds			**287,496**	**177,301**

On 17 September 2021 a short-term loan agreement with Landesbank Baden-Wurttemberg for the amount of EUR 10,875,793 (the equivalent of UZS 139,168 million) has been signed with an interest rate 1.14% per annum.

In 2021 the Group received two short-term loans from JSC "Asia-Invest Bank" in the total amount of USD 4,995,420 (the equivalent of UZS 53,072 million) at 5.5% and 6% interest rates per annum.

During 2021, the Group received nine short-term loans from JSC Gazprombak for the total amount of USD 5,369,986 (the equivalent of UZS 52,141 million) at interest rates of 5.3%-6% per annum.

On 9 April 2021 the Group has entered into a short-term agreement with AKA Ausfuhrkredit-Gesellschaft MBH and received EUR 1,445,000 (the equivalent UZS 17,956 million).

(in millions of Uzbekistan Soums)

13. Other borrowed funds (continued)

In February 2021 the Group has entered into an agreement with Export Promotion Agency under Ministry of Investments and Foreign Trade of the Republic of Uzbekistan and received a borrowing with an interest rate of 2% per annum.

In 2021 the Group received three short-term loans from Raiffeisen Bank International AG (Austria) in the total amount of USD 2,243,696 (the equivalent of UZS 23,603 million) at interest rate of 4.75% per annum.

The Group made redemption of borrowings in the total amount of UZS 198,896 million under the loan agreements with Gazprombank, Raiffeisen Bank International AG (Austria), Asia Invest Bank, Ministry of the Republic of Uzbekistan and Department of Management of the Fund for State Support of Agriculture under the Ministry of Finance and Export Promotion Agencies under the Ministry of Uzbekistan, including accrued interest.

14. Other liabilities

	31 December 2021	*31 December 2020*
Other financial liabilities		
Professional service fee payable	4,041	1,388
Payable to suppliers	2,864	4,157
Payable to employees	2,572	1,925
Deferred income on financial guarantees	1,279	629
Provision for credit related commitments	2,942	64
Total other financial liabilities	**13,698**	**8,163**
Other non-financial liabilities		
Taxes other than income tax payable	1,184	286
Other	2,772	1,712
Total other non-financial liabilities	**3,956**	**1,998**
Total other liabilities	**17,654**	**10,161**

(in millions of Uzbekistan Soums)

15. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

				Non-cash changes		
	1 January 2021	*Financing cash inflows/ (outflow)*	*Interest paid*	*Effect of exchange rate changes*	*Interest accrued*	*31 December 2021*
Other borrowed funds	**177,301**	109,983	(11,714)	(1,317)	13,243	**287,496**

				Non-cash changes		
	1 January 2020	*Financing cash inflows/ (outflow)*	*Interest paid*	*Effect of exchange rate changes*	*Interest accrued*	*31 December 2020*
Other borrowed funds	**343,684**	(187,186)	(10,616)	20,619	10,800	**177,301**

(in millions of Uzbekistan Soums)

16. Equity

Movements in shares issued and fully paid were as follows:

	Number of authorised shares (units)	*Number of issued shares (units)*	*Shares amount (UZS million)*	*Share premium (UZS million)*	*Total amount*
As at 1 January 2020	**462,631,175**	**449,752,487**	**562,171**	**2,105**	**564,276**
Capitalization of retained earnings	165,062,559	165,062,559	206,329	–	**206,329**
As at 31 December 2020	**627,693,734**	**614,815,046**	**768,500**	**2,105**	**770,605**
Capitalization of retained earnings	107,540,802	107,540,802	134,426	–	**134,426**
Issue of preference shares	400,000	400,000	500	–	**500**
As at 31 December 2021	**735,634,536**	**722,755,848**	**903,426**	**2,105**	**905,531**

The share capital of the Bank was contributed by the shareholders in UZS, and they are entitled to dividends and any capital distribution in UZS. Preference shares are non-voting with dividends payable subject to the decision of Shareholders' Meeting.

At the Shareholders' Meeting on 10 September 2021, the Group declared dividends in respect of the year ended 31 December 2020 in the amount of UZS 215,605 million on ordinary shares (UZS 2,005 per share). The part of the declared dividends in the amount UZS 134,426 million was capitalized to share capital in proportion to the size of share of shareholders. The remaining UZS 81,179 million has been paid to Shareholders in cash. The Group reflected tax on dividends declared in total amount of UZS 11,109 million on behalf of Shareholders.

At the Shareholders' Meeting on 24 May 2020, the Group declared dividends in respect of the year ended 31 December 2019 in the amount of UZS 218,938 million on ordinary shares (UZS 1,250 per share). The declared dividends were capitalized to share capital in proportion to the size of share of shareholders. The Group reflected tax on dividends declared in total amount of UZS 12,209 million on behalf of Shareholders.

In accordance with Uzbekistan legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Group's financial statements prepared in accordance with local accounting legislation.

Share premium represents the excess of contributions received over the nominal value of shares issued.

17. Interest income and expense

	2021	*2020*
Interest revenue		
Financial assets at amortized cost		
Loans and advances to customers	551,825	452,098
Due from other banks	5,001	8,488
Cash and cash equivalents	1,679	1,232
Interest revenue calculated using effective interest rate	**558,505**	**461,818**
Finance leases	11,026	11,385
Other interest revenue	**11,026**	**11,385**
Total interest revenue	**569,531**	**473,203**
Interest expense		
Customer accounts	(81,357)	(71,981)
Due to other banks	(64,045)	(48,065)
Other borrowed funds	(13,243)	(10,800)
Total interest expense	**(158,645)**	**(130,846)**
Net interest income	**410,886**	**342,357**

(in millions of Uzbekistan Soums)

18. Fee and commission income and expense

Fee and commission income and expense comprise:

	2021	2020
Fee and commission income		
Settlement transactions	89,221	65,306
Commission on plastic cards	48,355	28,701
Cash transactions	24,329	15,459
Commission on foreign currency operations	14,039	41,016
International money transfers	4,521	3,323
Commission on guarantees	2,697	6,999
Commission on letters of credit transactions	1,608	5,412
Other	1,408	2,357
Total fee and commission income	**186,178**	**168,573**

	2021	2020
Fee and commission expenses		
Commission on plastic cards	(40,570)	(27,930)
Commission on foreign currency operations	(8,913)	(5,444)
Cash collection transactions	(3,319)	(4,295)
Other	(2,890)	(5,290)
Total fee and commission expenses	**(55,692)**	**(42,959)**

19. Administrative and other operating expenses

	2021	2020
Staff costs	83,413	65,215
Depreciation/amortization (Note 8)	26,876	22,666
Charity	13,962	34,183
Taxes other than income taxes	13,156	10,763
Security expenses	10,292	7,367
Stationery and office supplies	8,221	7,561
Data processing	7,824	5,660
Representation & entertainment	6,888	3,502
Repair and maintenance	6,228	6,873
Membership fee	3,729	1,342
Consultancy and legal services	2,994	2,325
Communications	2,635	1,752
Other	10,992	4,508
Administrative and other operating expenses	**197,210**	**173,717**

20. Income taxes

(a) Components of income tax expense

Income tax expense comprises the following:

	2021	2020
Current tax charge	80,686	70,691
Deferred tax benefit	(6,996)	(2,028)
Total income tax expense for the year	**73,690**	**68,663**

(in millions of Uzbekistan Soums)

20. Income taxes (continued)

(b) Reconciliation between tax expense and profit or loss multiplied by applicable tax rate

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2021 and 2020 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

Reconciliation between the expected and the actual taxation charge is provided below.

	2021	*2020*
Profit before tax	**347,771**	**305,699**
Theoretical tax charge at the applicable statutory rate – 20% (2020: 20%)	**69,554**	**61,140**
- Non deductible expenses	5,169	8,306
- Tax exempt income	(396)	(311)
- Effect of tax rate, different from the rate of 20%	(163)	(143)
- Other	(474)	(329)
Income tax expense for the year	**73,690**	**68,663**

(in millions of Uzbekistan Soums)

20. Income taxes (continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Uzbekistan give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements on these temporary differences is detailed below and is recorded at the rate of 20% (2020: 20%).

	2021	*(Charged)/ credited to OCI*	*(Charged)/ credited to profit or loss*	*2020*	*(Charged)/ credited to OCI*	*(Charged)/ credited to profit or loss*	*2019*
Tax effect of deductible/(taxable) temporary differences							
Loans and advances to customers	9,621	–	6,144	3,477	–	1,614	1,863
Premises, equipment and intangible assets	1,503	–	–	1,503	–	265	1,238
Other assets	409	–	73	336	–	(80)	416
Cash and cash equivalents	247	–	305	(58)	–	(75)	17
Due from other banks	(84)	–	(218)	134	–	(42)	176
Financial assets at fair value through other comprehensive income	(2,353)	(384)	–	(1,969)	(381)	–	(1,588)
Other liabilities	1,454	–	692	762	–	347	415
Net deferred tax asset	**10,797**	**(384)**	**6,996**	**4,185**	**(381)**	**2,028**	**2,537**
Recognised deferred tax asset	13,234	–	7,214	6,212	–	2,226	4,125
Recognised deferred tax liability	(2,437)	(384)	(218)	(2,027)	(381)	(197)	(1,588)
Net deferred tax asset	**10,797**	**(384)**	**6,996**	**4,185**	**(381)**	**2,029**	**2,537**

(in millions of Uzbekistan Soums)

21. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year.

Earnings per share from continuing operations are calculated as follows:

	31 December 2021	*31 December 2020*
Profit for the year attributable to ordinary shareholders	**274,081**	**237,036**
Amounts paid on preference shares	(70)	–
Total net profit for the year attributable to ordinary shareholders	**274,011**	**237,036**
Number of ordinary shares in issue (million)	723	723
Basic and diluted earnings per ordinary share (in UZS per share)	**379**	**328**

Information for the year ended 31 December 2020 was adjusted for the effect of dividend capitalization (Note 16).

22. Segment analysis

The Group's operations are single reportable segment.

The Group provides mainly banking services in the Republic of Uzbekistan. The Group identifies the segment in accordance with the criteria set in IFRS 8 *Operating Segment* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker ("CODM") has been determined as the Group's Chairman of the Management Board. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources.

The Management has determined a single operating segment being banking services based on these internal reports.

The performance of the segment is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2021 or 2020.

All of the Group's operations and assets are located in the Republic of Uzbekistan.

23. Commitments and contingencies

Operating environment

Uzbekistan economy displays characteristics of an emerging market, including but not limited to, a currency that is not freely convertible outside of the country and a low level of liquidity in debt and equity markets. Also, the banking sector in Uzbekistan is particularly impacted by local political, legislative, fiscal and regulatory developments.

Economic stability in Uzbekistan is largely dependent upon the effectiveness of economic measures undertaken by the Government, together with other legal, regulatory and political developments, all of which are beyond the Group's control.

The Group's financial position and operating results will continue to be affected by future political and economic developments in Uzbekistan including the application and interpretation of existing and future legislation and tax regulations which greatly impact Uzbek financial markets and the economy overall.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group at this stage is difficult to determine. As at 31 December 2021, the Group performed stress-testing by modifying key economic variables. The results of the stress-testing demonstrate a deterioration in the Group's financial indicators (decrease in assets, equity, interest income, growth of the allowances for expected credit losses). At the same time, given that the Group has a sufficient amount of own equity and liquid assets, a significant deterioration of the Group's financial position and violation of regulatory requirements and norms is not predicted.

23. Commitments and contingencies (continued)

Effect of COVID-19

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Uzbekistan Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the CBU to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

The Group continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these consolidated financial statements

Tax contingencies

Uzbekistan tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Uzbekistan tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

As Uzbekistan tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

(in millions of Uzbekistan Soums)

23. Commitments and contingencies (continued)

Credit related commitments (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

	31 December 2021	*31 December 2020*
Guarantees issued	310,847	60,593
Undrawn credit lines	202,517	333,630
Import letters of credit	130,552	87,730
Gross credit related commitments	**643,916**	**481,953**
Less: provision for expected credit loss for guarantees issued	(2,879)	(64)
Less: commitment collaterised by cash deposits (Note 12)	(116,352)	(92,274)
Total credit related commitments	**524,685**	**389,615**

Credit related commitments are denominated in currencies as follows:

	31 December 2021	*31 December 2020*
USD	356,401	165,121
UZS	204,903	224,831
EUR	82,612	87,825
RUB	–	4,176
Gross credit related commitments	**643,916**	**481,953**

Capital commitments

As at 31 December 2021, the Group had capital expenditures commitments in the amount of UZS 81,603 million in respect of construction in progress (31 December 2020: UZS 21,704 million).

The balance of financial guarantees are allocated to Stage 1. An analysis of changes in the ECL allowances during the years ended 31 December is as follows:

Financial guarantees	*2021*	*2020*
Gross amount as at 1 January	**60,953**	**129,381**
New exposures	471,271	212,733
Exposures matured	(221,377)	(281,521)
As at 31 December 2021	**310,847**	**60,953**

	2021	*2020*
ECL allowance as at 1 January	**64**	**50**
New exposures	2,578	180
Exposures matured	(500)	(202)
Changes to models and inputs used for ECL calculations	737	36
As at 31 December 2021	**2,879**	**64**

(in millions of Uzbekistan Soums)

24. Capital risk management

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the CBU and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with capital adequacy ratios set by the CBU is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank's Chairman and Chief Accountant.

Under the current capital requirements set by the CBU, banks have to maintain ratios of:

- Ratio of regulatory capital to risk weighted assets ("Regulatory capital ratio") above a prescribed minimum level of 13% (31 December 2020: 13%);
- Ratio of Group's tier 1 capital to risk weighted assets ("Capital adequacy ratio") above a prescribed minimum level of 10% (31 December 2020: 10%);

	31 December 2021	*31 December 2020*
Tier 1 capital	1,276,914	1,083,512
Tier 2 capital	9,410	7,874
Total regulatory capital	**1,312,562**	**1,091,386**
Risk – weighted assets	**5,746,178**	**6,259,471**

25. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date.

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). The Management applies judgement in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used). Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Group considers that the accounting estimate related to the valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to changes from year to year, as it requires the Management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific features of transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on the consolidated statement of financial position, as well as, the related profit or loss reported on the consolidated statement of profit or loss, could be material.

Except as detailed in the following table, the management considers that the carrying values of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

(in millions of Uzbekistan Soums)

25. Fair value of financial instruments (continued)

Financial assets/liabilities as at 31 December 2021	*Carrying value*	*Fair value*	*Fair value hierarchy*	*Valuation technique(s) and key input(s)*	*Significant unobservable input(s)*	*Relationship of unobservable inputs to fair value*
Loans and advances to customers	3,711,462	3,877,109	Level 3	Future cash flows are estimated based on average interest rates (from observable Statistical bulletin of the CBU)	Discount rate	The greater discount-the smaller fair value
Due from other banks	111,095	108,673	Level 3	Valuation model based on discounted cash flows	Discount rate	The greater discount-the smaller fair value
Due to other banks	763,145	800,499	Level 3	Valuation model based on discounted cash flows	Discount rate	The greater discount-the smaller fair value
Customer accounts	3,477,567	3,569,105	Level 3	Future cash flows are estimated based on average interest rates (from observable Statistical bulletin of the CBU)	Discount rate	The greater discount-the smaller fair value
Other borrowed funds	287,496	262,904	Level 3	Valuation model based on discounted cash flows	Discount rate	The greater discount-the smaller fair value

As at 31 December 2021, the Group determined fair value for some of its financial assets and liabilities using the discounted cash flow model by applying CBU statistical bulletin which became open to public starting 2019. Such financial instruments were categorised as Level 3.

For those financial instruments where interest rates were not directly available in the CBU statistical bulletin, the Management used discounted cash flow model by applying market interest rates based on the rates of the deals concluded towards the end of the reporting period, thereby, categorizing such instruments as Level 3.

Financial assets/liabilities as at 31 December 2020	*Carrying value*	*Fair value*	*Fair value hierarchy*	*Valuation technique(s) and key input(s)*	*Significant unobservable input(s)*	*Relationship of unobservable inputs to fair value*
Loans and advances to customers	3,575,643	3,631,751	Level 3	Future cash flows are estimated based on average interest rates (from observable Statistical bulletin of the CBU)	Discount rate	The greater discount-the smaller fair value
Due from other banks	103,424	104,022	Level 3	Valuation model based on discounted cash flows	Discount rate	The greater discount-the smaller fair value
Due to other banks	1,177,047	1,177,267	Level 3	Valuation model based on discounted cash flows	Discount rate	The greater discount-the smaller fair value
Customer accounts	2,670,280	2,644,417	Level 3	Future cash flows are estimated based on average interest rates (from observable Statistical bulletin of the CBU)	Discount rate	The greater discount-the smaller fair value
Other borrowed funds	177,301	195,215	Level 3	Valuation model based on discounted cash flows	Discount rate	The greater discount-the smaller fair value

(in millions of Uzbekistan Soums)

25. Fair value of financial instruments (continued)

Due to the absence of an active market or observable inputs for instruments with characteristics similar to the Bank's financial instruments, the Management considered the latest rates as the most appropriate input from all available data for calculation of the fair value of financial assets and financial liabilities. Therefore, these long-term financial instruments that are not measured at fair value on a recurring basis but where fair value disclosures are required, are categorized within Level 3.

The fair value of the equity instruments at fair value through other comprehensive income disclosed in Note 9 were determined as the present value of future dividends by assuming dividend growth rate of zero per annum. The Management built its expectation based on previous experience of dividends received on financial assets at fair value through other comprehensive income over multiple years, and accordingly calculated the value of using the average rate of return on investments. The Management believes that this approach accurately reflects the fair value of these securities, given they are not traded. Such financial instruments were categorized as Level 3.

Significant unobservable inputs and sensitivity of level 3 financial instruments measured at fair value to changes to key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

31 December 2021	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Financial assets at FVOCI					
Equity securities	17,192	Discounted cash flow	Discount rate	12%-18% (16%)	2% increase/(decrease) in the discount rate would result in an increase (decrease) in fair value of the equity securities at FVOCI by UZS 344/(UZS 344)

31 December 2020	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Financial assets at FVOCI					
Equity securities	15,272	Discounted cash flow	Discount rate	12%-18% (16%)	2% increase/(decrease) in the discount rate would result in an increase (decrease) in fair value of the equity securities at FVOCI by UZS 305/(UZS 305)

26. Risk management policy

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize operational and legal risks.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

26. Risk management policy (continued)

Credit risk (continued)

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

Counterparty limits are established by the use of the Group's internal credit rating system, which assigns each counterparty a risk rating. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Clients of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposure migrate between classes as the assessment of their probability of default changes.

Group's internal ratings scale:

Standard	1	Timely repayment of "standard" loans is not in doubt. The borrower is a financially stable company, which has an adequate capital level, high level profitability and sufficient cash flow to meet its all existing obligations, including present debt. When assessing the reputation of the borrower such factors as the history of previous repayments, marketability of collateral (movable and immovable property guarantee) are taken into consideration.
Sub-standard	2	As a whole, the financial position of a borrower is stable, but some unfavourable circumstances or tendencies are present, which, if not disposed of, raise some doubts about the borrower's ability to repay on time. "Standard" loans with insufficient information in the credit file or missing information on collateral could be also classified as "Substandard" loans.
Unsatisfactory	3	"Unsatisfactory" loans have obvious shortcomings, which make doubtful the repayment of the loan under the terms, envisaged by the initial agreement. For loans classified as "Unsatisfactory", the primary source of repayment is not sufficient and the Bank has to seek additional loan repayment sources, such as the sale of collateral.
Doubtful	4	"Doubtful" are loans which, in addition to having the characteristics of "Unsatisfactory" loans, have additional shortcomings, which make it doubtful that the loan will be repaid in full under the existing circumstances. The probability of incurring loss in respect of such loans is high.
Hopeless	5	Loans classified as "hopeless" are considered uncollectible and have such a little value that their continuance as assets of the Bank is not worth. This classification does not mean that the loans have absolutely no likelihood of recovery, but rather means that the Bank should cease recognising such loans and make every efforts to liquidate such debt through selling collateral or collection of the outstanding loan.

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Credit risk (continued)

31 December 2021	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	1,144,955	231,763	86,449	–	**1,463,167**
Due from other banks	6	Stage 1	74,536	4,549	32,010	–	**111,095**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Loans and advances to customers at amortised cost	7						
- Corporate lending		Stage 1	2,790,501	10,971	–	–	**2,801,472**
		Stage 2	–	–	936	–	**936**
		Stage 3	–	–	–	28,821	**28,821**
- Consumer lending		Stage 1	934,150	4,341	–	–	**938,491**
		Stage 2	–	–	5,590	–	**5,590**
		Stage 3	–	–	–	846	**846**
Other financial assets	10	Stage 1	6,652	–	–	–	**6,652**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Undrawn loan commitments	23	Stage 1	202,517	–	–	–	**202,517**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Letters of credit	23	Stage 1	130,552	–	–	–	**130,552**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Financial guarantees	23	Stage 1	310,847	–	–	–	**310,847**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Total			**5,594,710**	**251,624**	**124,985**	**29,667**	**6,000,986**

31 December 2020	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	575,174	138,006	288,873	–	**1,002,053**
Due from other banks	6	Stage 1	34,903	20,801	47,720	–	**103,424**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Loans and advances to customers at amortised cost	7						
- Corporate lending		Stage 1	2,432,486	6,685	–	–	**2,439,171**
		Stage 2	–	–	480,372	–	**480,372**
		Stage 3	–	–	–	5,090	**5,090**
- Consumer lending		Stage 1	663,672	8,715	–	–	**672,387**
		Stage 2	–	–	3,758	–	**3,758**
		Stage 3	–	–	–	4,923	**4,923**
Other financial assets	10	Stage 1	5,007	–	–	–	**5,007**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Undrawn loan commitments	23	Stage 1	333,630	–	–	–	**333,630**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Letters of credit	23	Stage 1	87,730	–	–	–	**87,730**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Financial guarantees	23	Stage 1	60,593	–	–	–	**60,593**
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Total			**4,193,195**	**174,207**	**820,723**	**10,013**	**5,198,138**

26. Risk management policy (continued)

Risk limits control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by geographic regions are approved annually by the Bank's Council.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

(a) Limits

The Group established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The Credit Committee of Head office reviews and approves limits up to amount equivalent of 10 percent of Group's Tier 1 capital;
- The Council of the Bank reviews and approves limits above the amount equivalent of 10 percent of Group's Tier 1 capital.

Loan applications, along with financial analysis of loan applicant which includes liquidity, profitability, interest coverage and debt service coverage ratios, originated by the relevant client relationship managers are passed on to the relevant credit committee or Bank Council for approval of credit limit.

(b) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The collateral types for loans and advances and finance leases are:

- Letter of surety;
- Real estate;
- Equipment and motor vehicles used in borrower's business;
- Insurance policy;
- Goods in inventory;
- Cash deposit.

(c) Concentration of risks of financial assets with credit risk exposure

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group's management focuses on concentration risk.

In order to avoid excessive concentrations of risks, the Group's Credit policy and procedures include specific CBU guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The Group's management focuses on concentration risk as follows:

- The maximum risk to single borrower or group of affiliated borrowers shall not exceed 25% of the Group's tier 1 capital;
- The maximum risk for unsecured credits shall not exceed 5% of Group's tier 1 capital;
- The maximum risk for factoring operations should not exceed 5% of the amount of the Group's Tier 1 capital;
- Total amount of all large credits cannot exceed bank's tier 1 capital by more than 5 times; and
- Total loan amount to related party shall not exceed 25% of Group's tier 1 capital;
- The total amount of all loans granted by the Bank to related parties cannot exceed 50% of the capital of a Tier 1 Group's.

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Risk limits control and mitigation policies (continued)

In order to monitor credit risk exposures, weekly reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance, which includes overdue balances, disbursements and repayments, outstanding balances and maturity of loan and as well as grade of loan and collateral. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the management daily. Management monitors and follows up past due balances.

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on forward-looking information as economic inputs, such as:

- Foreign exchange rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Credit quality of financial assets

The tables below present information about the significant changes in the gross carrying value and corresponding ECL of loans and advances to customers and other financial assets during the period that contributed to changes in the loss allowance during the year ended 31 December 2021:

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**2,438,168**	**481,375**	**5,090**	**2,924,633**
New assets originated or purchased	1,926,522	–	–	**1,926,522**
Assets repaid	(1,749,847)	(293,242)	(1,838)	**(2,044,927)**
Transfers to Stage 1	170,075	(170,075)	–	–
Transfers to Stage 2	(119)	119	–	–
Transfers to Stage 3	(10,799)	(16,447)	27,246	–
Amounts written off	–	–	(2,494)	**(2,494)**
Foreign exchange adjustments	26,561	117	817	**27,495**
As at 31 December 2021	**2,800,561**	**1,847**	**28,821**	**2,831,229**

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**7,115**	**18,071**	**1,032**	**26,217**
New assets originated or purchased	28,977	–	–	**28,977**
Assets repaid	(1,865)	(5,111)	(603)	**(7,579)**
Transfers to Stage 1	11,734	(11,734)	–	–
Transfers to Stage 2	(1)	1	–	–
Transfers to Stage 3	(9)	(1,207)	1,216	–
Impact on period end ECL of exposures transferred between stages during the period	(9,437)	16	10,066	**645**
Net remeasurement of loss allowance	4,729	3	1,532	**6,264**
Amounts written off	–	–	(2,494)	**(2,494)**
Foreign exchange adjustments	169	8	139	**316**
As at 31 December 2021	**41,410**	**48**	**10,888**	**52,346**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**672,223**	**3,758**	**5,087**	**681,068**
New assets originated or purchased	518,758	–	–	**518,758**
Assets repaid	(250,715)	(1,192)	(2,992)	**(254,899)**
Transfers to Stage 1	1,701	(994)	(707)	–
Transfers to Stage 2	(4,470)	4,530	(60)	–
Transfers to Stage 3	(3,006)	(512)	3,518	–
As at 31 December 2021	**934,491**	**5,590**	**4,846**	**944,927**

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Credit quality of financial assets (continued)

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**1,249**	**204**	**2,388**	**3,841**
New assets originated or purchased	6,908	–	–	**6,908**
Assets repaid	(110)	(60)	(1,480)	**(1,650)**
Transfers to Stage 1	692	(82)	(610)	–
Transfers to Stage 2	(232)	281	(49)	–
Transfers to Stage 3	(376)	(51)	427	–
Impact on period end ECL of exposures transferred between stages during the period	(679)	555	703	**579**
Net remeasurement of loss allowance	2,249	6	413	**2,668**
As at 31 December 2021	**9,701**	**853**	**1,792**	**12,346**

Due from other banks	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**103,424**	–	–	**103,424**
New assets originated or purchased	33,999	–	–	**33,999**
Assets repaid	(16,808)	–	–	**(16,808)**
Transfers to Stage 3	(11,575)	–	11,575	–
Foreign exchange adjustments	1,266	–	56	**1,322**
As at 31 December 2021	**110,306**	–	**11,631**	**121,937**

Due from other banks	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**670**	–	–	**670**
New assets originated or purchased	1,769	–	–	**1,769**
Assets repaid	(1,689)	–	–	**(1,689)**
Transfers to Stage 3	231	–	(231)	–
Impact on period end ECL of exposures transferred between stages during the period	–	–	10,016	**10,016**
Foreign exchange adjustments	53	–	23	**76**
As at 31 December 2021	**1,035**	–	**9,808**	**10,842**

The tables below present information about the significant changes in the gross carrying value and corresponding ECL of loans and advances to customers and other financial assets during the period that contributed to changes in the loss allowance during the year ended 31 December 2020:

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**2,361,495**	**8,706**	**4,919**	**2,375,120**
New assets originated or purchased	2,290,726	–	–	**2,290,726**
Assets repaid	(2,034,616)	(261,101)	(13,125)	**(2,308,932)**
Transfers to Stage 1	23,681	(20,388)	(3,293)	–
Transfers to Stage 2	(450,818)	451,378	(560)	–
Transfers to Stage 3	(6,485)	(261)	6,746	–
Interest accrued over the payment holiday period	133,542	263,970	8,966	**406,478**
Foreign exchange adjustments	120,973	38,715	1,553	**161,241**
As at 31 December 2020	**2,438,498**	**481,019**	**5,116**	**2,924,633**

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Credit quality of financial assets (continued)

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**7,688**	**1,810**	**2,622**	**12,120**
New assets originated or purchased	1,179	–	–	**1,179**
Assets repaid	(5,071)	(646)	368	**(5,349)**
Transfers to Stage 1	1,969	(1,331)	(638)	–
Transfers to Stage 2	(1,324)	2,776	(1,452)	–
Transfers to Stage 3	(48)	(20)	68	–
Interest accrued over the payment holiday period	856	15,481	1,641	**17,978**
Impact on period end ECL of exposures transferred between stages during the period	(328)	(116)	30	**(414)**
Net remeasurement of loss allowance	535	135	(662)	**8**
Foreign exchange adjustments	487	87	56	**630**
As at 31 December 2020	**5,943**	**18,176**	**2,033**	**26,152**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**295,030**	**247**	**1,829**	**297,106**
New assets originated or purchased	490,536	–	–	**490,536**
Assets repaid	(123,246)	(34,762)	(186)	**(158,194)**
Transfers to Stage 1	50	(50)	–	–
Transfers to Stage 2	(3,551)	3,713	(162)	–
Transfers to Stage 3	(3,555)	(51)	3,606	–
Interest accrued over the payment holiday period	16,959	33,522	1,139	**51,620**
As at 31 December 2020	**672,233**	**3,758**	**5,087**	**681,068**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**597**	**77**	**1,119**	**1,793**
New assets originated or purchased	2,125	–	–	**2,125**
Assets repaid	(1,644)	(1,345)	(600)	**(3,689)**
Transfers to Stage 1	275	(35)	(240)	–
Transfers to Stage 2	(5)	120	(115)	–
Transfers to Stage 3	(7)	(37)	44	–
Interest accrued over the payment holiday period	656	1,297	44	**1,997**
Impact on period end ECL of exposures transferred between stages during the period	(989)	62	1,935	**1,008**
Net remeasurement of loss allowance	1,317	54	(799)	**572**
As at 31 December 2020	**2,325**	**193**	**1,388**	**3,906**

Due from other banks	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**233,389**	–	–	**233,389**
New assets originated or purchased	5,671	–	–	**5,671**
Assets repaid	(144,738)	–	–	**(144,738)**
Foreign exchange adjustments	9,102	–	–	**9,102**
As at 31 December 2020	**103,424**	–	–	**103,424**

Due from other banks	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**881**	–	–	**881**
New assets originated or purchased	10	–	–	**10**
Assets repaid	(280)	–	–	**(280)**
Foreign exchange adjustments	59	–	–	**59**
As at 31 December 2020	**670**	–	–	**670**

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	Monetary financial assets	*Monetary financial liabilities*	*Net balance sheet position*
2021			
USD	1,622,855	(1,624,181)	(1,326)
EUR	591,185	(584,225)	6,960
Other	21,947	(15,812)	6,135
Total	**2,235,987**	**(2,224,218)**	**11,769**
2020			
USD	1,645,232	(1,544,115)	101,117
EUR	625,901	(605,626)	20,275
Other	11,242	(10,099)	1,143
Total	**2,282,375**	**(2,159,840)**	**122,535**

The Group takes on exposure to the effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In respect of currency risk, the Council sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank's Treasury Department measures its currency risk by matching financial assets and liabilities denominated in same currency and

analyses effect of actual annual appreciation/depreciation of that currency against Uzbekistan Soums to the profit and loss of the Group.

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant. The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group.

	At 31 December 2021 impact on profit or loss	*At 31 December 2020 impact on profit or loss*
US dollars strengthening by 10% (2020:10%)	(133)	10,112
US dollars weakening by 10% (2020:10%)	133	(10,112)
EUR strengthening by 10% (2020: 10%)	696	2,028
EUR weakening by 10% (2020: 10%)	(696)	(2,028)

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate re-pricing that may be undertaken.

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks. The table represents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	Demand less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*Over 12 months*	*Total*
31 December 2021					
Total interest bearing financial assets	7,144	344,694	922,476	2,469,148	**3,743,462**
Total interest bearing financial liabilities	(15,760)	(239,827)	(278,169)	(1,282,790)	**(1,816,545)**
Net Interest sensitivity gap	**(8,616)**	**104,867**	**644,307**	**1,186,358**	**1,926,817**
31 December 2020					
Total interest bearing financial assets	341,644	1,098,428	747,443	1,435,843	**3,623,358**
Total interest bearing financial liabilities	(215,443)	(262,928)	(565,012)	(957,708)	**(2,001,091)**
Net Interest sensitivity gap	**126,201**	**835,500**	**182,431**	**478,135**	**1,622,267**

The Group monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel:

	2021			*2020*		
In %p.a	*UZS*	*USD*	*EUR*	*UZS*	*USD*	*EUR*
Assets						
Cash and cash equivalents	0%	0%	0%	0%	0%	0%
Due from other banks	12%	0%	0%	0%-12%	0%-8%	0%
Loans and advances to customers	1%-32%	4%-14%	5%-12%	1%-36%	3%-15%	3%-12%
Liabilities						
Due to other banks	0%	4%-6%	5.5%-7%	15%-16%	0%-7%	5.5%-7%
Customer accounts	0%-20%	3.5%-9%	0%	0%-20%	3%-9%	0%
Other borrowed funds	0%-15%	2%-5.5%	1%-4.5%	0%-15%	5.5%-6%	4.4%

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Other price risk

There is no active market for equity instruments in Uzbekistan and therefore it is difficult to assess the Group's exposure to equity price risk. The equity investments held by the Group are measured at fair value through other comprehensive income and mainly comprise of investment in Foreign Currency Exchange of the Republic of Uzbekistan; accordingly, the Group's exposure to equity risk is considered to be not significant.

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Geographical risk

The geographical concentration of the Group's financial assets and liabilities at 31 December 2021 is set out below:

	Uzbekistan	*OECD*	*Other*	*Total*
Assets				
Cash and cash equivalents	1,473,247	217,656	20,699	**1,711,602**
Due from other banks	85,397	20,605	5,093	**111,095**
Loans and advances to customers	3,711,462	–	–	**3,711,462**
Financial assets at fair value through other comprehensive income	17,192	–	–	**17,192**
Other financial assets	4,702	1,898	52	**6,652**
Total financial assets	**5,292,000**	**240,159**	**25,844**	**5,558,003**
Liabilities				
Due to other banks	707,006	271	55,868	**763,145**
Customer accounts	3,477,567	–	–	**3,477,567**
Other borrowed funds	58,184	144,180	85,132	**287,496**
Other financial liabilities	12,686	–	1,012	**13,698**
Total financial liabilities	**4,255,443**	**144,451**	**142,012**	**4,541,906**
Net balance sheet position as 31 December 2021	**1,036,557**	**95,708**	**(116,168)**	**1,016,097**

The geographical concentration of the Group's financial assets and liabilities at 31 December 2020 is set out below:

	Uzbekistan	*OECD*	*Other*	*Total*
Assets				
Cash and cash equivalents	1,048,895	120,162	17,911	**1,186,968**
Due from other banks	87,287	11,966	4,171	**103,424**
Loans and advances to customers	3,575,643	–	–	**3,575,643**
Financial assets at fair value through other comprehensive income	15,272	–	–	**15,272**
Other financial assets	4,176	747	84	**5,007**
Total financial assets	**4,731,273**	**132,875**	**22,166**	**4,886,314**
Liabilities				
Due to other banks	1,159,446	262	17,339	**1,177,047**
Customer accounts	2,670,280	–	–	**2,670,280**
Other borrowed funds	65,361	21,124	90,816	**177,301**
Other financial liabilities	5,040	–	3,123	**8,163**
Total financial liabilities	**3,900,127**	**21,386**	**111,278**	**4,032,791**
Net balance sheet position as 31 December 2020	**831,146**	**111,489**	**(89,112)**	**853,523**

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Group calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Uzbekistan.

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Liquidity risk (continued)

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department.

The table below shows liabilities at 31 December 2021 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The undiscounted maturity analysis of financial instruments at 31 December 2021 is as follows:

	Demand less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*Over 12 months*	*Total*
Liabilities					
Due to other banks	22,061	77,131	150,334	570,409	**819,935**
Other borrowed funds	1,440	47,216	68,182	195,504	**312,342**
Customer accounts	2,714,524	89,882	194,313	1,427,930	**4,426,649**
Other financial liabilities	13,698	–	–	–	**13,698**
Guarantees issued	310,847	–	–	–	**310,847**
Import letter of credit	59,177	69,749	1,626	–	**130,552**
Undrawn credit lines	202,517	–	–	–	**202,517**
Total potential future payments for financial obligations	**3,324,264**	**283,978**	**414,455**	**2,193,843**	**6,216,540**

The undiscounted maturity analysis of financial instruments at 31 December 2020 is as follows:

	Demand less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*Over 12 months*	*Total*
Liabilities					
Due to other banks	157,291	150,587	339,944	623,196	**1,271,018**
Other borrowed funds	3,532	30,776	88,929	94,844	**218,081**
Customer accounts	1,986,551	138,882	184,559	642,907	**2,952,899**
Other financial liabilities	8,163	–	–	–	**8,163**
Guarantees issued	60,593	–	–	–	**60,593**
Import letter of credit	8,070	20,474	59,186	–	**87,730**
Undrawn credit lines	333,630	–	–	–	**333,630**
Total potential future payments for financial obligations	**2,557,830**	**340,719**	**672,618**	**1,360,947**	**4,932,114**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Liquidity risk (continued)

Management believes that in spite of the fact that a substantial portion of customer accounts is on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Thus, the management believes that significant maturity mismatch between assets and liabilities with maturity up to 12 months and more does not represent significant risk to the Group's liquidity, as very low proportion of due to other banks, demand deposits and short-term deposits is expected to be withdrawn based on the Group's past years and current year experience, which is consistent with the general banking practices in the banking sector of Uzbekistan.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities which may be summarized as follows at 31 December 2021:

	Demand less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*Over 12 months*	*Total*
Assets					
Cash and cash equivalents	1,710,627	975	–	–	**1,711,602**
Due from other banks	79,095	–	–	32,000	**111,095**
Loans and advances to customers	7,144	344,694	922,476	2,437,148	**3,711,462**
Financial assets at fair value through other comprehensive income	–	–	–	17,192	**17,192**
Other financial assets	6,652	–	–	–	**6,652**
Total financial assets	**1,803,518**	**345,669**	**922,476**	**2,486,340**	**5,558,003**
Liabilities					
Due to other banks	18,663	61,124	135,688	547,670	**763,145**
Other borrowed funds	1,440	42,891	64,619	178,546	**287,496**
Customer accounts	2,706,269	54,022	158,588	558,688	**3,477,567**
Other financial liabilities	13,698	–	–	–	**13,698**
Guarantees issued	5,961	90,381	207,253	7,252	**310,847**
Import letter of credit	59,177	69,749	1,626	–	**130,552**
Undrawn credit lines	202,517	–	–	–	**202,517**
Total financial liabilities	**3,007,725**	**318,167**	**567,774**	**1,292,156**	**5,185,822**
Net liquidity gap	**(1,204,207)**	**27,502**	**354,702**	**1,194,184**	**372,181**
Cumulative liquidity gap at 31 December 2021	**(1,204,207)**	**(1,176,705)**	**(822,003)**	**372,181**	**–**

(in millions of Uzbekistan Soums)

26. Risk management policy (continued)

Liquidity risk (continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities which may be summarised as follows at 31 December 2020:

	Demand less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*Over 12 months*	*Total*
Assets					
Cash and cash equivalents	1,186,968	–	–	–	**1,186,968**
Due from other banks	66,422	5,671	–	31,331	**103,424**
Loans and advances to customers	331,167	1,093,190	747,443	1,403,843	**3,575,643**
Financial assets at fair value through other comprehensive income	–	–	–	15,272	**15,272**
Other financial assets	5,007				**5,007**
Total financial assets	**1,589,564**	**1,098,861**	**747,443**	**1,450,446**	**4,886,314**
Liabilities					
Due to other banks	151,004	125,715	321,235	579,093	**1,177,047**
Other borrowed funds	2,411	25,682	83,847	65,361	**177,301**
Customer accounts	1,980,329	111,538	159,930	330,753	**2,582,550**
Other financial liabilities	8,163	–	–	–	**8,163**
Guarantees issued	60,593	–	–	–	**60,593**
Import letter of credit	8,070	20,474	59,186	–	**87,730**
Undrawn credit lines	333,630	–	–	–	**333,630**
Total financial liabilities	**2,544,200**	**283,409**	**624,198**	**975,207**	**4,427,014**
Net liquidity gap	**(954,636)**	**815,452**	**123,245**	**475,239**	**459,300**
Cumulative liquidity gap at 31 December 2020	**(954,636)**	**(139,184)**	**(15,939)**	**459,300**	**–**

27. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial decision, operational decisions or have significant contractual relationships. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties – include shareholders with significant influence over the Group, management (members of the Management Board and key management personnel of the Group) and companies in which shareholders with significant influence over the Group or management of the Group have control over any of these companies.

(in millions of Uzbekistan Soums)

27. Related party transactions (continued)

All transactions with related parties and other related parties were at arm's length.

At 31 December of 2021 and 2020, the outstanding balances of related parties are as follows:

	2021			*2020*		
	Shareholders	*Key management personnel*	*Other related parties*	*Shareholders*	*Key management personnel*	*Other related parties*
Gross amount of loans and advances to customers (contractual interest rate: 6.5%-16%)	–	1,134	358,020	–	186	866,753
Impairment provision for loans and advances to customers	–	(23)	(4,781)	–	(1)	(9,349)
Customer accounts	8,060	1	262,375	15,653	1	225,838
Other assets	–	–	5,925	–	–	–
Commitments	–	48	2,527	–	–	62,355

The income and expense arising from related party transactions are as follows:

	2021			*2020*		
	Shareholders	*Key management personnel*	*Other related parties*	*Shareholders*	*Key management personnel*	*Other related parties*
Interest income on loans and advances to customers	–	22	33,532	–	10	176,923
Fee and commission income	8	173	1,035	16	–	4,611

Compensation of key management personnel is comprised of following:

	2021	*2020*
Salaries and other benefits	3,853	2,288
Total key management personnel compensation	**3,853**	**2,288**

28. Subsequent events

In February 2022, due to the conflict between the Russian Federation and Ukraine, certain countries announced new packages of sanctions against the public debt of the Russian Federation and a number of Russian banks, as well as personal sanctions against a number of individuals.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant volatility of the Russian ruble, which had an impact on Uzbekistan soum as well.

The Group regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence.

Currently, the Group's management is analyzing the possible impact of changing micro- and macroeconomic conditions on the Group's financial position and results of operations.