JOINT STOCK COMMERCIAL BANK «MIKROKREDITBANK»

Financial statement for the year ended 31 December 2020
and Independent auditor's opinion
(Translated from Russian language)

Content

Independent Auditor's opinion

To shareholders and the Supervisory Board of JSCB «Mikrokreditbank»

Opinion

We have audited the financial statements of Joint-Stock Commercial Bank "Mikrokreditbank" (hereinafter referred to as the "Bank"), which consist of statement of financial position as at 31 December 2020 and the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date and the notes to the financial statements, including a summary of key accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects the financial position of the Bank as at 31 December 2020, as well as its financial results and cash flows for the year ended on that date, in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities in accordance with these standards are described further in the section "Auditor's responsibility for auditing financial statements" of our opinion. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the schedule in the Code of Ethics of Professional Accountants of the International Ethics Standards Board for Accountants (PAIESB Code) and ethical requirements applicable to our audit of the financial statements in the Republic of Uzbekistan, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are matters that, in our professional judgment, were the most significant for our audit of the financial statements for the current period. These issues were considered in the context of our audit of the financial statements as a whole and in the formation of our opinion on these statements, and we do not express a separate opinion on these issues.

Key audit matters	*What audit procedures were performed regarding the key audit matter*
Provision for credit losses on loans to customers, as well as on credit related commitments	
Due to the materiality of the provision for impairment of loans and advances to customers and credit related liabilities for the financial position of the Bank, as well as due to the complexity and necessity to apply judgments in estimating expected credit losses in accordance with the new IFRS 9 Financial Instruments This issue is one of the key audit questions. It is necessary to apply judgment to determine a significant increase of credit risk from the date of initial recognition, both on an individual and on a portfolio basis, as well as for the calculation of expected credit losses. The assessment of the increase in credit risk is based on the relative change in credit ratings, the duration of overdue debts and other objective and subjective factors. The choice of thresholds at which an increase of credit risk is recognized as significant, such as the magnitude of deterioration in a credit rating, is also subjective. The calculation of expected credit losses includes valuation techniques that use significant unobservable input data and factors, such as internal credit ratings, as well as comprehensive statistical modeling and expert judgment. These methods are used to determine the probability of default based on available historical data and external information. To calculate expected credit losses in respect of significant financial assets that have been individually impacted by a credit impairment, it is required to analyze financial and non-financial information, and extensive use of assumptions. Estimation of future cash flows is based on such material unobservable baseline data as the borrower's current and projected financial indicators, the value of the collateral and an estimate of the likelihood of possible scenarios. The use of other modeling techniques, assumptions and forecasts can lead to significantly different estimates of the provision for expected	In the process of our audit, we paid special attention to the following: assessment of credit risk models and assumptions used to determine key parameters for provisioning and expected credit losses on a portfolio; assessment of management's judgments regarding the identification of a significant increase of credit risk on both of an individual and portfolio basis, using quantitative and qualitative criteria; testing of expected future cash flows, including cash flows from collateral, in respect of significant loans and advances to customers and credit related commitments. Our audit procedures included an assessment of the methodology for calculation of expected credit losses developed by the Bank in accordance with IFRS 9, for estimation of provision for impairment of loans and advances to customers, as well as credit related commitments. We evaluated the rationality of the credit risk factors and the thresholds chosen by management to determine a significant increase in credit risk on both of an individual and portfolio basis. We assessed the sequence of application of the criteria selected by management at the reporting date. When testing the impairment calculated on a portfolio basis, we analyzed the underlying statistical models, key input data and assumptions, as well as forward-looking information used to calculate expected credit losses. For selected significant loans, we conducted an audit of internal credit ratings, credit risk factors and classification by stages. In collaboration with valuation specialists, we analyzed assumptions about future cash flows for selected material corporate loans, including the value of the collateral and the likelihood of possible scenarios. We reviewed the results of a Bank that was subsequently tested on the models used for IFRS 9.

credit losses.

Information on the provision for expected credit losses in respect of loans and advances to customers, as well as credit related commitments presented in Notes 10, 18 and 30 to the financial statements.

Valuation of loans and advances to customers at fair value through profit or loss

We focused on this issue due to the materiality of the amount and the subjective nature of the measurement of loans and advances to customers at fair value through profit or loss.

The fair value of these loans is measured using sophisticated valuation models that use unobservable market data, including data reflecting customer credit quality, interest rate curves and volatility.

Notes 10 and 30 to the financial statements provide details of the measurement of loans and advances to customers at fair value through profit or loss.

During our audit, we paid particular attention to assessing the key methodologies, formulas and source of information used by the Bank for the assessment, for their compliance with IFRS.

We tested the valuation models for the loans we selected. Our work included assessing whether the models and data used were acceptable, repeating individual calculations, and various analytical and other procedures.

Other information

Management is responsible for other information. Other information includes information contained in the annual report, but does not include the financial statements and our audit report about it.

Our view of the financial statements does not apply to other information, and we will not provide conclusion with assurance of any form regarding this information.

In a view of conducting our audit of the financial statements, our responsibility is to review other information and consider whether there are significant discrepancies between other information and the financial statements or our knowledge gained during the audit and whether other information contains other significant distortion.

If, based on the work we have carried out, we conclude that other information contains a material misstatement, we must report this fact.

Responsibility of the Management and those who charged with Corporate Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control system as management determines is necessary to enable the preparation of the financial statements that is free from material misstatements, due to fraud or errors.

In preparing the financial statements, management is responsible for assessing the ability of the Bank for business continiuty, disclosure of information in relevant cases, and for preparation of reports on the basis of the business continiuty assumption, unless the management intends to liquidate the Bank, cease its activity or when it has no realistic alternative to such actions.

The management and those who in charge with governance are responsible for overseeing the preparation of the financial statements of the Bank.

Auditor's responsibility for auditing financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 ISA will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered as substantial if they can be reasonablly assumed that could influence the economic decisions of users made on the basis of these financial statements in individual or in the aggregate.

As part of an audit conducted in accordance with International Standards on Auditing, we apply professional judgment to retain professional skepticism throughout the audit. In addition, we perform the following:

- identify and assess the risks of material misstatement of financial statements due to fraud or error; develop and conduct audit procedures in response to these risks; we obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of non-detection of material as a result of unfair acts is higher than the risk of not detecting a significant distortion as a result of an error, since unfair acts may include conspiracy, fraud, intentional omission, misrepresentation of information or actions bypassing the internal control system;
- get an understanding of the internal control system that is relevant to the audit, in order to develop audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control system;
- assess the proper nature of the accounting policies applied and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by management;
- make a conclusion about the legitimacy of management's use of the assumption of business continuity, and on the basis of the obtained audit evidence - the conclusion whether there is a significant uncertainty in connection with events or conditions that may raise significant doubts in the ability of the Bank to continue its business continuously. If we conclude that there is significant uncertainty, we must draw attention to our disclosure in the financial statements, or, if such disclosure is inappropriate, modify our opinion. Our conclusions are based on the audit evidence received before the date of our audit report. However, future events or conditions may lead to the Bank losing the ability to continue its business continuously;
- assess the presentation of the financial statements in general, its structure and content, including disclosure of information, as well as whether the financial statements present the underlying operations and events in a manner that ensures their reliable representation;
- obtain sufficient appropriate audit evidence relating to the financial information of the organization or activities within the Bank in order to express an opinion on the financial statements. We are responsible for the management, control and conduct of the Bank's audit. We remain fully responsible for our audit opinion.

We collaborate with persons responsible for corporate governance, including, among other things, information on the planned scope and timing of the audit, as well as significant comments on the audit results, including significant deficiencies in the internal control system that we identify in the course of the audit.

We also provide the Management and those who responsible for corporate governance with a statement that we have complied with all relevant ethical requirements regarding independence and informed these individuals about all relationships and other issues that can reasonably be considered to affect the independence of the auditor. And if it is required - on appropriate precautions.

From those questions that we brought to the attention of the Management and to those who responsible for corporate governance, we identify issues that were most essential to the audit of the financial statements for the current period and, therefore, are considered as key audit issues. We describe these issues in our audit report, except when public disclosure of information on these matters is prohibited by law or regulation. In extremely rare cases, we conclude that information on any matter should not be communicated in our report, since it can be reasonably assumed that the negative consequences of communicating such information will exceed the socially significant benefits.

Shoodil Nosirov

Partner

Qualification certificate of the auditor for conducting bank audits No. 13/1 dated 24 July 2017, issued by the Central Bank of the Republic of Uzbekistan.

AO "Grant Thornton" LLC

14 June 2021
Tashkent, Uzbekistan

(in thousands UZS)

Statement of financial position

	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	7	1 019 211 478	407 355 224
Mandatory reserves in CBU	8	21 398 086	43 446 340
Due from other banks	9	137 134 087	258 034 763
Loans and advances to customers	10	8 143 820 128	4 466 349 536
Investment financial assets	11	206 817 551	117 112 381
Deffered tax assets	24	7 999 935	-
Fixed assets and intangible assets	12	306 621 645	258 212 227
Other assets	13	35 931 860	21 018 602
Total assets		**9 878 934 770**	**5 571 529 073**
Liabilities			
Due to other banks	14	1 585 713 773	1 255 550 581
Customer deposits	15	2 375 155 372	1 378 972 456
Debt securities issued	16	35 146 203	106 171 952
Other borrowed funds	17	4 097 676 349	1 106 115 066
Deferred tax liabilities	24	-	8 657 163
Other liabilities	18	97 890 562	56 047 181
Total liabilities		**8 191 582 259**	**3 911 514 399**
Equity			
Share capital	19	1 642 009 001	1 642 009 001
Retained earnings and funds		45 343 510	18 005 673
Total equity		**1 687 352 511**	**1 660 014 674**
Total liabilities and equity		**9 878 934 770**	**5 571 529 073**

Approved and signed on behalf of the management of the Bank:

O.A. Butaev
Chairman of the Board of the Bank

B.F.Raxmanov
Chief Accountant of the Bank

14 June 2021

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHRI "MIKROKREDITBANK" AKSIYADORLIK-TIJORAT BANKI

Financial statement for the year ended 31 December 2020 (in thousands UZS)

Statement of profit and loss and other comprehensive income

	Notes	For the year ended 31 December 2020	For the year ended 31 December 2019
Interest income calculated at the effective interest rate	20	844 763 838	498 950 019
Other interest income	20	288 208 597	143 786 462
Interest expense calculated at the effective interest rate	20	(425 438 629)	(193 253 453)
Other interest expenses	20	(156 733 290)	(88 185 569)
Net interest income		**550 800 516**	**361 297 459**
Provision for credit losses on debt financial assets	7,9,10,11	(223 030 805)	(62 764 302)
Net income / (expense) from initial recognition of financial instruments and loan modifications		24 011 559	(15 627 078)
Net interest income after provision for credit losses		**351 781 270**	**282 906 079**
Fee and commission income	21	90 512 190	75 550 772
Commission expenses	21	(24 339 722)	(28 283 908)
Net income / (expenses) from operations in foreign currency and from revaluation of foreign currency		11 466 594	(14 581 196)
Recovery / (creation) of a provision for credit losses on credit related commitments	18	(10 376 131)	(6 678 408)
Provision for other assets		(3 773 395)	(2 810 753)
Other operating income	22	11 170 096	7 291 870
Administrative and other operating expenses	23	(392 268 606)	(282 505 392)
Income before tax		**34 172 296**	**30 889 064**
Income tax expense	24	(6 834 459)	(14 510 171)
Net income for the year		**27 337 837**	**16 378 893**
Other comprehensive income		-	-
Total comprehensive income for the year		**27 337 837**	**16 378 893**

Approved and signed on behalf of the management of the Bank:

O.A. Butaev
Chairman of the Board of the Bank

B.F.Raxmanov
Chief Accountant of the Bank

14 June 2021

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHRI "MIKROKREDITBANK" AKSIYADORLIK-TIJORAT BANKI

(in thousands UZS)

Statement of changes in equity

	Share capital	Retained earnings and funds	Total equity
Balance as at 1 January 2019	**694 465 804**	**1 655 616**	**696 121 420**
Net income for the year	-	16 378 893	16 378 893
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	**16 378 893**	**16 378 893**
Increase in equity	947 543 197	-	947 543 197
Dividends, declared	-	(28 836)	(28 836)
Balance as at 31 December 2019	**1 642 009 001**	**18 005 673**	**1 660 014 674**
Net income for the year	-	27 337 837	27 337 837
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	**27 337 837**	**27 337 837**
Balance as at 31 December 2020	**1 642 009 001**	**45 343 510**	**1 687 352 511**

Approved and signed on behalf of the management of the Bank:

O.A. Butaev
Chairman of the Board of the Bank

B.F.Raxmanov
Chief Accountant of the Bank

14 June 2021

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHRI
"MIKROKREDITBANK" AKSIYADORLIK-TIJORAT BANKI

Financial statement for the year ended 31 December 2020 (in thousands UZS)

Statement of cash flows

	For the year ended 31 December 2020	For the year ended 31 December 2019
Cash flow from operating activities		
Interest received	1 001 756 100	600 516 640
Interest paid	(563 296 510)	(278 450 918)
Fee and Commission received	90 425 466	75 538 729
Commissions paid	(24 318 798)	(28 282 315)
Net income from operations in foreign currency	(35 859 455)	(14 581 196)
Other operating income	11 170 096	7 291 870
Staff costs	(249 649 694)	(196 640 917)
Administrative and other operating expenses	(132 621 893)	(85 740 897)
Income tax paid	13 679 702	(216 430)
Cash flow from operating activities before changes in operating assets and liabilities	**111 285 014**	**79 434 566**
Net (increase) / decrease in operating assets		
Mandatory reserves in CBU	22 048 254	(16 601 244)
Due from other banks	120 900 676	(249 052 749)
Loans and advances to customers	(3 953 454 737)	(2 072 781 665)
Other assets	(14 913 258)	(12 215 805)
Net increase / (decrease) in operating liabilities		
Due to other banks	330 163 192	968 488 241
Customer deposits	996 182 916	318 556 849
Other liabilities	41 843 381	26 227 147
Net cash flow from operating activities	**(2 345 944 562)**	**(957 944 660)**
Cash flow from investing activities		
Investment securities purchased	(114 704 000)	(117 350 949)
Redemption of investment securities	31 342 587	-
Acquisition of fixed assets and intangible assets	(85 527 498)	(55 399 301)
Proceeds from the sale of fixed assets	116 869	755 653
Dividends received	124 150	81 945
Net cash flow from investing activities	**(168 647 892)**	**(171 912 652)**

(in thousands UZS)

Statement of cash flows (continuition)

	For the year ended 31 December 2020	For the year ended 31 December 2019
Cash flow from financing activities		
Proceeds from the issue of shares	-	947 543 197
Debt securities issued	-	(50 500 000)
Redemption of debt securities	70 800 000	27 300 000
Obtaining other borrowed funds	3 505 957 673	974 666 627
Repayment of other borrowed funds	(506 559 731)	(656 792 138)
Paid dividends	31 153	(1 147)
Net cash flow from investing activities	**3 070 229 095**	**1 242 216 539**
Effect of changes in foreign exchange rates on cash and cash equivalents	47 326 049	37 564 172
Net cash flow from financing activities	**602 962 690**	**149 923 399**
Cash and cash equivalents at the beginning of the reporting year	407 755 373	257 831 974
Cash and cash equivalents at the end of the reporting year	**1 010 718 063**	**407 755 373**

For the value of cash and cash equivalents at the end of the period less the provision for expected credit losses see Note 7.

Approved and signed on behalf of the management of the Bank:

O.A. Butaev
Chairman of the Board of the Bank

B.F.Raxmanov
Chief Accountant of the Bank

14 June 2021

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHRI
"MIKROKREDITBANK" AKSIYADORLIK-TIJORAT BANKI

(in thousands UZS)

Notes to the financial statements

1 Primary activity

The bank was registered in May 2006 in accordance with the Decree of the President of the Republic of Uzbekistan on the basis of the former Joint-Stock Commercial Bank "Tadbirkor". The Bank was registered in the Republic of Uzbekistan in order to facilitate the development of small business, private entrepreneurship and farming, family business, especially with the purpose for further expanding the provision of financial resources by providing access to microfinance services to the wide layer of the population, especially in rural areas. The main owner of the Bank is the Government of the Republic of Uzbekistan, through the Ministry of Finance of the Republic of Uzbekistan.

The Bank was registered in the Republic of Uzbekistan for carring out banking activities in accordance with the updated banking license No. 37 dated October 21, 2017 issued by the Central Bank of the Republic of Uzbekistan (hereinafter - the “CBU”).

The main activity of the Bank is to carry out commercial banking operations, operations with securities, foreign exchange, granting loans and guarantees. The bank accepts deposits from the population and issues loans, makes payments on the territory of the Republic of Uzbekistan and abroad, and also provides other banking services to legal entities and individuals.

The bank participates in the state deposit protection program approved by the Law of the Republic of Uzbekistan No. 360-II "On guarantees for protection of citizens' deposits in banks" dated April 5, 2002, which guarantees payment of 100% reimbursement of deposits, regardless of the amount of the deposit in case of revoke of the bank's license.

As at 31 December 2020, the Bank carries out banking activity through its Head Office and has 71 branches throughout the Republic of Uzbekistan (31 December 2019: 71 branches).

The legal address of the Bank's head office: 100096, Republic of Uzbekistan, Tashkent city, Lutfiy street, Block #14.

The total number of employees as at 31 December 2020 was 3 015 person (2019: 2 797 person).

The structure of the Bank's shareholders is presented in the following table:

Shareholders	31 December 2020 Share (%)	31 December 2019 Share (%)
Legal entities:		
“Fund for reconstruction and development of Uzbekistan”	51,2	51,2
“Agency for Management of State assets of the Repulic of Uzbekistan”	41,4	41
“Ministry of Finance of the Repulic of Uzbekistan”	5,2	5,2
Shareholders holding less than 1% of the share capital of the Bank	2,2	2,2
Total shareholders	**100,00**	**100,00**

2 The economic environment in which the Bank operates

The economy of the Republic of Uzbekistan continues to show some features of developing market. The government develops the legislative, tax and regulatory framework necessary in a market economy, and undertakes significant economic and social changes. Further economic development of the Republic of Uzbekistan mostly depends on the effectiveness of economic measures, financial mechanisms and monetary policy adopted by the Government, as well as the development of the tax, regulatory and political system.

In March 2020, the World Health Organization declared the COVID-19 virus pandemic. Most countries have placed significant restrictions on travel and movement of people and businesses. This has led to a significant decline in GDP in most, if not all of the major economies. The Uzbek authorities have also introduced numerous measures in an attempt to contain the spread and impact of COVID-19. Such measures include travel bans or restrictions, quarantine measures, the obligation to stay at home, and restrictions on business activities, including the closure of businesses. These measures, among other things, seriously limited economic activity in the Republic of Uzbekistan, negatively affected and may continue to negatively affect businesses, market participants, customers of the Bank, as well as the Russian and global economy for an indefinite period of time.

As reform process has not yet been completed, operations carried out in Uzbekistan are fraught with risks, which is not typical for economically developed countries. Among them, in particular, the non-convertibility of UZS in most countries outside the Republic of Uzbekistan, low level of liquidity in the debt securities market and the capital market, as well as continuing inflation.

As of the reporting date and later, some restrictions imposed by government authorities in the Republic of Uzbekistan due to the COVID-19 pandemic have been lifted, and the Bank is observing a recovery in business activity in the Republic of Uzbekistan. However, the level of continuing uncertainty about the future development of the situation due to the COVID-19 pandemic and the possible impact on the Bank remain high. To support clients in the current economic conditions, the Bank offered to restructure existing loans and issued new loans under government support programs, as well as under various restructuring programs for clients not covered by government support programs, expanded the list of products and services provided through digital service channels. Management is taking all necessary measures to ensure the sustainability of the Bank's operations and to provide support to customers and employees, but the future impact of the current economic environment is difficult to predict and management's current expectations and estimates may differ from actual results.

According to the decision of the Central Bank of Uzbekistan, from 15 April 2020, the refinancing rate has decreased from 16 percent to 15 percent and from 11 September 2020 to 14 percent.

The state of the economy of the Republic of Uzbekistan is characterized by relatively inflation rates. During 2020, the inflation rate was 11.1 percent (2019: 15.2 percent).

The dynamics of GDP remains in the positive zone, and GDP growth at the end of 2020 amounted to 1.6 percent compared to 2019, while at the end of 2019, GDP growth was 5.5 percent.

In December 2018, the Republic of Uzbekistan received a sovereign credit rating for the first time. In 2019, they were confirmed by Fitch and Standard & Poor's, both assigned the country a long-term issuer rating of 'BB-'. The rating outlook is stable.

In February 2019, the Moody's Agency for the first time assigned the Republic of Uzbekistan a long-term sovereign rating at the "B1" level, with a stable outlook.

(in thousands UZS)

3 Principles of reporting

3.1 Applicable standards

The accompanying financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS"), approved by the International Accounting Standards Committee ("IASC") based on historical cost accounting rules, adjusted for initial recognition of financial instruments at fair value and measured at fair value through profit or loss and at fair value through other comprehensive income. The accounting policies used in the preparation of these financial statements are presented below.

The Bank maintains records in accordance with the requirements of the current legislation of the Republic of Uzbekistan. These financial statements have been prepared based on these accounts with the adjustments necessary to bring it in compliance with IFRS in all material respects.

3.2 Functional and presentation currency

The national currency of the Republic of Uzbekistan is the "Uzbek soum" (hereinafter - UZS). The Uzbek soum was chosen as the functional currency, as well as the currency in which these financial statements are presented.

All financial statements have been rounded to the nearest thousand.

3.3 Currency operations

Foreign currencies, especially the US dollar (USD) and the Euro, play a significant role in determining the economic parameters of many business transactions in the Republic of Uzbekistan. The table below shows the rates of Uzbek soum against the US dollar and Euro, established by the Central Bank of Uzbekistan:

Date	**USD**	**EURO**
31 December 2020	10 476,92	12 786,03
31 December 2019	9 507,56	10 624,70

4 Important assessment and professional judgement

The preparation of financial statements in accordance with IFRS requires management to apply judgments, assumptions and estimations that affect the application of accounting policies and the recognition of assets and liabilities, income and expenses in the financial statements. To determine the carrying amount of assets and liabilities, estimated values and associated assumptions based on historical experience and other applicable factors are necessary. Despite the fact that the estimated values based on the most complete knowledge of the management of the current situation; the actual results may ultimately differ significantly from the accepted estimates.

The Bank makes estimates and assumptions that affect the amounts of assets and liabilities recorded in the financial statements in the next financial year. Estimations and assumptions continually analyzed based on management experience and other factors, including expectations regarding future events that management believes are reasonable in the light of current circumstances. Management also uses professional judgment and evaluation in the process of applying accounting policies. The professional judgment that has the most significant effect on the amounts recognized in the financial statements and the estimates that may result in significant adjustments to the carrying amount of assets and liabilities during the next financial year include:

Business continuity

These financial statements reflect the current management's assessment of the Bank of impacts that affect the operations and financial position of the Bank. The future development of the economy of the Republic of Uzbekistan largely depends on the effectiveness of the measures taken by the Government of the Republic of Uzbekistan and other factors, including legislative and political events, which are not controlled by the Bank. The Bank's management is not in a position to predict the impact of these factors on the financial condition in the future. The accompanying financial statements did not include adjustments related to this risk.

As at 31 December 2020, the Bank has the following significant uncertainties regarding the business continuity:

- According to the ammendment to the “Regulation on capital adequacy requirements of commercial banks” No. 2693-2 dated October 23, 2017, a minimum authorized capital amount of 100 billion UZS was established for existing banks, according to the requirement this amount should be formed by January 1, 2019. As of January 1, 2020 and 2019, the Bank did not comply with this requirement. Note 13.
- Adoption of the Decree of the President of the Republic of Uzbekistan "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" PD-5992 dated May 12, 2020 on making decisions on the reorganization of the activities of JSCB “Mikrokreditbank”.
- As of December 31, 2020, the accumulated loss amounted 13,994 million UZS, and for the year ended 31 December 2020, the net loss constituted 21,353 million UZS.

Management response on the above uncertainties:

The Supervisory of the Bank made a decision dated September 5, 2019 No. 9 to increase the authorized capital of JSCB "Mikrokreditbank" up to the minimum amount of requirements. Considering the 2nd paragraph of the Presidential Decree No. PD-2740 dated January 24, 2017 "On the formation of the Joint-Stock Commercial Bank “Mikrokreditbank” where it was indicated that all residents and non-residents of the Republic of Uzbekistan, as well as international financial institutions could be shareholders of JSCB" Mikrokreditbank ", and according to the 3rd paragraph of the same Decree, it was recommended until January 1, 2020 to attract a share of a strategic foreign investor to the authorized capital of the Bank of at least 15 percent. In order to fulfill these requirements and recommendations, the Bank has been working on placing additional shares into circulation and free sale by announcing an advertising campaign among an unlimited number of investors. In particular, a Road Map was developed for the placement of shares in JSCB “Mikrokreditbank”.

According to the 5th paragraph of the "Roadmap" for reforming the banking system of the Republic of Uzbekistan for 2020-2025 (Appendix No. 2 to PD-5992 dated May 12, 2020), the study of the issues of reorganization of JSCB "Mikrokreditbank", in particular the Fund for Reconstruction and Development of the Republic of Uzbekistan and the Ministry of Finance of the Republic of Uzbekistan was appointed to diagnose the activities and assess the financial condition of the bank, as well as to make decisions on the reorganization of the banks' activities. In connection with the current difficult economic situation in the aftermath of the Coronavirus Pandemic in the whole world, in particular in our Republic, all planned measures, as well as the tasks worked out for 2020, indicated in the "Roadmap", were slightly suspended and transferred to the Action Plan for 2021.

Due to the pandemic, the bulk of the obligations on the loans issued by the borrowers were not paid. At the end of FY 2020, a reserve was created to cover damage from problem loans from the bank's net income, as a result, FY 2020 was unprofitable. JSCB "Mikrokreditbank" for 2021 has developed an action plan to collect and reduce share of problem assets. The main objective of the action plan is the sale of problem assets, coverage of loans and the return of the created reserve amount.

Classification of financial assets

An assessment of business models that apply to assets, and an assessment of whether the contractual terms of a financial asset are solely a payment of principal and interest on principal, is disclosed in Note 6.

Measurement of estimated provision for expected credit losses

Measurement of the estimated provision against expected credit losses for financial assets, measured at amortized cost and fair value through other comprehensive income (FVTOCI) is an area that requires to use complex models and significant assumptions concerning the future economic conditions and credit behavior (for example, probability of default of counterparties and losses arising). A number of significant judgments are also required when applying accounting requirements to measure expected credit losses, such as:

- Defining criteria for a significant increase in credit risk;
- Selecting suitable models and assumptions for measuring expected credit losses;
- Determining the number and relative weights of possible future scenarios for each type of product/market and the corresponding expected credit losses;
- Creation of group of similar financial assets for estimating expected credit losses. The number of factors is influencing to the estimation of provision for credit losses on financial instruments. These factors are set out below;

A number of factors affect the estimated provison against credit losses on financial instruments, which are outlined below:

- Remittances and appropriate estimation of the provision against credit losses between stage 1 (12-months expected credit losses) and 2 (expected credit losses for the entire life span - unimpaired assets), or stage 3, due to the fact that the balances experienced a significant increase (or decrease) in credit risk within one Stage. Another reason is depreciation during the period with a consequent increase (or decrease) from expected credit losses for 12 months to expected credit losses for the entire life;
- Creation of additional estimated provisions for newly recognized or purchased financial instruments during the period, as well as their recovery in respect of financial instruments whose recognition has been discontinued during the period;
- The effect on the estimate of expected credit losses of changes in indicators of the probability of default, debt at the time of default and loss in case of default during the period resulting from regular updating of the initial data of the models;
- The effect on changes in claims on contractual interest on the estimate of expected credit losses, taking into account the effect of time since expected credit losses are estimated on the basis of the current present value;
- Financial assets, recognition of which were terminated during the period and write off / restore of the estimated provisions relating to assets that were written off / restored during the period;
- Sale of subsidiaries and reclassification into assets for discontinued operations and assets held for sale;

- The impact of changes in exchange rates while recalculating assets denominated in foreign currency and other movements.

Information on input data, assumptions, valuation methods and judgments used in measuring expected credit losses is described in detail in Notes 6 and 27.

Definitions of terms related to the estimated expected credit losses are given in Note 27.

Fair value of financial instruments

The fair value of financial instruments for which there is no quotation in an active market is determined using various valuation techniques. If valuation techniques are used to determine the fair value (for example, models), they are approved and regularly reviewed by qualified staff independent of the department/unit using these techniques. All models are certified before they are used; models are also adjusted to reflect actual and comparative market prices. In the framework of the permissible model, only observable data are used, however, such areas as credit risk (both own and counterparty risk), variability and correlation require management to make estimates. Changes in the assumptions related to these factors may affect the fair value recorded in the financial statements. See Note 25.

5 Transition to new or revised standards and interpretations

The following amendments to standards became effective for the Bank from the date 1 January 2020, but did not have a significant impact on the Bank.

- Amendments to the Conceptual Framework for Financial Statements (issued on March 29, 2018 and effective for annual periods beginning on or after January 1, 2020);
- Definition of a Business - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions for annual periods beginning on or after 1 January 2020);
- Determination of Materiality - Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Interest Rate Reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020) ...

6 Key principles of accounting policy

6.1 Standards that have been released but not effective yet

Base Interest Rate Reform - Phase 2 - Changes to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.
The IASB has published the final document "Interest Rate Reform - Phase 2" of its reform program, which includes amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

After the international regulatory authorities made a decision to replace interbank offer rates (IBOR, Interbank Offered Rates) with alternative near risk-free rates (RFR, Risk-free Rates), the IASB began work on adapting financial statements to the IBOR reform. The IASB has divided its work into two phases:

• The first phase (Phase 1) looked at issues affecting financial statements in the period prior to the replacement of existing benchmark interest rates with RFRs.

• The second phase (Phase 2) focused on issues arising from replacing existing base interest rates with RFRs.

1. Practical simplification for accounting for contract changes. The amendments include a practical expedient requiring that changes in contract or changes in cash flows that are directly required by the IBOR reform be treated as changes in the floating interest rate equivalent to a change in the market interest rate. A prerequisite for using this simplification is the requirement that the transition from the IBOR base rate to the RFR occurs on an economically equivalent basis without changing the cost. When applying simplification, an entity must first identify and reflect changes in a financial instrument (contract) that are directly related to the IBOR reform by updating the Effective interest rate (EIR) without adjusting the carrying amount.

2. Exemption from termination of a hedging relationship. The amendments allow for the changes required by the IBOR reform to the hedge designation and hedging documentation in accordance with IFRS 9 and IAS 39, without terminating the hedging relationship.

3. Separately identifiable risk components. IFRS 9 and IAS 39 require the hedged risk component (or part of it) to be "separately identifiable". The amendments provide entities with temporary relief from the requirement for separately identifiable risk when an RFR instrument is designated as a hedge of a risk component. This simplification allows the entity to designate the hedged item on the assumption that the separately identifiable risk requirement has been met, provided that the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.

4. Additional Disclosures. IFRS 7 Financial Instruments: Disclosures has been supplemented with the following disclosure requirements:

• How the organization is managing the RFR transition, its progress and the risks it faces in connection with the IBOR reform related to financial instruments.

• Quantitative information on financial instruments that have not yet migrated to RFRs, broken down by each significant IBOR rate.

• If the IBOR reform resulted in changes to the organization's risk management strategy, a description of those changes is disclosed.

The amendments are mandatory and effective for annual periods beginning on or after the 1st of January 2021, with early application permitted.

"Test 10 percent" in case of writing off financial liabilities. Amendments to IFRS 9 Financial Instruments. The amendments clarify what costs are included in assessing whether the terms of the new or modified financial liability differ materially 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 the borrower or lender on behalf of another person. Applicable for annual periods beginning on or after 1 January 2022.

Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The amendments clarify what costs are included in the estimate of the costs of fulfilling contract obligations in order to identify it as onerous. Costs that are directly related to a contract for the supply of goods or services include both incremental costs (for example, labor and material costs) and the allocation of costs directly related to the contract (for example, depreciation of equipment used to fulfill the contract, and contract management and supervision costs). General and administrative expenses are not directly related to the contract and are excluded unless they are clearly attributable to the counterparty to the contract. Applicable for annual periods beginning on or after 1 January 2022.

Amendments to IAS 16 "Property, Plant and Equipment" 2. The amendments prohibit the deduction from the original cost of property, plant and equipment the amounts received from the sale of products manufactured while the asset is being prepared for its intended use. Instead, such sales revenue and related costs are recognized in profit or loss. Applicable for annual periods beginning on or after 1 January 2022.

First-time adopter subsidiary (Amendments to IFRS 1 First-time Adoption of IFRSs). The amendment permits a subsidiary that elects to apply paragraph D16 (a) of IFRS 1 to measure cumulative exchange differences using the amounts reported by the parent based on the date of transition of the parent to IFRSs. The amendment also applies to associates or joint ventures that choose to apply paragraph D16 (a) of IFRS 1. The amendment is applicable for annual periods beginning on or after 1 January 2022. Earlier application is permitted.

Taxation in Fair Value Measurement (Amendments to IAS 41 Agriculture). The amendment to IAS 41 removed the tax exemption requirement for fair value measurements, thereby aligning the fair value measurement requirements in IAS 41 with the requirements of other IFRSs. The amendment applies to fair value measurements from or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted.

Updated references to conceptual frameworks (Amendments to IFRS 3 Business Combinations). The amendments updated IFRS 3 Business Combinations, replacing the reference from the old version of the Conceptual Framework for Financial Statements to the latest version issued in March 2018. The amendments to IFRS 3 are effective for business combinations occurring in reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

Amendments to IFRS 17 Insurance Contracts. The IASB issued amendments to IFRS 17 Insurance Contracts to help companies implement the standard and to simplify the explanation of financial results. The changes allow: to reduce the costs of companies by simplifying some of the requirements of the standard; simplify the explanation of financial indicators; make the transition to the standard easier, as the effective date is postponed to 2023 and companies are granted an additional exemption when they first apply IFRS 17. Applies for annual periods beginning on or after January 1, 2023.

International Financial Reporting Standards document "Classification of Liabilities as Current or Non-current (Amendments to IAS 1)". The amendments are intended to make it easier to understand that a liability is classified as non-current if the entity expects and has the authority to refinance the liability or postpone its maturity by at least 12 months after the reporting period under an existing line of credit with the previous lender, on equal or similar terms. The amendments only change the presentation of liabilities in the statement of financial position, i.e. not in terms of the amount, the moment of recognition or disclosure of information. The amendments clarify that the classification should be based on the existence at the end of the reporting period of the right to defer settlement of the liability by at least 12 months. Thus, the amendments explicitly state that only those rights that exist "at the end of the reporting period" should have an impact on the classification of the liability. However, the classification does not depend on expectations about whether an entity will exercise the right to defer settlement of a liability, which means a transfer to a counterparty of cash, equity instruments, or other assets or services. The amendments apply for annual periods beginning on or after 1 January 2023.

The Bank is currently studying the provisions of these standards, their impact on the Bank and the timing of their application.

6.2 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the main market or, if there is none, in the most profitable market to which the Bank has access to indicated date. The fair value of the liability reflects the risk of default.

To the extent possible, the Bank estimates the fair value of the instrument using quoted prices for the instrument in an active market. The market is recognized as active if quotes are easily accessible and reflect actual and regular transactions between independent market participants.

In the absence of current quotes in an active market, the Bank uses valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation methods selected include all factors that market participants would take into account in the circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is usually the transaction price, that is, the fair value of the consideration paid or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is not supported by current quoted prices in an active market for a similar asset or liability and is not based on valuation techniques using only observable inputs, the financial instrument is initially measured at fair value adjusted so as to defer recognition of the difference between the transaction price and fair value. After initial recognition, this difference is subject to amortization in profit or loss over the life of the instrument, but not later than when the valuation is fully supported by observable inputs or when the transaction is completed.

If the transaction price in an inactive market differs from the fair value of current market transactions in the observed market for the same instrument or is based on a valuation technique whose initial parameters include only information from observed markets, the Bank will immediately recognize the difference between the transaction price and fair value ("First Day earnings") in profit or loss. If unobservable information is used, the difference between the transaction price and the value determined on the basis of the model is recognized in profit or loss only if the source data becomes observable or if the financial instrument is derecognized.

If an asset or liability measured at fair value has a bid price and an offer price, assets and long positions are valued based on the demand price, liabilities and short positions are valued based on the bid price.

6.3 Effective interest rate (discount method)

The effective interest rate method is the adjustment of all future cash flows expected for a financial asset or financial liability to the fair value at the date the asset or liability is incurred at a discount rate.

The discounting method is used by the Bank to determine the amortized cost of financial instruments.

The discount rate is the effective interest rate or market interest rate at which all future cash flows of a financial instrument are reduced to fair value.

Cash flows for financial assets and liabilities are discounted on the basis of future cash flows expected at the actual contract rate and the corresponding discount rate determined on the basis of the discount rate. If cash flows on a financial instrument are expected for more than one period (interest income or expenses are charged more than once on certain dates during the entire term of the financial instrument, and / or repayment of the principal amount is carried out in parts), the calculation of future cash flows, the discount rate and discounted amounts of data flows is carried out for each such period. The current present value of a financial instrument at the date of its occurrence in this case represents the sum of the discounted future flows of the instrument for each period.

The effective interest rate applies to the gross book value of the financial instrument. The effective interest rate adjusted for credit risk is applied to the acquired or created credit impaired financial assets. This rate applies to the amortized cost of acquired or created impaired assets from the date of initial recognition.

For financial assets that subsequently become credit-impaired, the effective interest rate also applies to the amortized cost. If subsequently the credit risk on the credit impaired financial asset is reduced to such an extent that the asset ceases to be such, from the next reporting period the effective interest rate is applied to the gross book value of the financial instrument.

The calculation of the effective interest rate includes transaction costs, as well as fees and amounts paid or received, which are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

6.4 Amortized cost of a financial instrument

The amortized cost of a financial instrument at the end of each reporting period is a measure calculated at the amortized cost of this instrument at the end of the previous reporting period plus / minus the depreciation, which is the difference between the cash flows for this reporting period, calculated at the effective interest rate, and in fact received or paid cash flows during this period.

When determining the amount of depreciation, cash flows for a financial instrument include:

- the movement of the issued / received amount of principal debt;
- interest income or expense;
- additional fees received / paid at the time of issuing / raising a loan (such as fees for arranging and issuing a loan, reviewing a loan application, opening and servicing a loan account, etc.) or issuing a debt obligation (for example, bonds);
- other commissions subject to a reliable estimate, the payment of which is a prerequisite for issuing a loan / issuance of an obligation or will be made on a regular basis according to the terms of the contract.

Interest income and expenses on financial instruments recorded at initial recognition at actual costs are recognized in the income statement based on the actual contract rate.

If a financial instrument determines a new fair value for its initial recognition, the calculation and recognition of interest income or expenses is based on the market interest rate used to determine the new fair value of the financial instrument, which subsequently becomes the effective interest rate for the instrument.

For floating rate financial instruments, the effective interest rate for cash flow discounting is used until the next date of the floating rate revision at market rates before the maturity date of the financial instrument.

Interest income and expenses on financial instruments, the calculation of the amortized cost of which is carried out by discounting flows at the effective interest rate, are calculated on the basis of the new initial value of the financial instrument at the effective interest rate.

6.5 Financial assets and liabilities

Classification of financial instruments

In accordance with IFRS 9 financial assets are classified as subsequently measured:

- At amortized cost;
- At fair value through other comprehensive income;
- At fair value through profit or loss - depending on:
  - the business model used to manage financial assets;
  - characteristic of a financial asset related to the cash flows provided in the contract.

The business models used by the Bank are determined by key management personnel and describe the ways in which the Bank manages its financial assets in order to generate cash flows.

Financial assets are measured at amortized cost when the following conditions are met:

- the financial asset is held within the business model, the purpose of which is to withhold to obtain the cash flows provided by the contract;
- the contractual terms provide for the receipt on certain dates of cash flows, which are exclusively payments to the principal amount of the debt and interest on the outstanding part of the principal amount of the debt.

Cash flows that are exclusively payments on account of the principal amount of the debt and interest on the outstanding portion of the principal amount of the debt are characterized by the following features:

- the principal amount of the debt is the fair value of the financial asset at initial recognition;
- interest includes only reimbursement for the time value of money, for credit risk in respect of the principal amount of debt remaining outstanding for a certain period of time, and for other ordinary risks (for example, liquidity) and costs (in particular, administrative) associated with lending.

In some cases, the element of the time value of money contains compensation for other risks and costs, i.e. is modified. In this case, the Bank conducts a qualitative or, if necessary, quantitative assessment of the significance of the effect of the modified element of the time value of money.

Financial assets are measured at fair value through other comprehensive income while fulfilling the following conditions:

- the financial asset is held within the framework of a business model, the purpose of which is to keep both the cash flows stipulated in the contract and the sale of financial assets;
- the contractual terms provide for the receipt on certain dates of cash flows, which are exclusively payments to the principal amount of the debt and interest on the outstanding part of the principal amount of the debt.

Financial assets are measured at fair value through profit or loss if they are acquired as part of a business model that aims to sell, and if they do not meet the criteria for valuation at amortized cost or at fair value through other comprehensive income.

In accordance with IFRS 9 **financial liabilities are classified as subsequently measured at amortized cost**, except for:

- financial liabilities at fair value through profit or loss;
- financial liabilities that arise when the transfer of a financial asset does not meet the requirements for de-recognition or when the principle of accounting for continuing participation is applied;
- financial guarantee contracts;
- commitments to provide loans at an interest rate below the market;
- contingent consideration resulting from a business combination.

Estimation of business model

The Bank assesses the purpose of the business model in which the asset is held at the portfolio level of financial instruments, as this best reflects the way the business is managed and how the information is presented to management. Analyzed information includes:

- Policies and objectives established for portfolio management, as well as the implementation of these policies in practice. In particular, whether the management strategy is focused on obtaining interest income stipulated by the contract, maintaining a certain structure of interest rates, ensuring that the maturity of financial assets matches the maturity of financial liabilities used to finance these assets, or realizing cash flows through the sale of assets.
- How portfolio performance is assessed and how this information is communicated to the management of the Bank;
- Risks that impacts on the performance of the business model (and financial assets held under this business model), and how these risks are managed;
- How remuneration is given to managers responsible for managing the portfolio (for example, whether this remuneration depends on the fair value of the specified assets or on the cash flows from the assets provided by the contract);
- Frequency, volume and timing of sales in past periods, the reasons for such sales, as well as expectations regarding future sales. However, information on sales levels is not considered in isolation, but as part of a single holistic analysis of how the Bank's stated goal of managing financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading, or that are managed and whose performance is measured on the basis of fair value, are measured at fair value through profit or loss, since they are not held neither for the purpose of obtaining the contractual cash flows nor for the purpose of cash flow contract and sale of financial assets.

An assessment of whether contractual cash flows are solely payment of principal and interest.

For the purposes of this assessment, "principal" is defined as the fair value of a financial asset upon initial recognition. "Interest" is defined as reimbursement for the time value of money, for credit risk in respect of the principal amount outstanding for a certain period of time, and for other major risks and costs associated with lending (for example, liquidity risk and administrative costs), and include profit margins.

In assessing whether the contractual cash flows are solely payments of the principal and interest on the outstanding amount of the principal (the "SPPI criterion"), the Bank analyzes the contractual terms of the financial instrument. This includes an assessment of whether a provision on a financial asset provides for a condition that can change the time or amount of the cash flows under the contract so that the financial asset does not satisfy the requirement being analyzed. In conducting the assessment, the Bank takes into account:

- Conditional events that may change the timing or amount of cash flows;
- Conditions that have a leverage effect;
- Terms of early repayment and prolongation of the validity period;
- Conditions that limit the Bank's claims to cash flows from certain assets (for example, non-recourse assets);
- Conditions that result in a change in compensation for the time value of money — for example, a revision of interest rates on a periodic basis.

The Bank determined that for a portfolio of long-term loans issued at a fixed interest rate, at which the Bank has the right to revise the interest rate in the event of a change in the refinancing rate set by the CBU, and for which borrowers have the right to either agree to the revised rate or repay the loan at nominal value reduced by the amount of payments on account of the principal amount of the debt and increased by the amount of accrued but unpaid interest, without penalties, the contractual flows provided by the contracts funds represent solely payments of principal and interest, since this right leads to a change in interest rate in such a way that interest represents a reimbursement for the time value of money, credit risk, other main risks associated with lending, and costs associated with the principal amount remaining outstanding. Therefore, the Bank considers these loans as variable rate loans at its core.

General principles for the initial valuation of financial instruments

Financial instruments (financial assets and financial liabilities) are recognized in the accounting records of the Bank if it becomes a party to the contract for this financial instrument.

With the exception of trade receivables (not containing a significant financing component) and, a financial asset or liability measured at fair value through profit or loss, financial instruments are initially recognized at fair value increased or decreased in the case of a financial asset or liability in the amount of transaction costs that are directly related to the acquisition of a financial asset or the issuance of a financial liability. The best evidence of the fair value of a financial instrument upon initial recognition is usually the transaction price.

Trade receivables that do not contain a significant financing component are estimated at initial recognition at the transaction price.

If the actual contract rate for a financial instrument is missing or significantly deviates from the market rate for this similar instrument at the date of its occurrence, then the new fair value of the financial instrument for its initial recognition is determined. Wherein:

- in the absence of information on market rates for this financial instrument (or if they cannot be determined with a sufficient degree of certainty), the actual contract rate for this instrument can be compared with market rates for transactions with similar financial instruments;
- **the deviation of the actual contract rate from the market rate** for this or similar financial instrument at the date of its occurrence is considered significant. The decision on materiality is made based on professional judgments of the responsible persons taking into account the content and features of the relevant transaction.

The new fair value of a financial instrument for its initial recognition is determined by the method of discounting. Based on the market interest rate and represents the fair value of this instrument at the date of its occurrence, i.e. the present value of all future (expected) cash flows for this instrument at the date of its occurrence, discounted at the market interest rate for the given or similar financial instrument. The difference between the actual costs at the date of the financial instrument and its new initial value, depending on the reason for its occurrence, may be recognized in equity, the statement of profit or loss or other assets/liabilities of the Bank.

The market interest rate for this financial instrument or other similar financial instruments is determined based on the available internal and external sources of information, depending on the type and nature of the financial instrument and can be determined/calculated on the basis of:

- from well-known interest rates published or posted in information systems at www.cbu.uz (official website of the Central Bank of the Republic of Uzbekistan) or public authorities and authorities on the Internet;
- from the refinancing rate of the Central Bank of Uzbekistan for the relevant period.

In particular, when determining the market rate under consumer lending agreements, the Bank uses information published by the CBU on the total value of consumer credit, defining the range of market rates as: upper limit of the range - rate of the value of the consumer loan; and lower limit of the range - refinancing rate of the CBU for the corresponding period

Reclassification

The classification of financial assets after initial recognition does not change, except in the period following how the Bank changes its business model for managing financial assets. The Bank should reclassify financial assets only if it has changed the business model used to manage these financial assets. It is expected that such changes will occur extremely rarely. Such changes should be determined by the top management of the Bank as a result of external or internal changes and should be significant for the Bank's activities and obvious to external parties. Accordingly, a change in the purpose of the Bank's business model can occur if and only when the Bank starts or stops carrying out an activity significant in relation to its operations; for example, in the case of the acquisition, disposal or termination of a specific activity by the Bank.

The classification of financial liabilities after initial recognition is not subject to change.

De-recognition of financial instruments

De-recognition of a financial asset is made only when:

- the contractual rights to cash flows from this financial asset expire or
- the Bank transfers a financial asset, and such transfer satisfies de-recognition requirements.

In the event of a significant modification of a financial asset, the Bank de-recognizes the company and recognizes a new asset. Criteria for material modification the Bank determines as:

- change in the currency of a financial instrument;
- a change in the fixed interest rate to a floating interest rate and vice versa;
- replacement of the debtor.

A financial liability is de-recognized only if it is redeemed, that is, when the obligation specified in the contract has been fulfilled, canceled or expired.

Under the transfer of a financial asset means:

- the transfer of contractual rights to receive cash flows from this financial asset to another party or
- maintenance of contractual rights to receive cash flows from a financial asset while simultaneously assuming contractual obligations to pay these funds to one or more beneficiaries under the contract.

When a financial asset is transferred, the extent of the risks and rewards of ownership of the financial asset is assessed. In this case:

- if the Bank transfers substantially all the risks and rewards associated with owning a financial asset, it derecognizes the financial asset and recognizes separately as assets or liabilities those rights and obligations that are created or retained during the transfer;
- if the Bank retains substantially all the risks and rewards of ownership of a financial asset, it continues to recognize the financial asset;
- if the Bank does not transfer and substantially retain all the risks and rewards associated with owning a financial asset, it should determine whether control over the financial asset remains. In this case:
  - if the Bank does not retain control, it derecognizes the financial asset and recognizes separately as an asset or liability those rights and obligations that are created or retained during the transfer;
  - if the Bank maintains control, it continues to recognize the financial asset to the extent that it continues to participate in this financial asset.

Upon de-recognition, the difference between the carrying amount of a financial asset transferred to the other party (estimated at the date of de-recognition) and the amount of funds received or receivable in exchange for the specified asset minus any liabilities incurred is recorded in the income statement and losses for the reporting period.

Significant change in the terms of a financial liability (regardless of the reasons for this change), including the exchange of liabilities with substantially different conditions is taken into account as the redemption of the old obligation and the recognition of a new one, reflecting the difference between them in the statement of income. A significant change is recognized in which the current discounted value of cash flows in accordance with the new conditions differs from the current discounted value of the remaining cash flows of the initial financial liability by 10% or more.

Upon de-recognition, the difference between the carrying amount of a financial liability extinguished or transferred to another party, including the corresponding underestimated part of the actual costs, and the amount of compensation paid for it shall be reflected in the statement of profit or loss for the reporting period.

Impairment

The Bank recognizes a provision for expected credit losses on the following financial instruments not at fair value through profit or loss:

- loans to customers;
- debt investment securities;
- net investment in finance lease;
- issued financial guarantee contracts; and
- issued loan commitments.

The Bank recognizes provisions for expected credit losses in an amount equal to the expected credit losses for the entire term, except for the following instruments for which the amount of the provision will be equal to 12-month expected credit losses:

- debt investment securities with low credit risk at the reporting date; and
- other financial instruments (other than net investments in financial leases) for which credit risk has not increased significantly since their initial recognition.

The Bank believes that a debt security has a low credit risk if its credit rating corresponds to the generally accepted definition of investment grade in the world.

The 12-month expected credit losses are part of the expected credit losses due to events of default on a financial instrument, possible within 12 months after the reporting date.

Estimation of expected credit losses

Expected credit losses are estimates of credit losses, weighted by the degree of probability of a default occurring. They are assessed as follows:

- **in respect of financial assets that are not credit impaired as of the reporting date**: as the present value of all expected cash shortfalls (that is, the difference between the cash flows owed by the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- **in respect of financial assets that are credit-impaired at the balance sheet date**: as the difference between the gross book value of the assets and the present value of estimated future cash flows;
- **in respect of the unused part of the loan commitments**: as the present value of the difference between the contractual cash flows that are due to the Bank under the contract if the borrower uses his right to receive the loan and the cash flows that the Bank expects to receive, issued; and
- **In respect of financial guarantee contracts**: as the present value of the expected payments to the contract holder to compensate for the credit loss incurred by him minus the amounts that the Bank expects to reimburse.

Restructured financial assets

In case of revising or modifying, by agreement of the parties, the terms of a financial asset, or replacing an existing financial asset with a new one due to the financial difficulties of the borrower, an assessment is made to determine whether this financial asset is de-recognized, and the expected credit losses are estimated as follows:

- If the expected restructuring does not result in de-recognition of an existing asset, then the expected cash flows for the modified financial asset are included in the calculation of the amounts of cash shortfall in the existing asset.
- If the expected restructuring will lead to de-recognition of an existing asset, then the expected fair value of the new asset is considered as the final cash flow of the existing asset at the time of its de-recognition. This amount is included in the calculation of the cash shortfall on an existing financial asset, which is discounted for the period from the expected date of de-recognition to the reporting date using the original effective interest rate on the existing financial asset.

Credit impaired financial assets

At each reporting date, the Bank evaluates financial assets at amortized cost and debt financial assets and at fair value through other comprehensive income for their credit impairment. A financial asset is "credit impaired" when it is defaulted.

Submission of a provision for expected credit losses

The provisions for credit losses are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a decrease in the gross book value of these assets;
- loan commitments and financial guarantee agreements: generally, as a reserve;
- if the financial instrument contains both a claimed and unclaimed component, and the Bank cannot determine expected credit losses on the loan commitment made separately from the expected credit losses on the already claimed part (loan issued): the Bank represents the aggregate loss allowance for both components. The cumulative amount is presented as a decrease in the gross book value of the claimed part (loan disbursed). Any excess of the loss allowance over the gross book value of the loan issued is presented as a reserve; and
- debt instruments measured at fair value through other comprehensive income: an allowance for losses is not recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the amount of the allowance for losses is disclosed and recognized in the composition of the reserve of changes in fair value.

Write-offs

Loans and debt securities are written off (partially or in full) when there are no reasonable expectations of their recovery. As a rule, this is the case when the Bank determines that the borrower has no assets or sources of income that can generate cash flows in an amount sufficient to repay the amounts of debt to be written off. However, with regard to written-off financial assets, the Bank may continue to carry out debt collection activities in accordance with the policy on reimbursement of receivables.

Cash and cash equivalents

Cash and cash equivalents are items that are easily converted into a certain amount of cash and are subject to minor changes in value. Cash and cash equivalents include all interbank deposits, overnight deposits and reverse repurchase agreements with other banks with an initial maturity of up to one business day. Funds for which there are restrictions on use for a period of more than three months at the time of submission are excluded from cash and cash equivalents in both the statement of financial position and the statement of cash flows. Cash and cash equivalents are carried at amortized cost, since (i) they are held to receive contractual cash flows and these cash flows are solely payments on the principal amount of the debt and interest and (ii) they are not classified as fair value. value through profit or loss. The conditions established solely by law (for example, provisions on the conversion of debt into equity in some countries) do not affect the results of the SPPI test, unless they are included in the terms of the contract and would apply even if the legislation later changed.

Cash payments or receipts presented in the statement of cash flows represent a transfer of cash and cash equivalents by the Bank, including those accrued or credited to the Bank's current accounts of the Bank's counterparties, such as interest income on a loan or principal amount, collected by debiting funds from the client's current account, interest payments or loans issued to the client's current account, representing cash or cash equivalent from the client perspective.

Mandatory reserves in CBU

Mandatory reserves in CBU are carried at amortized cost and represent funds deposited in CBU at which no interest is calculated and which are not intended to finance the daily operations of the Bank. Consequently, they are excluded from the composition of cash and cash equivalents for the purposes of drawing up statement of cash flows.

Bank Card Payments

The initial recognition of incomplete settlements with bank cards occurs when a legal right to receive or a legal obligation to pay money in accordance with the terms of the contract arises. Pending bank card payments are stated at amortized cost.

Due from other banks

Due from other banks are accounted for when the Bank provides cash to counterparty banks in the form of advance payments. Due from other banks are carried at amortized cost if (i) they are held to receive the contractual cash flows and these cash flows are exclusively payments to the principal and interest, and (ii) they are not categorized at fair value through profit or loss.

Loans and advances to customers

Loans and advances to customers presented in the statement of financial position include:

- loans and advances to customers, measured at amortized cost; they are initially measured at fair value, taking into account the additional direct costs of the transaction, and then at amortized cost using the effective interest rate method;
- loans and advances to customers, assessed by the SSIA on a mandatory basis; such loans are measured at fair value with immediate recognition of changes in their value in profit or loss;
- finance lease receivables.

When the Bank acquires a financial asset and simultaneously concludes an agreement to resell the asset (or substantially the same asset) at a fixed price on a future date, the agreement is treated as a loan or advance payment, and the underlying asset is not recognized in the financial statements of the Bank.

Property received for non-payment

Property received for non-payment represents financial and non-financial assets received by the Bank in settling overdue loans. These assets are initially recognized at fair value upon receipt and included in fixed assets, other financial assets, investment property or stocks in other assets, depending on their nature and the Bank's intentions to recover these assets, and are subsequently revalued and accounted for in accordance with accounting policies for these asset categories.

If property received for non-payment results in the acquisition of control over the business, the business combination is accounted for using the acquisition method, with the fair value of the settled loan being the acquisition cost. For shares acquired as property for default, accounting policies for associates apply when the Bank acquires significant influence, but does not acquire control. The cost of the associate is equal to the fair value of the loan settled through the acquisition of the pledged shares.

Investment in debt securities

Based on the business model and cash flow characteristics, the Bank classifies investments in debt securities as valuation at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. Debt securities are carried at amortized cost, if they are held to receive contractual cash flows, these cash flows are solely payments on the principal amount of the debt and interest and are not defined as being measured at fair value through profit or loss on a voluntary basis so that reduce the accounting discrepancy.

Debt securities are recorded under the FVTOCI, if they are held to receive contractual cash flows and for sale, they are solely payments on the principal amount of the debt and interest, and they are not defined as at fair value through profit or loss. Interest income on these assets is calculated using the effective interest method and is recognized in profit or loss. Estimated allowance for impairment losses determined on the basis of the expected credit loss model is recognized in profit or loss for the year. All other changes in the carrying amount are recorded in other comprehensive income. Upon derecognition of a debt security, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss.

If debt investment investments do not qualify for recognition at amortized cost or at fair value through other comprehensive income, they are recorded at fair value through profit or loss. The Bank may also unconditionally attribute investments in debt securities to the category estimated at fair value through profit or loss upon initial recognition, if using this opportunity significantly reduces the accounting mismatch between financial assets and liabilities recognized or measured using different accounting methods.

Equity Investments

Financial assets that meet the definition of capital from the issuer's point of view, that is, instruments that do not contain a contractual obligation to pay cash and indicate the presence of a residual share in the issuer's net assets, are considered by the Bank as investments in equity securities. Investments in equity securities are measured at fair value through profit or loss, unless the Bank unconditionally chooses to classify equity investments as those measured at fair value through other comprehensive income upon initial recognition. The Bank 's policy is to classify equity investments as being measured at fair value through other comprehensive income, when these investments are held for purposes other than receiving investment income. If the fair value through other comprehensive income is selected, the gains and losses from the fair value revaluation are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, including on retirement. Impairment losses and their recovery, if any, are not estimated separately from other changes in fair value. Dividends are still recognized in profit and loss when the Bank's right to receive payments is established, unless they are a return on investment, and not income on such investments.

Derivative financial instruments

Derivative financial instruments, including forward and futures contracts, option contracts and swaps, are carried at their fair value. All derivatives are recorded as assets if the fair value of these instruments is positive and as liabilities if their fair value is negative. Changes in the fair value of foreign exchange derivative financial instruments are included in the statement of income on "Income less expenses / (expenses less income) on operations with foreign currency, currency derivatives and foreign currency revaluation". Changes in the fair value of derivatives with precious metals are attributed to "Income less expenses / (expenses less income) from operations with precious metals, derivative financial instruments with precious metals and from revaluation of accounts in precious metals"; changes in the fair value of derivative instruments with securities, interest rate derivatives and other derivative financial instruments - by "Income less expenses / (expenses less income) on transactions with other derivative financial instruments".

Property, plant and equipment and intangible assets

Property, plant and equipment are stated at cost or at revalued amounts, as described below, less accumulated depreciation and provision for impairment (if any).

Gains and losses arising from the disposal of fixed assets are determined on the basis of their residual value and recorded under operating expenses of the statement of comprehensive income.

Repairs and maintenance costs are recognized in the statement of comprehensive income when incurred.

Construction in progress is carried at cost less impairment allowance.

Upon completion, assets are transferred to property, plant and equipment and are stated at book value at the time of transfer. Construction in progress is not subject to depreciation until the asset is put into operation.

Amortization

Depreciation of an item of property, plant and equipment begins when it is commissioned. Depreciation is charged on a straight-line basis over the following useful lives:

- Buildings - 33 years;
- Office and computer equipment - from 5 to 10 years;
- Vehicles - 5 years;
- Intangible assets - 5 years.

Land has unlimited useful life and is not subject to depreciation.

At the end of the useful life of the asset, the residual value of the asset is the estimated amount that the Bank would have received at the moment if the asset was sold, less the estimated costs of disposal, if the condition and age of the asset were consistent with the age and condition that the asset would have end of useful life. The residual value of assets and their useful lives are reviewed and, if necessary, adjusted at the end of the reporting period.

Right-of-use assets and lease liabilities.

From 1 January 2019, the lease is recognized as a right-of-use asset and a corresponding liability on the date the leased asset is available for use by the Bank. Each lease payment is apportioned between the liability and the finance charge. Finance costs are recognized in profit or loss over the lease term to provide a constant periodic interest rate on the remaining lease liability for each period. The right-of-use asset is amortized on a straight-line basis over the shorter of the asset's terms, the asset's useful life and the lease term.

Right-of-use assets are disclosed under "Property, plant and equipment and right-of-use assets" in the statement of financial position, lease liabilities are disclosed under "Other liabilities" in the statement of financial position. Finance expenses are disclosed in the line "Other interest expense" in the income statement, amortization of right-of-use assets is disclosed in the line "Personnel and administrative expenses" in the income statement. The total cash outflow for lease liabilities is disclosed in the Cash from operating activities section of the statement of cash flows.

Assets and liabilities arising from the lease are initially measured at their present value. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including direct fixed payments), net of any lease incentive payments receivable for a revocable and irrevocable operating lease;
- variable lease payments, which depend on a price index or interest rate;
- amounts expected to be paid by the lessee under residual value guarantees;
- the exercise price of the call option, if the lessee has reasonable confidence in the exercise of the call option, and
- the payment of penalties for early termination of the lease if the lease term reflects the potential exercise by the lessee of an early termination option.

Lease payments are discounted using the lessee's incremental borrowing rate, which is the rate that the lessee would have to pay to raise the funds needed to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost, which includes the following components:

- the amount of the historical cost of the lease liability;
- any lease payments made on or prior to the commencement date of the lease, less any lease incentive payments received;
- any initial direct costs incurred by the lessee and
- estimated restoration costs.

Payments related to short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. A short-term lease is a lease with a lease term of twelve months or less.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

Termination of financial liabilities

The recognition of financial liabilities is terminated in the event of their redemption (i.e., when the obligation specified in the contract is fulfilled or terminated, or the term of its fulfillment expires).

Financial liabilities classified as at fair value through profit or loss

The Bank may identify certain liabilities as being measured at fair value through profit or loss upon initial recognition. The gains and losses on such liabilities are presented in profit or loss, except for the amount of changes in fair value associated with changes in the credit risk of this liability (defined as the amount that does not relate to changes in market conditions resulting in market risk). Which is reflected in other comprehensive income and is not subsequently reclassified to profit or loss. This is possible if such a representation does not create or exacerbate the accounting discrepancy. In this case, the profits and losses related to changes in the credit risk of the liability are also recognized in profit or loss.

Due to banks

Due to banks are recorded from the time the Bank issues cash or other assets by counterparty banks. Amounts due to banks are non-derivative financial liabilities and are carried at amortized cost or at the FVTPL.

Customers deposits

Deposits of individuals and corporate customers include non-derivative financial liabilities to individuals and corporate customers (including government agencies and companies controlled by the state) and are carried at amortized cost or according to the FVTPL.

Debt securities issued

Debt securities issued include promissory notes, deposit and savings certificates, and other debt instruments issued by the Bank. Debt securities in issue, with the exception of equity participation notes and debt participation notes described below, are carried at amortized cost. If the Bank buys back its own debt securities issued, they are excluded from the statement of financial position, and the difference between the present value of the liability and the amount paid is included in Other net operating income as part of the statement of income.

Other borrowings

Other borrowings are represented by syndicated loans attracted by the Bank in the financial markets, as well as trade finance transactions. Other borrowed funds are carried out at amortized cost or at FVTPL.

Loan commitments

The Bank issues loan commitments. Such liabilities represent irrevocable obligations or liabilities whose recall is possible only in response to significant adverse changes. Such liabilities are initially recorded at fair value, confirmed, as a rule, by the amount of the consideration received. This amount is amortized on a straight-line basis over the life of the obligation, with the exception of the loan commitment, in case there is a likelihood that the Bank will enter into a specific loan agreement and will not plan the implementation of the loan within a short period after it is granted. Such fees and commission received associated with the loan commitment is recorded as deferred income and is included in the carrying amount of the loan upon initial recognition. At the end of each reporting period, liabilities are estimated as: (i) the unamortized balance of the amount at the time of initial recognition plus; (ii) the amount of the provisional reserve determined based on the model of expected credit loss, if the obligation is not to provide a loan at an interest rate lower than the market, then the amount of the liability equal to the greatest of these two sums. The carrying value of loan commitments is an obligation. For contracts that include a loan and unused liability, if the Bank is unable to separately identify expected credit losses for the unused loan component and for the credit component, expected credit losses for the unused liability are recognized together with the provision for expected credit losses. Expected credit losses in excess of total expected credit losses over the gross carrying amount of the loan are recognized as a liability.

Financial guarantees

Financial guarantees require the Bank to make certain payments to reimburse the guarantee holder for losses incurred if the specified debtor did not make a timely payment on the original or modified terms of the debt instrument.

Financial guarantees are initially recorded at fair value, confirmed, as a rule, by the amount of the consideration received. This amount is amortized on a straight-line basis over the life of the guarantee. At the end of each reporting period, liabilities are estimated at the largest of (i) the amount of the estimated provision for losses under the guarantee, determined using the model of expected credit losses, and (ii) the remaining unamortized balance of the amount recorded at initial recognition. In addition, in respect of receivables for interest, which is recorded as an asset in the statement of financial position, an estimated reserve for expected credit losses is recognized.

Performance guarantees

Performance guarantees are contracts providing for the receipt of compensation if the other party to the contract does not fulfill the obligation specified in the contract. Such agreements, in addition to credit risk, transfer the non-financial risk of non-fulfillment of the contractual obligation. Performance guarantees are initially recorded at fair value, confirmed, as a rule, by the amount of the consideration received. This amount is amortized on a straight-line basis over the term of the agreement. At the end of each reporting period, performance guarantee contracts are valued at the largest of the amounts of (i) the unamortized balance of the initial recognition amount; and (ii) the amount of damages for the liability determined on the basis of the model of expected losses. If the Bank has the contractual right to apply to the client for reimbursement of the sums paid to settle the contracts of guarantee of fulfillment of obligations, these amounts should be recognized as an asset after the transfer of compensation to the beneficiary under the guarantee. These payments are recognized as fees and commission received in profit or loss.

Settlements with suppliers and other payables

Trade and other payables are accrued if the counterparty has fulfilled its contractual obligations and are carried at amortized cost.

Equity

Ordinary and non-redeemable shares are recognized as an equity. Expenses for payment of services to third parties directly related to the issue of new shares, except for cases of a business combination, are recorded in equity as a decrease in the amount received as a result of this issue. The excess of the fair value of the funds received over the nominal value of the shares issued is recorded as additional capital.

Dividends

Dividends are recognized as liabilities and are deducted from the amount of capital at the end of the reporting period only if they were declared before the end of the reporting period inclusive. Information about dividends is disclosed in a note about events that occurred after the end of the reporting period, if they were announced after the end of the reporting period. Payment of dividends and other distribution of profits is carried out on the basis of the net profit of the current year according to the accounting statements prepared in accordance with the legislation of the Republic of Uzbekistan.

After approval at the general meeting of shareholders, dividends are recorded in the financial statements as a distribution of profits.

Earnings per share

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

Interest income and expenses calculated using the effective interest method

Interest income and expense for all debt instruments measured at amortized cost and measured at fair value through other comprehensive income are recorded on an accrual basis using the effective interest method. Such a calculation includes in interest income and expenses all commissions and payments paid and received by the parties to the contract and constituting an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions related to the effective interest rate include commissions received or paid by an organization in connection with the formation or acquisition of a financial asset or the issuance of a financial liability (for example, fees for credit rating, valuation or accounting of guarantees, or collateral, for setting the terms of the instrument and for processing of transaction documents).

Commissions for a liability received by the Bank for providing a loan at market rates are an integral part of the effective interest rate if there is a likelihood that the Bank will enter into a specific loan agreement and does not plan to sell the loan within a short period after it is granted. The Bank does not classify a loan commitment as a financial liability at fair value through profit or loss.

With respect to credit assets impaired or financial assets created or acquired, the effective interest rate is the rate that discounts the expected cash flows (including initial expected credit losses) to a fair value upon initial recognition (usually corresponding to the purchase price). As a result, the effective interest rate is adjusted for credit risk.

Interest income is calculated using the effective interest rate on the gross book value of financial assets, except:

- financial assets that have become impaired (Stage 3) and for which interest income is calculated using the effective interest rate to their amortized cost (minus the allowance for expected credit losses);
- created or acquired credit-impaired financial assets for which the initial effective interest rate adjusted for credit risk is applied to the amortized cost.

Fees and commission received and paid

Commission income and expenses that are an integral part of the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate.

An agreement with a client that results in the recognition of a financial instrument in the financial statements of the Bank may be partially in the scope of IFRS 9 and partly in the scope of IFRS 15. In this case, the Bank first applies the requirements of IFRS 9, to highlight and take into account the part of the contract that relates to the scope of IFRS 9, and then apply IFRS 15 to the remaining part.

The Bank recognizes other fees and commission received at the time or as it fulfills its obligation to perform under the contract through the provision of a service to the client.

Other interest income and expenses

Other interest income and expenses are interest income and expenses related to debt instruments estimated at the FVTPL and are recorded on an accrual basis using the nominal interest rate.

Taxation

The income tax expense / reimbursement includes current and deferred taxes and is recorded in the statement of comprehensive income. Tax expenses are recorded in the financial statements in accordance with the requirements of the current legislation of the Republic of Uzbekistan. Current tax payments are calculated on the basis of taxable profit for the year using income tax rates in effect during the reporting period.

Current tax amounts are funds payable to the budget or returned from the budget due to current or previous taxable profits or losses. In the case of permission to issue financial statements prior to the filing of the relevant tax returns, the tax amounts reflected in it are based on estimates.

Deferred income tax is calculated using the balance sheet assets and liabilities method for all taxable losses and temporary differences between the taxable base of assets and liabilities and their carrying amount for financial statements.

Deferred tax amounts are assessed at tax rates that actually entered into force at the end of the reporting period or that are expected to be applied during the period of recovery of temporary differences or use transferred from previous periods of tax losses. Deferred tax assets and liabilities are set off against each other if there is a legally enforceable right to set off current tax assets and liabilities. Deferred tax assets in respect of deductible temporary differences and tax losses are recorded to the extent that it is probable that sufficient taxable profit will be earned against which the indicated deductions may be used. Management judgment is required to determine the amount of deferred tax assets that can be recognized in the financial statements based on the likely timing and amount of future taxable profits, as well as future tax planning strategies.

In addition, in the Republic of Uzbekistan there are various operating taxes applicable to the Bank. These taxes are recorded in the statement of comprehensive income as part of operating expenses.

According to the Decree of the President of the Republic of Uzbekistan "On the formation of the joint-stock commercial bank “Mikrokreditbank” No.PP-2740 dated January 24, 2017, it is exempted for five years from the date of state registration from paying all types of taxes and mandatory contributions to state special purpose funds, with a targeted direction released funds to strengthen the resource and material-technical base of the bank.

Netting

Financial assets and liabilities are mutually offset, and the statement of financial position reflects the net present value only when there is a statutory right to offset the recorded amounts, as well as the intention to either offset or realize the asset and settle the liability simultaneously. The right to set-off (a) should not be conditional on a future event and (b) should be legally binding in all of the following circumstances: (i) in the ordinary course of business, (ii) in the event of default and (iii) in case of insolvency or bankruptcy.

Employee remuneration and social security contributions

On the territory of the Republic of Uzbekistan, the Bank makes deductions on the unified social tax. These deductions are also recorded on an accrual basis. The unified social tax includes contributions to the Pension Fund. The Bank does not have its own pension scheme. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued as the Bank provides relevant services.

Segment information

Operating segments are allocated on the basis of internal reports on the components of the Bank that are regularly reviewed by the chief executive officer who is responsible for making decisions on operational activities in order to allocate resources to the segments and evaluate the results of their operations.

The Bank estimates information about reportable segments in accordance with IFRS. The reporting operating segment is distinguished when one of the following quantitative requirements is met:

- its revenue from sales to external customers and from operations with other segments is at least 10 percent of the total revenue - external and internal - of all operating segments; or
- the absolute figure of profit or loss is at least 10 percent of the largest of (i) the cumulative profit of all operating segments that did not show a loss, and (ii) the cumulative loss of all operating segments that showed a loss; or
- its assets comprise at least 10 percent of the total assets of all operating segments.
- its assets and liabilities represent at least 10 percent of total capital.

In case the total revenue from external sales shown by the operating segments is less than 75 percent of the organization's revenue, additional operating segments are highlighted as reporting ones (even if they do not meet the quantitative criteria above) until the reported segments will include at least 75 percent of the Bank's revenue.

Foreign currency

Transactions in foreign currencies are initially translated into the functional currency at the exchange rate of the CBU as at the date of the transaction. Gains and losses arising from the translation of transactions in foreign currencies are recorded in the statement of comprehensive income in the income row, less costs from revaluation of foreign currency. Non-monetary items recorded at actual value in a foreign currency are translated using the exchange rate of the CBU as at the date of the transaction. Non-monetary items recorded at fair value in a foreign currency are translated at the exchange rate at the date when the fair value was determined.

At the date of the financial statements, the assets and liabilities of the Bank, the functional currency of which differs from the presentation currency of the Bank, are translated into UZS at the exchange rate at the reporting date, and their income statements are translated at the weighted average annual rate. The exchange differences arising from this translation are reflected in other comprehensive income. Upon the disposal of a subsidiary or associate whose functional currency differs from the presentation currency of the Bank, the total amount recognized in other comprehensive income attributable to this entity is reclassified from other comprehensive income to profit or loss of the reporting period.

Gold, silver and other precious metals are recorded in accordance with the purchase rates officially established by the CBU. Changes in the purchase prices of the Central Bank of Uzbekistan are recorded as exchange differences in income less expenses from revaluation of foreign currency in the statement of comprehensive income.

(in thousands UZS)

7 Cash and cash equivalents

	31 December 2020	31 December 2019
Cash and cash equivalents measured at amortized cost	16 193 056	22 935 753
Cash and cash equivalents measured at fair value through profit or loss	-	-
Total cash and cash equivalents	**16 193 056**	**22 935 753**

Cash and cash equivalents measured at amortized cost

	31 December 2020	31 December 2019
Cash on hand	2 699 939	4 546 512
Current account balances in CBU	9 637 411	8 016 441
Current account balances in other banks	3 868 124	4 405 849
Term deposits in other banks placed for up to 90 days	-	6 000 000
Provision for credit losses	(12 418)	(33 049)
Total cash and cash equivalents measured at amortized cost	**16 193 056**	**22 935 753**

As of 31 December 2020, the Bank has no balances on accounts and deposits in which cash balances exceed 10% of the Bank's capital.

The table below provides an analysis of the credit quality of cash and cash equivalents measured at amortized cost based on credit ratings as at 31 December 2020.

	Low credit risk	Average credit risk	Total
Current account balances in CBU	9 637 411	-	9 637 411
Current account balances in other banks	3 868 124	-	3 868 124
Provision for credit losses	(12 418)		(12 418)
Total cash and cash equivalents measured at amortized cost, excluding cash on hand	**13 493 117**	**-**	**13 493 117**

Financial statement for the year ended 31 December 2020 (in thousands UZS)

The carrying value of cash and cash equivalents as at 31 December 2019 in the table below also represents the maximum exposure of the Bank to credit risk for these assets:

	Low credit risk	Average credit risk	Total
Current account balances in CBU	8 016 441	-	8 016 441
Current account balances in other banks	4 405 849	-	4 405 849
Time deposits with other banks placed for up to 90 days	-	6 000 000	6 000 000
Provision for credit losses	(17 219)	(15 830)	(33 049)
Total cash and cash equivalents measured at amortized cost, excluding cash on hand	**12 405 071**	**5 984 170**	**18 389 241**

The values of credit ratings in the table above are determined based on the rating scale of international rating agencies.
The table below provides a reconciliation of opening balances of provision for credit losses on cash and cash equivalents measured at amortized cost, disaggregated by category. An approach to measuring expected credit losses is disclosed in Note 30.

	ECL for 12 months	Total
Balance as at 1 January 2019	**157 920**	**157 920**
Provision for credit losses	(124 871)	(124 871)
Balance as at 31 December 2019	**33 049**	**33 049**
Provision for credit losses	(20 631)	(20 631)
Balance as at 31 December 2020	**12 418**	**12 418**

8 Mandatory reserve in CBU

As of 31 December 2020 and 2019, the balance of required reserves in accounts with the CBU is 79 930 thousand UZS and 402 150 thousand UZS, respectively.

Mandatory reserves with the CBU include non-interest bearing provisions for impairment of assets and customer deposits. According to the legislation of the Republic of Uzbekistan, the Bank is obliged to deposit mandatory reserves with the CBU on a permanent basis, on which interest is not accrued and which are part of the Bank's liabilities with a limited ability to use them.

(in thousands UZS)

9 Due from other banks

	31 December 2020	31 December 2019
Due from other banks at amortized cost	-	11 881 816
Due from other banks at fair value through profit or loss	-	-
Total due from other banks	**-**	**11 881 816**

Due from other banks at amortized cost

	31 December 2020	31 December 2019
Term deposits in other banks placed for a period of more than 90 days	-	12 000 000
Provision for credit losses	0	(118 184)
Total due from other banks at amortized cost	**0**	**11 881 816**

The balance value of due from other banks as at 31 December 2019 also reflects the Bank's maximum exposure to credit risk for these assets:

	Average credit risk	Total
Term deposits in other banks placed for a period of more than 90 days	12 000 000	12 000 000
Provision for credit losses	(118 184)	(118 184)
Total due from other banks at amortized cost	**11 881 816**	**11 881 816**

The values of credit ratings in the table above are determined based on the rating scale of international rating agencies.

The table below provides a reconciliation of opening balances of provision for credit losses on due from other banks measured at amortized cost, disaggregated by category. An approach to measuring expected credit losses is disclosed in Note 30.

	ECL for 12 months	Total
Balance as at 1 January 2019	**-**	**-**
Recovery of credit loss provision	118 184	118 184
Balance as at 31 December 2019	**118 184**	**118 184**
Provisions for credit losses	(118 184)	(118 184)
Balance as at 31 December 2020	**-**	**-**

As at 31 December 2020 and 31 December 2019 there were no overdue from other banks measured at amortized cost and no evidence of impairment.

(in thousands UZS)

Loans and advances to customers

	31 December 2020	31 December 2019
Loans and advances to customers measured at amortized cost	52 241 537	94 888 678
Loans and advances to customers at fair value through profit or loss	-	-
Total loans and advances to customers	**52 241 537**	**94 888 678**

Loans and advances to customers measured at amortized cost

The structure of risk concentration of the client loan portfolio by sectors of the economy as at 31 December 2020 is presented below:

	Gross book value	Provision for credit losses	Book value
Industry	19 849 549	(12 451 510)	7 398 039
Trade	1 945 060	(1 675 198)	269 862
Services	5 602 984	(5 466 272)	136 712
Individuals	2 241 807	(318 858)	1 922 949
Agriculture and food industry	49 650 336	(10 887 809)	38 762 527
Other	6 369 763	(2 618 315)	3 751 448
Total loans and advances to customers measured at amortized cost	**85 659 499**	**(33 417 962)**	**52 241 537**

The structure of risk concentration of the client loan portfolio by sectors of the economy as at 31 December 2019 is presented below:

	Gross book value	Provision for credit losses	Book value
Industry	31 767 956	(3 783 839)	27 984 117
Services	10 414 534	(1 667 885)	8 746 649
Trade	2 490 041	(67 568)	2 422 473
Individuals	3 920 172	(68 193)	3 851 979
Building	537 441	(22 172)	515 269
Agriculture and food industry	51 759 744	(1 325 888)	50 433 856
Other	1 068 352	(134 017)	934 335
Total loans and advances to customers measured at amortized cost	**101 958 240**	**(7 069 562)**	**94 888 678**

As at 31 December 2020, the Bank has customer loan balances for three borrowers (2019y.: three) with loan balances exceeding 10% of the Bank's equity. The amount of this loan is 38 383 851 thousand UZS (2019y.: 36 962 964 thousand UZS).

The tables below provide an analysis of the credit quality of loans to customers measured at amortized cost provided by the Bank as at 31 December 2020.

Summary	12-month expected credit	Expected credit losses for the	Expected credit losses - Impaired	Total

Financial statement for the year ended 31 December 2020 (in thousands UZS)

	losses	entire lifetime – Non-impaired assets	assets	
Minimumal credit risk	6 556 814	30 288 192	-	36 845 006
Low credit risk	1 702 191	1 572 670	2 866 193	6 141 054
Average credit risk	785 022	4 847 999	11 458 115	17 091 136
High credit risk	986 390	5 790 866	594 633	7 371 889
Default assets	-	-	18 210 414	18 210 414
Total gross book value of loans and advances to customers	**10 030 417**	**42 499 727**	**33 129 355**	**85 659 499**
Provision for credit losses	(563 627)	(4 247 976)	(28 606 359)	(33 417 962)
Total loans and advances to customers	**9 466 790**	**38 251 751**	**4 522 996**	**52 241 537**

Legal entities	**12-month expected credit losses**	**Expected credit losses for the entire lifetime – Non-impaired assets**	**Expected credit losses - Impaired assets**	**Total**
Minimum credit risk	6 212 525	29 764 467	-	35 976 992
Low credit risk	1 279 979	1 010 588	2 852 038	5 142 605
Average credit risk	629 004	4 837 402	11 443 216	16 909 622
High credit risk	975 895	5 719 706	546 939	7 242 540
Default assets	-	-	18 145 933	18 145 933
Total gross book value of loans to legal entities	**9 097 403**	**41 332 163**	**32 988 126**	**83 417 692**
Provision for credit losses	(537 528)	(4 096 446)	(28 465 130)	(33 099 104)
Total loans to legal entities	**8 559 875**	**37 235 717**	**4 522 996**	**50 318 588**

Individuals	**12-month expected credit losses**	**Life expectancy, non-impaired credit losses**	**Life Expected Credit Losses - Impairment Assets**	**Total**
Minimum credit risk	344 289	523 725	-	868 014
Low credit risk	422 212	562 082	14 155	998 449
Average credit risk	156 018	10 597	14 899	181 514
High credit risk	10 495	71 160	47 694	129 349
Default assets	-	-	64 481	64 481
Total gross book value of loans to individuals	**933 014**	**1 167 564**	**141 229**	**2 241 807**
Provision for credit losses	(26 099)	(151 530)	(141 229)	(318 858)
Total loans to individuals	**906 915**	**1 016 034**	**-**	**1 922 949**

The tables below provide an analysis of the credit quality of loans to customers, measured at amortized cost, provided by the Bank as at 31 December 2019:

Summary	**12-month expected credit losses**	**Expected credit losses for the entire lifetime – Non-impaired assets**	**Expected credit losses - Impaired assets**	**Total**
Minimum credit risk	25 709 429	15 797 378	13 455	41 520 262
Low credit risk	19 823 419	5 503 674	3 219 605	28 546 698
Average credit risk	8 653 354	2 533 417	-	11 186 771

Financial statement for the year ended 31 December 2020 (in thousands UZS)

High credit risk	4 410 880	1 198 090	7 914 763	13 523 733
Default assets	-	-	7 180 776	7 180 776
Total gross book value of loans and advances to customers	**58 597 082**	**25 032 559**	**18 328 599**	**101 958 240**
Provision for credit losses	(1 877 117)	(1 175 430)	(4 017 015)	(7 069 562)
Total loans and advances to customers	**56 719 965**	**23 857 129**	**14 311 584**	**94 888 678**

Legal entities	**12-month expected credit losses**	**Expected credit losses for the entire lifetime – Non-impaired assets**	**Expected credit losses - Impaired assets**	**Total**
Minimum credit risk	24 948 741	15 787 934	-	40 736 675
Low credit risk	18 052 465	5 486 481	3 219 605	26 758 551
Average credit risk	7 374 947	2 498 167	-	9 873 114
High credit risk	4 393 185	1 198 090	7 914 763	13 506 038
Default assets				
Total gross book value of loans to legal entities	-	-	7 163 690	7 163 690
Provision for credit losses	**54 769 338**	**24 970 672**	**18 298 058**	**98 038 068**
Total loans to legal entities	(1 816 858)	(1 172 501)	(4 012 010)	(7 001 369)

Individuals	**12-month expected credit losses**	**Expected credit losses for the entire lifetime – Non-impaired assets**	**Expected credit losses - Impaired assets**	**Total**
Minimum credit risk	760 688	9 444	13 455	783 587
Low credit risk	1 770 954	17 193	-	1 788 147
Average credit risk	1 278 407	35 250	-	1 313 657
High credit risk	17 695	-	-	17 695
Default assets	-	-	17 086	17 086
Total gross book value of loans to individuals	**3 827 744**	**61 887**	**30 541**	**3 920 172**
Provision for credit losses	(60 259)	(2 929)	(5 005)	(68 193)
Total loans to individuals	**3 767 485**	**58 958**	**25 536**	**3 851 979**

(in thousands UZS)

Analysis of the movement of the provision for credit losses on loans to customers, measured at amortized cost for 2020 is presented below:

Summary

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**1 877 117**	**1 175 430**	**4 017 015**	**7 069 562**
Transfer to Stage 1	1 751 636	(1 751 636)	-	-
Transfer to Stage 2	(245 033)	296 213	(51 180)	-
Transfer to Stage 3	(193 630)	(1 192 371)	1 386 001	-
Net expense from the creation / (recovery) of provision for credit losses within one stage	(2 626 463)	5 720 340	23 254 523	26 348 400
- including new loans issued	-	-	-	-
Balance as at 31 December 2020	**563 627**	**4 247 976**	**28 606 359**	**33 417 962**

Legal entities

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**1 816 858**	**1 172 501**	**4 012 010**	**7 001 369**
Transfer to Stage 1	1 746 815	(1 746 815)	-	-
Transfer to Stage 2	(240 372)	291 552	(51 180)	-
Transfer to Stage 3	(192 395)	(1 189 224)	1 381 619	-
Net expense from the creation / (recovery) of provision for credit losses within one stage	(2 593 378)	5 568 432	23 122 681	26 097 735
- including new loans issued	-	-	-	-
Balance as at 31 December 2020	**537 528**	**4 096 446**	**28 465 130**	**33 099 104**

Individuals

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**60 259**	**2 929**	**5 005**	**68 193**
Transfer to Stage 1	4 821	(4 821)	-	-
Transfer to Stage 2	(4 661)	4 661	-	-
Transfer to Stage 3	(1 235)	(3 147)	4 382	-
Net expense from the creation / (recovery) of provision for credit losses within one stage	(33 085)	151 908	131 842	250 665
- including new loans issued	-	-	-	-
Balance as at 31 December 2020	**26 099**	**151 530**	**141 229**	**318 858**

(in thousands UZS)

Analysis of the movement of the provision for credit losses on loans to customers, measured at amortized cost for 2019 is presented below:

Summary

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	**1 142 560**	**677 158**	**402 040**	**2 221 758**
Transfer to Stage 1	(646 628)	646 628	-	-
Transfer to Stage 2	(213 794)	(1 919 045)	2 132 839	-
Transfer to Stage 3	1 594 979	1 770 689	1 482 136	4 847 804
Net expense from the creation / (recovery) of provision for credit losses within one stage	*899 497*	*477 655*	*257 098*	*1 634 250*
- including new loans issued	**1 877 117**	**1 175 430**	**4 017 015**	**7 069 562**
Balance as at 31 December 2019	**1 142 560**	**677 158**	**402 040**	**2 221 758**

Legal entities

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	**1 137 449**	**677 158**	**402 040**	**2 216 647**
Transfer to Stage 1	(644 357)	644 357	-	-
Transfer to Stage 2	(208 789)	(1 919 045)	2 127 834	-
Transfer to Stage 3	1 532 555	1 770 031	1 482 136	4 784 722
Net expense from the creation / (recovery) of provision for credit losses within one stage	*862 460*	*476 997*	*257 098*	*1 596 555*
- including new loans issued	**1 816 858**	**1 172 501**	**4 012 010**	**7 001 369**
Balance as at 31 December 2019	**1 137 449**	**677 158**	**402 040**	**2 216 647**

Individuals

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	**5 111**	**-**	**-**	**5 111**
Transfer to Stage 1	(2 271)	2 271	-	-
Transfer to Stage 2	(5 005)	-	5 005	-
Transfer to Stage 3	62 424	658	-	63 082
Net expense from the creation / (recovery) of provision for credit losses within one stage	*37 037*	658	-	*37 695*
- including new loans issued	**60 259**	**2 929**	**5 005**	**68 193**
Balance as at 31 December 2019	**5 111**	**-**	**-**	**5 111**

All loans were provided to companies operating in the Republic of Uzbekistan.

(in thousands UZS)

Information on the credit quality of loans and advances to customers measured at amortized cost as at 31 December 2020 is as follows:

	Loans to legal entities	Loans to individuals	Total
Undue	43 859 307	2 034 745	45 894 052
Overdue;			
- with a payment delay of less than 30 days	1 470 553	-	1 470 553
- with a delay in payment for a period of 30 to 90 days	14 826 608	61 186	14 887 794
- with a delay in payment for a period of 90 to 180 days	13 177 907	105 770	13 283 677
- with a payment delay of more than 180 days	10 083 317	40 106	10 123 423
Total gross book value of loans and advances to customers	**83 417 692**	**2 241 807**	**85 659 499**
Provision for credit losses	(33 099 104)	(318 858)	(33 417 962)
Total loans and advances to customers	**50 318 588**	**1 922 949**	**52 241 537**

Information on the credit quality of loans and advances to customers measured at amortized cost as at 31 December 2019 is as follows:

	Loans to legal entities	Loans to individuals	Total
Undue	83 124 726	3 833 861	86 958 587
Overdue;			
- with a payment delay of less than 30 days	5 357 059	38 116	5 395 175
- with a delay in payment for a period of 30 to 90 days	760 767	37 227	797 994
- with a delay in payment for a period of 90 to 180 days	8 073 740	10 968	8 084 708
- with a payment delay of more than 180 days	721 776	-	721 776
Total gross book value of loans and advances to customers	**98 038 068**	**3 920 172**	**101 958 240**
Provision for credit losses	(7 001 369)	(68 193)	(7 069 562)
Total loans and advances to customers	**91 036 699**	**3 851 979**	**94 888 678**

10 Investment financial assets

	31 December 2020	31 December 2019
Securities measured at amortized cost	2 014 343	-
Total investment financial assets	**2 014 343**	**-**

Investment securities measured at amortized cost

(in thousands UZS)

	31 December 2020	31 December 2019
CBU bonds	2 015 355	-
Provision for credit losses	(1 012)	-
Total securities measured at amortized cost	**2 014 343**	**-**

The table below summarizes the credit risk analysis of debt securities at amortized cost as at 31 December 2020, for which an expected credit loss allowance is recognized based on levels of credit risk.

	Low credit risk	Total
CBU bonds	2 015 355	2 015 355
Provision for credit losses	(1 012)	(1 012)
Total securities measured at amortized cost	**2 014 343**	**2 014 343**

Financial statement for the year ended 31 December 2020 (in thousands UZS)

11 Fixed assets and intangible assets

Below is the information on the movement of fixed assets and intangible assets as at 31 December 2020:

	Office and computer equipment	Transport	Assets in the form of right of use	Intangible assets	Total
Residual value as at 31 December 2019	**2 693 710**	**302 289**	**7 348 202**	**2 693 710**	**302 289**
Balance as at 31 December 2019	**552 759**	**331 419**	**7 601 588**	**3 470 584**	**552 759**
Income	-	225 883	797 508	319 219	-
Balance as at 31 December 2020	**3 789 803**	**557 302**	**8 399 096**	**557 302**	**13 298 960**
Accumulated depreciation					
Balance as at 31 December 2019	**776 874**	**250 470**	**253 386**	**141 092**	**1 421 822**
Depreciation	**707 730**	**134 038**	**375 669**	**85 943**	**1 303 380**
Balance as at 31 December 2020	**1 484 604**	**384 508**	**629 055**	**227 035**	**2 725 202**
Residual value as at 31 December 2020	**59 935 284**	**48 175 920**		**2 034 736**	**211 839 070**

Below is the information on the movement of fixed assets and intangible assets as at 31 December 2019:

	Office and computer equipment	Transport	Assets in the form of right of use	Intangible assets	Total
Residual value as at 31 December 2019	**1 776 203**	**429 544**	**7 601 588**	**256 610**	**10 063 945**
Balance as at 31 December 2019	**2 086 176**	**552 759**	**7 601 588**	**331 419**	**10 571 942**
Income	1 384 408	-	-	-	1 384 408
Balance as at 31 December 2020	**3 470 584**	**552 759**	**7 601 588**	**331 419**	**11 956 350**
Accumulated depreciation					
Balance as at 31 December 2019	**309 973**	**123 215**	**-**	**74 809**	**507 997**
Depreciation	466 901	127 255	253 386	66 283	913 825
Balance as at 31 December 2020	**776 874**	**250 470**	**253 386**	**141 092**	**1 421 822**
Residual value as at 31 December 2020	**2 693 710**	**302 289**	**7 348 202**	**190 327**	**10 534 528**

(in thousands UZS)

12 Non-current assets held for sale

	31 December 2020	31 December 2019
Property received through loan repayment and other assets	5 037 979	1 151 205
Total non-current assets held for sale	**5 037 979**	**1 151 205**

Financial statement for the year ended 31 December 2020 (in thousands UZS)

13 Other assets

	31 December 2020	31 December 2019
Other financial assets		
Incomplete bank card operations	463 097	8 261
Receivables on Money transfer operations	11 666	21 351
Fee and Commission income receivable	19 010	244
Other financial assets	-	20 025
Less provision for credit losses	(132 068)	(10 689)
Total other financial assets	**361 705**	**39 192**
Other non-financial assets		
Advances for services	109 320	75 378
Advances for equipment and goods	64 496	128 427
Receivable from employees	2 220	502
Other assets in litigation process	5 168	3 363
Other non-financial assets	1	76 061
Total other non-financial assets	**181 205**	**283 731**
Total other assets	**542 910**	**322 923**

14 Due to other banks

	31 December 2020	31 December 2019
Due to other banks measured at amortized cost	238 460	10 933 694
Due to other banks at fair value through profit or loss	-	-
Total due to other banks	**238 460**	**10 933 694**

Due to other banks measured at amortized cost

	31 December 2020	31 December 2019
Term deposits of banks	238 460	10 933 694
Total due to other banks measured at amortized cost	238 460	10 933 694

Financial statement for the year ended 31 December 2020 (in thousands UZS)

15 Customer deposits

	31 December 2020	31 December 2019
State and public organizations		
Demand deposits	82 671	74 583
Time deposits	15 900 000	27 900 000
Other legal entities		
Demand deposits	1 156 696	5 171 102
Time deposits	846 000	8 750 000
Individuals		
Demand deposits	307 661	190 394
Time deposits	20 957	40 017
Total customer deposits	**18 313 985**	**42 126 096**

In accordance with the legislation of the Republic of Uzbekistan, the Bank is obliged to repay the amount of the individual's deposit at the first request of the depositor. In cases where a fixed-term deposit is returned to the depositor at his request before the expiration of the term, interest on the deposit is paid in the amount corresponding to the amount of interest paid by the Bank on demand deposits, unless a different interest rate is stipulated by the agreement.

16 Other borrowings

Other borrowings are presented as follows:

	31 December 2020	31 December 2019
Other financial liabilities		
Lease commitments	8 335 098	7 593 684
Accrued staff compensation costs	291 245	-
Accounts payable	174 581	185 211
Settlements for money transfer systems	197	-
Total other financial liabilities	**8 801 121**	**7 778 895**
Other non-financial liabilities		
Allowance for credit losses on credit related commitments and allowance for other commitments	124	596 923
Other non-financial liabilities	3 012	1 269
Total other non-financial liabilities	**3 136**	**598 192**
Total other liabilities	**8 804 257**	**8 377 087**

17 Share capital

The declared, issued and fully paid share capital includes the following components:

	The number of shares, thousand pieces	Ordinary shares, in thousands UZS	Total
1 January 2019	**67 794 670**	**67 794 670**	**67 794 670**
Issue of new shares	3 142 911	3 142 911	3 142 911
31 December 2019	**70 937 581**	**70 937 581**	**70 937 581**
Issue of new shares	-	-	-
31 December 2020	**70 937 581**	**70 937 581**	**70 937 581**

All ordinary shares have a par value of 1 (One) UZS per share. Each share carries one vote.

As of December 31, 2020 and 2019, the added capital is 2,383,608 thousand UZS, which were formed through the formation of the authorized capital of the shares of the Fund for Reconstruction and Development of Uzbekistan and NKEIS Uzbekinvest.

(in thousands UZS)

18 Interest income and expense

	For the year ended 31 December 2020	For the year ended 31 December 2019
Interest income calculated at the effective interest rate		
Cash and cash equivalents	15 600	-
Due from other banks	1 480 056	2 632 907
Loans and advances to customers	16 194 831	16 455 712
Investment financial assets	92 967	-
Total interest income calculated at the effective interest rate	**17 783 454**	**19 088 619**
Interest expense calculated at the effective interest rate		
Due to other banks	481 912	104 363
Customer deposits	4 368 448	3 294 228
Total interest expense calculated at the effective interest rate	**4 850 360**	**3 398 591**
Other interest expenses		
Obligations on lease	1 176 262	1 329 664
Total other interest expenses	**1 176 262**	1 329 664
Net interest income	**11 756 832**	**14 360 364**

(in thousands UZS)

19 Fee and commission income and expense

	For the year ended 31 December 2020	For the year ended 31 December 2019
Fee and commission income		
Operations with bank cards	684 100	644 927
Cash transactions	376 908	87 551
Settlement operations	188 397	154 970
Currency conversion and exchange fees	140 189	223 940
Foreign exchange transactions of clients	73 262	117 536
Commissions for documentary transactions and other credit related commitments	535	471
Other	1 110	-
Total fee and commission income	**1 464 501**	**1 229 395**
Commission expenses		
Operations with bank cards	589 800	464 258
Settlement operations	73 702	100 273
Foreign exchange transactions of clients	41 279	40 151
Commissions for documentary transactions and other credit related commitments	10 776	29 625
Cash collection services	8 700	2 364
Commissions on operations with securities	399	-
Other	33 403	2 897
Total commission expenses	**758 059**	**639 568**
Net fee and commission income	**706 442**	**589 827**

(in thousands UZS)

20 Administrative and other operating expenses

	For the year ended 31 December 2020	For the year ended 31 December 2019
Salary and bonuses	3 887 074	2 917 571
Other employee rewards	1 091 014	730 613
Single social payment	561 968	861 520
Staff costs	**120 633 893**	**89 494 232**
Depreciation	1 303 380	913 825
Membership fee	535 873	107 234
Security	509 961	540 465
Professional services	289 300	259 330
Maintenance software	268 769	-
Repairs	224 910	351 582
Communication	103 448	99 443
Stationery	94 233	170 692
Vehicle maintenance costs	62 334	60 996
Rentals	36 345	104 587
Utilities	23 275	18 237
Travel expenses	18 649	4 165
Charity and sponsorship expenses	15 000	2 000
Advertising	6 450	8 500
Hospitality expenses	2 731	51 288
Insurance	840	840
Fines and penalties	-	100 000
Other	63 422	8 412
Total other operating expenses	**3 558 920**	**2 801 596**
Total personnel and other operating expenses	**9 098 976**	**7 311 300**

21 Earnings per share

Basic earnings per share are calculated by dividing the net income on ordinary shares to the weighted average number of ordinary shares outstanding during the year less the average number of ordinary shares repurchased by the Bank from shareholders.

The Bank does not have ordinary shares potentially diluting earnings per share. Thus, diluted earnings per share equal basic earnings per share.

	For the year ended 31 December 2020	For the year ended 31 December 2019
Income for the year attributable to ordinary shareholders	(21 353 365)	2 983 256
Net income for the period attributable to shareholders (thousand UZS)	**(21 353 365)**	**2 983 256**

(in thousands UZS)

Weighted average number of ordinary shares outstanding during the period (pcs)	70 937 581	68 994 848
Basic and diluted earnings / (loss) per ordinary share (pcs / UZS)	**(0,30)**	**0,04**

22 Contingent financial liabilities

22.1 Legal issues

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the possible liabilities (if any) arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Bank.

22.2 Credit commitment

The main purpose of these instruments is to ensure that funds are provided to clients as needed. The total amount of commitments under guarantees, letters of credit and undrawn credit lines does not necessarily represent future cash requirements, as these commitments may expire or be canceled without disbursing funds to the borrower. However, there is a potential risk, therefore, in the statement of financial position, among other liabilities against guarantees, an allowance has been made for credit related commitments in respect of the guarantees provided, depending on the financial condition of the client. With regard to commitments to extend loans and undrawn credit lines, the Bank is less exposed to the risk of losses, since in the event of impairment of loans issued, the Bank will not disburse the remaining amounts, therefore, the provision for these contingent credit commitments is zero.

The table below provides credit commitments and guarantees for the proper performance:

	31 December 2020	31 December 2019
Guarantees issued	-	22 161 435
Loan commitment	6 317	2 126 515
Total credit commitments before deducting provision for credit losses	**6 317**	**24 287 950**
Less provision for credit losses	(124)	(596 923)
Total credit commitments	**6 193**	**23 691 027**

For the purpose of measuring expected credit losses, balances on credit related commitments are included in Stage 1.

Movements in the allowance for credit losses on credit related commitments are presented in Note 17.

(in thousands UZS)

23 Related party transactions

For the purposes of compiling these financial statements, the parties are considered related if one of them has the ability to control the other or have a significant influence on the other party's financial and operational decisions, as set out in IAS 24 "Related Party Disclosures". When considering all possible relationships with related parties, the economic content of such relationships, and not only their legal form, is taken into account.

In the normal course of business, the Bank conducts transactions with its main shareholders, managers, and other parties. These operations include settlements, loans, deposit taking, guarantees, financing of trade operations and foreign currency transactions. According to the Bank's policy, all transactions with related parties are carried out under the same conditions as transactions with independent parties.

Below are the balances of assets and liabilities with related parties at the reporting date:

	31 December 2020		**31 December 2019**	
	Shareholders	**Other related parties**	**Shareholders**	**Other related parties**
Assets				
Loans and advances to customers	-	110 080		455 106
Liabilities				
Customer deposits	10 000 000	-	8 400 000	-

Below are the accrued income and expenses with related parties for the period:

	For the year ended 31 December 2020		**For the year ended 31 December 2019**	
	Shareholders	**Other related parties**	**Shareholders**	**Other related parties**
Income and expenses				
Interest income calculated at the effective interest rate	-	38 869	-	90 289
Interest expenses calculated at the effective interest rate	827 260	-	45	-
Fee and commission income	33 108	2 648 227	30 939	1 996 603
Commission expenses	-		-	-
Administrative and other operating expenses	-	1 019 293	-	1 308 713
- Remuneration of key management personnel	-	1 019 293	-	1 308 713

(in thousands UZS)

24 Fair value

Fair value is defined as the price at which an instrument can be exchanged as part of a current transaction between interested parties wishing to close a transaction on market terms, with the exception of a forced sale or liquidation. The best confirmation of the fair value is the quotation of a financial instrument in an active market. Since for the majority of financial instruments the Bank does not have a liquid market, their fair value should be determined based on the existing market conditions and specific risks associated with a specific instrument. The estimates presented below may not correspond to the amounts that the Bank is able to receive upon the market sale of the entire available package of a specific instrument.

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments depending on the valuation methodologies:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: methodologies in which all inputs that significantly affect fair value are directly or indirectly observed on the open market; and
- Level 3: methodologies that use inputs that significantly affect fair value, not based on data observed on the open market.

The table below shows the analysis of assets recorded in the financial statements at fair value, by level of assessment hierarchy as at 31 December 2020:

The table below shows an analysis of assets measured at amortized cost, recorded at fair value in financial statements, broken down by levels of assessment hierarchy as at 31 December 2020:

	Level 1	Level 2	Level 3	Book value
Financial assets measured at amortized cost				
Cash and cash equivalents	**2 699 939**	**13 505 535**	**-**	**16 205 474**
Cash on hand	2 699 939	-	-	2 699 939
Current account balances in CBU	-	9 637 411	-	9 637 411
Current account balances in other banks	-	3 868 124	-	3 868 124
Mandatory reserve in CBU	**-**	**42 993 242**	**-**	**42 993 242**
Loans and advances to customers	**-**	**-**	**85 659 499**	**85 659 499**
Commercial loans to legal entities	-	-	83 417 692	83 417 692
Consumer and other loans to individuals	-	-	2 241 807	2 241 807
Investment financial assets	**-**	**-**	**2 014 343**	**2 014 343**
Securities measured at amortized cost		-	2 014 343	2 014 343
Other financial assets	**-**	**-**	**361 705**	**361 705**

The table below shows an analysis of assets measured at amortized cost, recorded at fair value in financial statements, broken down by levels of assessment hierarchy as at 31 December 2019:

	Level 1	Level 2	Level 3	Book value
Financial assets measured at amortized cost				
Cash and cash equivalents	**4 546 512**	**18 422 290**	**-**	**22 968 802**
Cash on hand	4 546 512	-	-	4 546 512
Current account balances in CBU	-	8 016 441	-	8 016 441
Current account balances in other banks	-	4 405 849	-	4 405 849

(in thousands UZS)

Mandatory reserve in CBU	**-**	**402 150**	**-**	**402 150**
Funds in other banks	**-**	**12 000 000**	**-**	**12 000 000**
Time deposits with other banks placed for more than 90 days	-	12 000 000	-	12 000 000
Loans and advances to customers	**-**	**-**	**101 958 240**	**101 958 240**
Commercial loans to legal entities	-	-	98 038 068	98 038 068
Consumer and other loans to individuals	-	-	3 920 172	3 920 172
Other financial assets	**-**	**-**	**39 192**	**39 192**

The table below shows an analysis of liabilities measured at amortized cost, recorded at fair value in financial statements, broken down by levels of assessment hierarchy as at 31 December 2020:

	Level 1	Level 2	Level 3	Book value
Financial liabilities measured at amortized cost				
Due to other banks	**238 460**	**-**	**-**	**238 460**
Term deposits of banks	238 460	-	-	238 460
Customer deposits	**-**	**1 547 028**	**16 766 957**	**18 313 985**
Demand deposits	-	1 547 028	-	1 547 028
Term deposits	-	-	16 766 957	16 766 957
Other financial liabilities	**-**	**-**	**8 801 121**	**8 801 121**

Financial statement for the year ended 31 December 2020 (in thousands UZS)

The table below shows an analysis of liabilities measured at amortized cost, recorded at fair value in financial statements, broken down by levels of assessment hierarchy as at 31 December 2019:

	Level 1	Level 2	Level 3	Book value
Financial liabilities measured at amortized cost				
Due to other banks	**10 933 694**	**-**	**-**	**10 933 694**
Term deposits of banks	10 933 694	-	-	10 933 694
Customer deposits	**-**	**5 436 079**	**36 690 017**	**42 126 096**
Demand deposits	-	5 436 079	-	5 436 079
Term deposits	-	-	36 690 017	36 690 017
Other financial liabilities	**-**	**-**	**7 778 895**	**7 778 895**

The fair value measurement at Level 2 and Level 3 of the fair value hierarchy was performed using the discounted cash flow model. The fair value of derivatives with floating interest rates, which have no quotations in an active market, was assumed to be equal to the carrying value. The fair value of fixed interest rate instruments that do not have quotations in an active market was estimated based on estimated future cash flows disrupted using current interest rates on the borrowing market for new instruments with similar credit risk and a similar maturity.

For assets, the Bank used assumptions about the incremental rate on borrowed capital and the early repayment rates of the counterparty. Liabilities are discounted at the rate of attraction of additional borrowed funds of the Bank. Obligations to be repaid on demand were discounted starting from the first day of the potential presentation of a claim for repayment of the obligation by the Bank. The Bank's liabilities to customers are subject to the state deposit insurance program, as described in Note 1. The fair value of these liabilities reflects these credit enhancement mechanisms.

Financial statement for the year ended 31 December 2020 (in thousands UZS)

25 Capital management

In managing the capital, the Bank has the following objectives: compliance with the capital requirements established by CBU and, in particular, the requirements of the deposit insurance system; ensuring the Bank's ability to function as a continuously operating organization and maintaining the capital base at the level required to ensure the capital adequacy ratio with the requirements of CBU. Monitoring of compliance with the capital adequacy ratio set by CBU is carried out monthly based on forecast and actual data containing relevant calculations, which are checked and approved by the Bank's Management.

The Bank manages its capital in order to comply with the regulatory capital requirements established by CBU and ensure the continuation of activities as a continuously operating enterprise, maximizing the shareholder's profit by optimizing the ratio of borrowings to equity.

Control over compliance with the capital adequacy ratio established by CBU is carried out using monthly reports containing relevant calculations that are checked and vised by the Chairman of the Board of the Bank.

According to the ammendment No. 2693-2 dated October 23, 2017, the requirement for existing banks the minimum size of the authorized capital in the amount of 100 billion UZS was established, with the condition of formation by January 1, 2019. As of December 31, 2020, the Bank did not comply with this requirement.

The table presents an analysis of the regulatory capital of the Bank, calculated on the basis of IFRS balances. All calculations are based on the understanding of the Bank:

	31 December 2020	**31 December 2019**
Fully paid shares	70 937 581	70 937 581
Share premium	2 383 608	2 383 608
Retained earnings / (loss)	7 358 987	4 375 731
Intangible assets	(330 267)	(190 327)
Adjusted Tier 1 capital	**80 349 909**	**77 506 593**
Net profit/loss for the period	(21 353 365)	2 983 256
Adjusted total Risk-based capital	**58 996 544**	**80 489 849**
Risk weighted assets and off-balance assets	107 831 313	156 677 254
Operational risk	24 552 634	19 673 101
Market risk	2 282 185	2 094 751
Adjusted total Risk-weighted assets	**134 666 132**	**178 445 106**
Capital adequacy ratios:		
Tier 1 capital	59,7%	43,4%
Total capital	43,8%	45,1%

26 Risk management

The Bank manages its risks in respect of financial risks (credit, market, currency risks, liquidity and interest rate risks), as well as operational and legal risks. The assessment of accepted risk also serves as the basis for the optimal allocation of capital, taking into account risks, pricing operations and evaluation of performance. The Bank's management should ensure proper compliance with internal regulations and procedures in order to minimize operational and legal risks.

26.1 Credit risk

The Bank assumes credit risk, namely the risk that the counterparty will not be able to fully repay the debt by the due date. The Bank controls credit risk by setting limits for one borrower or a Bank of related borrowers, as well as for industry segments. The Bank regularly monitors such risks; limits are reviewed annually.

Policy to reduce and limit risk. The Bank manages, sets limits and monitors the concentration of credit risk, wherever it is installed - in particular, in relation to individual counterparties and Banks, and in relation to industries. The Bank controls credit risk by setting limits for one borrower or a Bank of related borrowers, as well as setting limits for geographical and industry segments. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to fulfill obligations to pay interest and principal, and, if necessary, by changing credit limits.

Other specific control methods and measures to reduce credit risk are presented below.

(a) Limits. The Bank has established a credit committee that approves credit limits for individual borrowers:

- The Credit Committee reviews and approves limits up to 10% of the capital1 level;
- The Council of the Bank considers and approves limits of more than 10% of the capital1 level.

Loan applications in conjunction with financial analysis of a potential borrower, which includes analysis of liquidity, profitability, interest coverage ratio and debt service ratio prepared by the relevant customer relations managers, are submitted to the Credit Committee, the Bank's Board or the Council of the Bank for approval of the credit limit.

(b) Security. The Bank uses a number of methods and practices to reduce credit risk. The most traditional of these is obtaining collateral for loans issued, which is a common practice. The Bank applies guidelines for acceptability of special collateral Banks or credit risk mitigation.

The following are the main types of collateral for loans and advances:

- letters of guarantee;
- the property;
- insurance policy;
- equipment vehicles used by the borrower;
- working capital;
- deposits.

The type of instrument determines the security available as a guarantee for financial assets other than loans and advances.

(c) Concentration of financial assets subject to credit risk. The management of the Bank pays attention to the concentration of risk:

- The maximum concentration per borrower, or Bank of borrowers, should not exceed 25% of Bank's Tier 1 capital;
- The maximum concentration on unsecured loans should not exceed 5% of Bank's Tier 1 capital and;
- The total amount of all large loans should not exceed 8 times of Bank's Tier 1 capital;
- Total amount of loans to a related party - not exceeding the Bank's Tier 1 capital.

Application of IFRS 9: Credit Risk. Expected credit loss model and basic principles of provisioning. The Bank applies the expected credit loss model for reserving financial debt instruments, the key principle of which is the timely reflection of deterioration or improvement in the credit quality of debt financial instruments, taking into account current and forecast information. The amount of expected credit losses recognized as an allowance for credit losses depends on the degree of deterioration in credit quality since the initial recognition of a debt financial instrument.

Depending on the change in credit quality since initial recognition, the Bank classifies financial instruments at one of the following stages:

- Stage 1 - "12-month expected credit losses" - Debt financial instruments for which no significant increase in credit risk was observed, and for which 12-month expected credit losses are calculated.
- Stage 2 - "Expected credit losses for the entire lifetime - non-impaired assets" - Debt financial instruments with a significant increase in credit risk, but not impaired, for which expected credit losses are calculated over the entire life of the financial instrument.
- Stage 3 - "Expected credit losses for the entire lifetime - impaired assets" - impaired debt financial instruments.

For acquired or issued depreciated financial assets, the estimated provision for credit losses is formed in the amount of accumulated changes in the value of expected credit losses for the entire lifetime of the instrument from the moment of acquisition or provision.

Factors indicating a significant increase in credit risk before the asset is recognized as impaired. The main factors indicating a significant increase in credit risk before the asset is recognized as impaired are:

- The presence of overdue debts to the Bank for a period from 31 to 90 days (inclusive);
- Significant changes in the external and internal credit rating resulting from changes in credit risk compared with the moment of initial recognition;
- Deterioration of the internal rating to the level at which the Bank decides to refuse to provide a loan;
- Identification of events that may affect solvency (revocation of a license, presence of claims, violation of credit documentation conditions, etc.).

The main signs of assigning a debt financial instrument to impaired (Stage 3):

- The borrower has delayed the repayment of any debts to the Bank by more than 90 days;
- Default restructuring of debt and / or financial liability for operations in financial markets and expected insolvency;
- Other signs of insolvency, the identification of which leads to the appropriation of a default by the borrower (bankruptcy of the borrower, the expected adoption by the borrower of the decision to liquidate or terminate the activity, the probable non-repayment of the debt by the borrower, etc.)

Credit quality recovery. The improvement in the borrower's credit quality, which at the previous reporting dates revealed a significant increase in credit risk to the level of risk related to the first stage, is determined on the basis of an estimate of the change in credit risk at the reporting date compared to the initial recognition.

Credit quality is restored from the impaired level to the level of risk related to the first stage when the indicators of impairment are eliminated at the reporting date, as well as if there are no factors at the reporting date indicating a significant increase in credit risk.

Reservation approach for impaired assets purchased or issued. To calculate the estimated reserve for credit losses in respect of acquired or disbursed impaired assets, the Bank estimates the cumulative changes in the value of expected credit losses over the entire life of the instrument from the moment of its acquisition or issue.

A financial asset is considered an acquired or issued impaired asset when one or more events occur on it that have a negative impact on the estimated future cash flows of such a financial asset, in particular, observable data on the following events at the time of acquisition or issue:

- significant financial difficulties of the counterparty / issuer;
- breach of contract terms, such as late payment;
- granting by the creditor of an assignment to his counterparty / issuer for economic reasons or contractual terms associated with the financial difficulties of such counterparty / issuer and which the lender would not have provided otherwise;
- the likelihood of bankruptcy or other financial reorganization;
- the disappearance of an active market for this financial asset as a result of the issuer's financial difficulties;
- purchase or creation of a financial asset with a large discount that reflects credit losses incurred.

Assessment methods and method of forming an allowance for credit losses. In order to estimate expected credit losses, two methods are distinguished: at the transaction level or at the counterparty level. Transaction level valuation is used for all debt financial instruments, except those related to the Individuals segment.

Counterparty grade is used for all debt financial instruments within the Individuals segment.

The main method of formation of estimated reserves for credit losses, which is applied at the Bank level, is collective reservation. It is necessarily applied to financial instruments for which the debt is not material or for which no significant increase in credit risk or impairment was detected during the reporting period.

Reserving financial assets on an individual basis. The amount of the estimated reserve for credit losses for each debt financial asset is based on an estimate of the weighted average expected credit losses under the scenarios under consideration.

- The number of considered scenarios and their weights are determined on the basis of the methodology developed by the Bank, taking into account the current, as well as reasonable forecast information, however, the number of considered scenarios cannot be less than two (including the 100% loss scenario) and the probability of their implementation must be above zero .
- Estimation of expected losses in case of individual approach to reservation takes into account the time value of money, as well as reasonable information about past, current and forecast future economic conditions. The amount of the allowance for credit losses is determined as the difference between the gross book value of the debt financial asset before deducting the allowance for credit losses at the valuation date and its recoverable amount.

To estimate the recoverable amount, the discounted cash flow method is used based on the expected future payments on the debt financial asset (or other cash flows) using the effective interest rate as the discount rate. This assessment should take into account the following sources of cash flow:

- free cash flow from operating activities;
- future amounts recoverable from the sale of collateral;
- cash receipts from other sources - for example, as a result of judicial proceedings (other than the sale of collateral) or bankruptcy proceedings.

Reserving financial assets collectively. A collective assessment of estimated reserves for credit losses of financial assets is carried out on the basis of individual risk metrics (PD, LGD, EAD), which are assigned to each specific counterparty/issuer based on the analysis of financial and other information, and which are regularly monitored.

PD is the probability of default determined on the basis of the risk segment and the internal rating (or Bank of delay) for the relevant period (12 months or the entire life of the tool (Lifetime PD)). Values are determined based on internal models, as well as using migration matrices (Markov chains). Calculations of the probability of default are adjusted for forecast information. Indicators of probability of default (PD) used by the Bank, based on the example of Moody's rating agency for financial institutions. For corporate by main sectors of the economy and individuals, data are used published in the official websites of government agencies, the CBU (www.cbu.uz) and other sources. As a forecast, data are used on the quality of the loan portfolio of past periods, as well as current and expected changes in macroeconomic variables (for example, real GDP growth, inflation, growth in real disposable money incomes of the population, etc.). The impact of these economic variables on the probability of default is determined using statistical regression analysis, and is calculated as the effect that these variables have on the level of defaults in past periods. The Bank estimates expected credit losses for a period of 12 months (Stage 1) or the entire life of the instrument, weighted by the likelihood of scenarios. These expected credit losses, weighted by probability, are determined by calculating each scenario using the appropriate model of expected credit losses and multiplying them by the respective scenario weights.

The basic segmentation principle for determining the probability of default (PD) for reservation purposes assumes that debt financial instruments with a similar risk profile should be assigned to the same portfolio with a similar level of risk. The risk segment is determined based on the specifics of the counterparty / issuer, the country of residence, size and business model.

LGD is the level of losses in case of default, the estimated value of losses as a result of the onset of default, based on the difference in the amounts of contractual cash flows receivable and cash flows that the lender expects to receive, including as a result of the pledged property. As a rule, this value is expressed as a percentage of EAD. Values are determined using models developed based on internal statistics.

EAD is the value of the credit claim at risk of default. Debt at the time of default is determined based on the expected payment schedule, which varies depending on the type of product. For products that are recorded at amortized cost and loans with a one-time repayment of debt at the time of default, it is determined on the basis of amounts due to repayment by the borrower under the contract for a 12-month period or for the entire life of the financial instrument. This debt is also adjusted for the expected overpayment by the borrower. The calculation also includes early repayment or refinancing assumptions. For renewable products, the debt at the time of default is projected by adding to the current balance of the funds used the “credit conversion ratio”, which takes into account the expected use of the remaining limit by the time of default. These assumptions vary depending on the type of product, current use of the limit and other behavioral characteristics of a particular borrower. Values are determined using models developed based on internal statistics.

Determination of the estimated provision for credit losses for credit commitments. If the counterparty has current balance sheet debt, the assessment of credit loss reserves for credit commitments is carried out in accordance with the approaches applied to reserving balance sheet debt of this counterparty taking into account the credit conversion rate (CCF), determined both on the basis of statistical data and Basel values. If the counterparty has only credit-related obligations, the assessment of estimated reserves for credit losses is carried out depending on the amount of the obligation, taking into account the CCF, on an individual or collective basis.

Credit quality of financial instruments. The classification of financial assets into five categories of credit risk is a summary of the credit quality of financial assets covered by IFRS 9.

- “Minimum credit risk” - assets, counterparties for which demonstrate a stable ability to meet financial obligations in a timely manner with an insignificant probability of default.
- “Low credit risk” - assets, counterparties for which have a low probability of default and a high ability to meet financial obligations in a timely manner.
- “Medium credit risk” - assets whose counterparties have a moderate probability of default, demonstrate an average ability to meet financial obligations in a timely manner and require more careful attention at the monitoring stage.
- “High credit risk” - assets whose counterparties have a high probability of default require special attention at the monitoring stage.
- “Default” - assets that, according to the available evidence of impairment, meet the definition of default.

(in thousands UZS)

26.2 Market risk

The Bank assumes market risk associated with open positions in interest, currency and equity instruments, which are exposed to the risk of general and specific changes in the market. The Board sets limits on the level of accepted risk and monitors their compliance on a daily basis. However, the use of this approach does not prevent the formation of losses that exceed the established limits in the event of more significant changes in the market.

The task of managing market risk is to ensure that exposure to market risk does not go beyond acceptable parameters, while ensuring optimization of the profitability received for the accepted risk.

26.3 Other price risks

Due to the lack of an active market for equity instruments in the Republic of Uzbekistan, it is difficult to assess the Bank’s exposure to stock price risk. Most of the equity investments held by the Bank are carried at cost and are periodically assessed for impairment; accordingly, the Bank’s exposure to equity risk is not expected to be material.

26.4 Geographical risk

As of December 31, 2020 and 2019, the Bank has no geographic risk, as correspondent relationships are limited to banks of the Republic of Uzbekistan. Customer service only for residents of the Republic of Uzbekistan. All operations for the year were carried out in the Republic of Uzbekistan. The Bank assumes no geographic risk.

26.5 Currency risk

The table below presents a general analysis of the Bank's currency risk at the end of the reporting period:

	Monetary financial assets	Monetary financial liabilities	Net balance position
2020			
UZS	55 671 886	22 055 312	33 616 574
USD	15 150 687	5 298 254	9 852 433
Euro	67 998	-	67 998
Total	**70 890 571**	**27 353 566**	**43 537 005**
2019			
UZS	120 978 046	48 945 947	72 032 099
USD	9 053 996	11 892 738	(2 838 742)
Euro	115 547	-	115 547
Total	**130 147 589**	**60 838 685**	**69 308 904**

The Bank takes on exposure to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The Council sets limits on the level of accepted risk by currency and in general both at the end of each day and within one day and monitors their observance on a daily basis. The Bank Treasury measures its currency risk by analyzing its net currency position denominated in the same currency, as well as analyzing the effect of strengthening / weakening of the same currency in relation to the Uzbek Soum on the Bank's profit and loss.

Financial statement for the year ended 31 December 2020 (in thousands UZS)

The table below summarizes the changes in financial result and comprehensive income as a result of possible changes in exchange rates used at the end of the reporting period, while all other conditions remain unchanged. Reasonably possible change in the rate for each currency is determined based on the marginal limits of fluctuations of rates, changed by 10% compared with the current ones.

	31 December 2020	**31 December 2019**
Strengthening of the USD by 10%	985 243	(283 874)
Weakening of the USD by 10%	(985 243)	283 874
Strengthening of the Euro by 10%	6 800	11 555
Weakening of the Euro by 10%	(6 800)	(11 555)

The risk was calculated only for cash balances in currencies other than the Bank's functional currency.

Financial statement for the year ended 31 December 2020 (in thousands UZS)

26.6 Liquidity risk

Liquidity risk arises when the maturity of claims on active transactions does not coincide with the maturity of passive transactions. The Bank is exposed to risk due to the daily need to use available cash for settlements with customers, upon maturity of deposits, issuance of loans, payments on guarantees and derivatives, which are settled in cash. The Bank does not accumulate funds in the event of a one-time fulfillment of obligations for all of the above requirements, since, based on the existing practice, it is possible with a sufficient degree of accuracy to predict the required level of funds to meet these obligations.

The Guidelines ensure that there is an adequate portfolio of short-term liquid assets, deposits with banks and other interbank instruments, and also regulates the established limits on short-term investments in loans (for a period of up to 30 days) to maintain a sufficient level of liquidity in the Bank as a whole. In cases where the amount payable is not fixed, the amount is determined based on the conditions existing at the reporting date. Foreign exchange payments are translated using the spot exchange rate at the end of the reporting period.

An analysis of liquidity risk and interest rate risk as at 31 December 2020 is presented in the following table:

	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	Total
Financial assets					
Loans and advances to customers	2 012 771	4 005 146	23 676 840	22 546 780	52 241 537
Investment financial assets	-	-	2 014 343	-	2 014 343
Total interest accrued financial assets	**2 012 771**	**4 005 146**	**25 691 183**	**22 546 780**	**54 255 880**
Cash and cash equivalents	16 193 056	-	-	-	16 193 056
Mandatory reserve in CBU	79 930	-	-	-	79 930
Other financial assets	361 705	-	-	-	361 705
Total financial assets	**18 647 462**	**4 005 146**	**25 691 183**	**22 546 780**	**70 890 571**
Financial liabilities					
Due to other banks	86 425 972	32 814 863	71 529 938	-	-
Customer deposits	35 265 583	21 480 212	113 743 413	378 482 657	30 563 526
Other borrowings	-	-	-	-	92 079 447
Total interest-bearing financial liabilities	**121 691 555**	**54 295 075**	**185 273 351**	**378 482 657**	**122 642 973**
Customer deposits	-	-	-	238 460	238 460
Other financial liabilities	-		11 746 000	5 020 957	16 766 957
Total financial liabilities	**-**	**-**	**11 746 000**	**5 259 417**	**17 005 417**
The difference between financial assets and liabilities	8 299 313	4 005 146	13 945 183	17 287 363	43 537 005
The difference between interest accrued financial assets and interest-bearing financial liabilities	2 012 771	4 005 146	13 945 183	17 287 363	37 250 463
The difference between interest accrued financial assets and interest-bearing financial liabilities, cumulative	**2 012 771**	**6 017 917**	**19 963 100**	**37 250 463**	
The difference between interest accrued financial assets and interest-bearing financial liabilities, as a percentage of total assets, cumulative	2,84%	8,49%	28,16%	52,55%	

Financial statement for the year ended 31 December 2020 (in thousands UZS)

The table below provides an analysis of financial liabilities by maturity, excluding discounts as at 31 December 2019:

	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	Total
Financial assets					
Cash and cash equivalents	-	6 000 000	-	-	6 000 000
Loans and advances to customers	-	-	-	11 881 816	11 881 816
Investment financial assets	15 711 286	4 480 715	25 650 064	49 046 613	94 888 678
Total interest accrued financial assets	**15 711 286**	**10 480 715**	**25 650 064**	**60 928 429**	**112 770 494**
Cash and cash equivalents	16 935 753	-	-	-	16 935 753
Mandatory reserve in CBU	402 150	-	-	-	402 150
Other financial assets	39 192	-	-	-	39 192
Total financial assets	**33 088 381**	**10 480 715**	**25 650 064**	**60 928 429**	**130 147 589**
Financial liabilities					
Due to other banks	-		-	10 933 694	10 933 694
Customer deposits	1 984	19 000	22 200 000	4 469 033	36 690 017
Total interest-bearing financial liabilities	**1 984**	**19 000**	**22 200 000**	**25 402 727**	**47 623 711**
Customer deposits	5 436 079	-	-	-	5 436 079
Other financial liabilities	7 778 895	-	-	-	7 778 895
Total financial liabilities	**13 216 958**	**19 000**	**22 200 000**	**25 402 727**	**60 838 685**
The difference between financial assets and liabilities	19 871 423	10 461 715	3 450 064	35 525 702	69 308 904
The difference between interest accrued financial assets and interest-bearing financial liabilities	15 709 302	10 461 715	3 450 064	35 525 702	65 146 783
The difference between interest accrued financial assets and interest-bearing financial liabilities, cumulative	**15 709 302**	**26 171 017**	**29 621 081**	**65 146 783**	
The difference between interest accrued financial assets and interest-bearing financial liabilities, as a percentage of total assets, cumulative	12,07%	20,11%	22,76%	50,06%	

In the opinion of management of the Bank, the discrepancy between the maturity and interest maturities and interest rates of assets and liabilities is a temporary factor. In banks, as a rule, there is no complete coincidence in these positions, since operations often have uncertain maturities and are of a different nature.

Liquidity requirements in respect of guarantees and letters of credit payments are significantly lower than the sum of the corresponding liabilities, as the Bank usually does not expect that third parties will claim funds from these liabilities. The total amount of contractual commitments to provide loans does not necessarily represent the amount of cash that will be required in the future, since many of these commitments may be unclaimed or terminated before their expiration date.

26.7 Interest rate risk

The Bank takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. Such fluctuations may increase the level of interest margin; however, in the event of an unexpected change in interest rates, the interest margin may also decrease or cause losses.

The Bank is exposed to interest rate risk, primarily as a result of its lending activities at fixed interest rates in amounts and for periods that differ from the amounts and terms for raising funds at fixed interest rates. In practice, interest rates are usually set for a short period. In addition, interest rates fixed in the terms of contracts for both assets and liabilities are often revised based on mutual agreement in accordance with the current market situation.

(in thousands UZS)

The Bank monitors interest rates on financial instruments. The table below shows the interest rates on financial instruments at the reporting date:

	2020		2019	
	UZS	USD	UZS	USD
Financial assets				
Cash and cash equivalents	-	-	18%	-
Due from other banks	14%	-	14%-15%	-
Loans and advances to customers	16%-36%	9%-10%	16%-36%	9%-10%
Financial liabilities				
Due to other banks	-	4%	-	4%-6%
Customer deposits	0%-20%	7%	0%-20%	7%

(in thousands UZS)

27 Segment information

The main format for providing information on segments of the Bank's activities is to provide information on operating segments, auxiliary information - on geographical segments.

All operations and services are related to customers of the Republic of Uzbekistan. All customers of the Bank are the residents of the Republic of Uzbekistan.

27.1 Operation segments

The Bank operates in two main operating segments:

- Individuals - providing banking services to private clients and private entrepreneurs, maintaining current accounts of private clients, accepting savings and deposits, servicing debit cards, providing consumer loans and loans secured by real estate;
- Legal entities - maintaining accounts, attracting deposits, providing loans and other lending services, direct debiting of deposits, transactions with foreign currency and derivative financial instruments.

Transactions between operating segments are carried out on ordinary commercial terms. The funds are redistributed between the segments, which leads to the redistribution of financing costs, taken into account when calculating the operating income. The interest accrued on these funds is calculated based on the cost of raising the Bank's capital. There are no other significant income or expenses on transactions between operating segments. Segment assets and liabilities are assets and liabilities, which constitute a large part of the balance sheet, but exclude items such as taxation of borrowed funds. Domestic costs and transfer pricing adjustments are accounted for in the results of the respective segments. For the reliable distribution of income received from external customers, between the segments are used agreements on the distribution of income.

The table below provides information on the segment concentration of assets and liabilities as at 31 December 2020:

	Individuals	Legal entities	Unsplittable	Total
Financial assets				
Cash and cash equivalents	-	3 868 124	12 324 932	16 193 056
Mandatory reserve in CBU	-	-	79 930	79 930
Loans and advances to customers	2 241 807	49 999 730	-	52 241 537
Investment financial assets	-	-	2 014 343	2 014 343
Other financial assets	11 666	-	350 039	361 705
Total financial assets	**2 253 473**	**53 867 854**	**14 769 244**	**70 890 571**
Financial liabilities				
Due to other banks	-	-	238 460	238 460
Customer deposits	328 618	17 985 367	-	18 313 985
Other financial liabilities	291 442	-	8 509 679	8 801 121
Total financial liabilities	**620 060**	**17 985 367**	**8 748 139**	**27 353 566**
Net financial assets / (liabilities)	**1 633 413**	**35 882 487**	**6 021 105**	**43 537 005**
Credit commitments	**6 193**	**-**	**-**	**6 193**

The table below provides information on the segment concentration of assets and liabilities as at 31 December 2019:

Financial statement for the year ended 31 December 2020 (in thousands UZS)

	Individuals	Legal entities	Unsplittable	Total
Financial assets				
Cash and cash equivalents	-	10 405 849	12 529 904	22 935 753
Mandatory reserve in CBU	-	-	402 150	402 150
Due from other banks	-	-	11 881 816	11 881 816
Loans and advances to customers	3 920 172	90 968 506	-	94 888 678
Other financial assets	21 351	-	17 841	39 192
Total financial assets	**3 941 523**	**101 374 355**	**24 831 711**	**130 147 589**
Financial liabilities				
Due to other banks	-	-	10 933 694	10 933 694
Customer deposits	230 411	41 895 685	-	42 126 096
Other financial liabilities	-	-	7 778 895	7 778 895
Total financial liabilities	**230 411**	**41 895 685**	**18 712 589**	**60 838 685**
Net financial assets / (liabilities)	**3 711 112**	**59 478 670**	**6 119 122**	**69 308 904**
Credit commitments	**-**	**23 209 584**	**481 443**	**23 691 027**