JSC "NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN"

Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 December 2020

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Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2020

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company "National Bank For Foreign Economic Activity of the Republic of Uzbekistan" and its subsidiaries (together referred to as "the Group") as at 31 December 2020 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated statement of financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting policies of the Republic of Uzbekistan and the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by the management on 7 May 2021.

On behalf of the Management:

Alisher Mirsoatov
Chairman of the Management Board

7 May 2021

Bohodir Rikhsiev
Chief Accountant

7 May 2021

Tashkent, Uzbekistan

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Independent auditor's report

To the Board of Directors of National Bank of Foreign Economic Activity of the Republic of Uzbekistan

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of National Bank of Foreign Economic Activity of the Republic of Uzbekistan and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Country, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans to customers	
Assessment of expected credit losses ("ECL") on loans to customers based on the requirements of IFRS 9 Financial Instruments ("IFRS 9") is a key area of management's judgment. The assessment of events that cause a significant increase in credit risk, the determination of probability of default, the distribution of assets into three stages of impairment, and the analysis of the criteria for transition between stages involve significant professional judgment and use of assumptions. The calculation of the ECL involves the use of estimation methods with unobservable inputs, including the determination of the probability of default, the exposure at default and loss given default on the basis of available historical data, adjusted for forecast information, including forecast macroeconomic parameters. The use of different models and assumptions can lead to significantly different estimates of the provision for ECL for loans to customers. Due to the significance of the carrying amount of loans to customers for the Group's consolidated financial position, as well as the complexities and judgments associated with the assessment of the ECL, we considered this area a key audit matter. Information on the provision for ECL and the management's approach to assessing the provision and managing credit risk are disclosed in **Notes 8 and 14** to the consolidated financial statements.	Our audit procedures included evaluating the methodology developed by the Group for calculating ECL on loans to customers, testing controls over the customer lending process, including testing controls on accounting for overdue debts, procedures for assessing events that cause a significant increase in credit risk for borrowers based on internal classification, and procedures for calculating the provision for ECL. We have analysed the consistency of judgments used by the Group's management in calculating the provision for ECL. To test allowance calculated on a portfolio basis, we evaluated the underlying models, key inputs and assumptions used by the Group to calculate the ECL, as well as the allocation of loans to the stages. We assessed the reasonableness of the management's judgement in relation to the determination of whether significant increase in credit risk has occurred on an individual basis. For the selected credit impaired loans, we have checked the estimation of the expected cash flows from the sale of collateral and cash repayment. We recalculated the provision for ECL. We also evaluated the disclosures in the notes to the consolidated financial statements on the provision for ECL on loans to customers.

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

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

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

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

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

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

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

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

auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Tashkent, Uzbekistan

7 May 2021

Audit company „Ernst & Young LLC"

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

A. Azamov

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

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

Consolidated statement of financial position

for the year ended 31 December 2020

(millions of Uzbek Soums)

	Notes	*2020*	*2019*
Assets			
Cash and cash equivalents	5	9,379,047	7,001,599
Amounts due from credit institutions	6	1,851,344	1,777,507
Derivative financial assets	7	119,170	102,510
Loans to customers	8	63,475,675	54,174,008
Investment securities	9	537,463	218,342
Current income tax assets		-	23,590
Investments in associates	10	409,730	239,535
Non-current assets held for sale	11	91,512	10,262
Property and equipment	12	1,398,294	1,383,471
Deferred income tax assets	13	397,171	244,136
Other assets	15	474,154	314,381
Total assets		**78,133,560**	**65,489,341**
Liabilities			
Amounts due to the CBU and the Government	16	1,400,187	1,695,207
Amounts due to credit institutions	17	2,475,571	1,139,442
Amounts due to customers	18	17,452,610	15,507,241
Debt securities issued	19	3,188,044	131,641
Other borrowed funds	20	39,274,816	33,115,228
Current income tax liabilities	13	28,061	-
Subordinated loans	21	1,566,814	1,459,376
Other liabilities	15	317,297	293,979
		65,703,400	**53,342,114**
Equity			
Share capital	22	11,978,074	11,582,700
Contribution from shareholders		126,096	126,096
Retained earnings		72,956	233,099
Other reserves		121,258	101,232
Total equity attributable to shareholders of the Group		**12,298,384**	**12,043,127**
Non-controlling interests		131,776	104,100
Total equity		**12,430,160**	**12,147,227**
Total equity and liabilities		**78,133,560**	**65,489,341**

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — Chairman of the Management Board

Bohodir Rikhsiev — Chief Accountant

7 May 2021

The accompanying notes on pages 7 to 69 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
for the year ended 31 December 2020

(millions of Uzbek Soums)

	Notes	2020	2019
Interest income	23	5,039,358	3,971,082
Interest expense	23	(2,011,020)	(2,138,230)
Net interest income		**3,028,338**	**1,832,852**
Credit loss expense	14	(1,267,568)	(271,645)
Initial recognition adjustment on interest bearing assets	8	(72,018)	(188,565)
Net interest income after credit loss expense and initial recognition of adjustment		**1,688,752**	**1,372,642**
Fee and commission income	24	416,364	446,791
Fee and commission expense	24	(75,868)	(83,073)
Net gain from financial instruments at fair value through profit or loss		16,660	28,263
Net gains/(losses) from foreign currencies:			
- dealing		43,300	44,598
- translation differences		(87,992)	(52,495)
Share of (loss)/profit of associates	10	(24,137)	9,911
Dividend income		56,170	14,402
Other income	25	54,179	35,992
Impairment of investments in associates	10	(63,908)	-
Impairment of assets held for sale	11	(31,390)	-
Other impairment and provisions		(23,075)	(21,727)
Personnel and other operating expenses	26	(918,709)	(870,897)
Revenue from non-banking activities	27	428,470	365,723
Costs of sales from non-banking activities	28	(336,018)	(292,496)
Net non-interest expense		**(545,954)**	**(375,008)**
Profit before income tax expense		**1,142,798**	**997,634**
Income tax expense	13	(237,079)	(207,545)
Profit for the year		**905,719**	**790,089**
Attributable to:			
- shareholders of the Group		919,863	815,070
- non-controlling interests		(14,144)	(24,981)
		905,719	**790,089**

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — Chairman of the Management Board

Bohodir Rikhsiev — Chief Accountant

7 May 2021

Consolidated statement of other comprehensive income

for the year ended 31 December 2020

(millions of Uzbek Soums)

	2020	*2019*
Profit for the year	**905,719**	**790,089**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Exchange differences on translation of foreign operations, net of tax	17,849	42,318
Other comprehensive income to be reclassified to profit or loss in subsequent periods	**17,849**	**42,318**
Other comprehensive income for the year, net of tax	**17,849**	**42,318**
Total comprehensive income for the year	**923,568**	**832,407**
Attributable to:		
- shareholders of the Bank	936,980	851,040
- non-controlling interests	(13,412)	(18,633)
	923,568	**832,407**

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov Chairman of the Management Board

Bohodir Rikhsiev Chief Accountant

7 May 2021

Consolidated statement of changes in equity
for the year ended 31 December 2020

(millions of Uzbek Soums)

		Attributable to shareholders						
	Notes	***Share capital***	***Contribution from shareholders***	***Retained earnings***	***Other reserves***	***Total***	***Non-controlling interests***	***Total equity***
1 January 2019		**4,320,970**	**126,096**	**335,635**	**43,296**	**4,825,997**	**90,258**	**4,916,255**
Net profit/(loss) for the year		-	-	815,070	-	**815,070**	(24,981)	**790,089**
Other comprehensive income		-	-	-	35,970	**35,970**	6,348	**42,318**
Total comprehensive income/(loss) for the year		**-**	**-**	**815,070**	**35,970**	**851,040**	**(18,633)**	**832,407**
Capitalization of retained earnings		906,352	-	(906,352)	-	**-**	-	**-**
Issuance of share capital		6,355,378	-	-	-	**6,355,378**	9,927	**6,365,305**
Other movement		-	-	(11,254)	21,966	**10,712**	22,548	**33,260**
31 December 2019		**11,582,700**	**126,096**	**233,099**	**101,232**	**12,043,127**	**104,100**	**12,147,227**
Net profit/(loss) for the year		-	-	919,863	-	**919,863**	(14,144)	**905,719**
Other comprehensive income		-	-	-	17,117	**17,117**	732	**17,849**
Total comprehensive income/(loss) for the year		**-**	**-**	**919,863**	**17,117**	**936,980**	**(13,412)**	**923,568**
Dividends to shareholders of the Bank:		395,374	-	(660,717)	-	(265,343)	-	**(265,343)**
Capitalization of dividends	22	*395,374*	-	*(395,374)*	-	-	-	**-**
Paid dividends	22	-	-	*(265,343)*	-	*(265,343)*	-	**(265,343)**
Distribution to shareholders of the Bank, net of tax	22	-	-	(419,289)	-	(419,289)	-	**(419,289)**
Acquisition of subsidiary	36	-	-	-	-	-	52,909	**52,909**
Acquisition of non-controlling interests		-	-	-	2,909	2,909	(2,909)	**-**
Diposal of subsidiary	36	-	-	-	-	-	(8,912)	**(8,912)**
31 December 2020		**11,978,074**	**126,096**	**72,956**	**121,258**	**12,298,384**	**131,776**	**12,430,160**

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — Chairman of the Management Board

Bohodir Rikhsiev — Chief Accountant

7 May 2021

The accompanying notes on pages 7 to 69 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2020

(millions of Uzbek Soums)

	Notes	2020	2019
Cash flows from operating activities			
Profit before income tax		**1,142,798**	**997,634**
Adjustments for:			
Provision for impairment losses on interest bearing assets	14	1,267,568	271,645
Other impairment and provisions		23,075	21,727
Impairment of investments in associates	10	63,908	-
Impairment of assets held for sale	11	31,390	-
Initial recognition adjustment on interest bearing assets	8	72,018	188,565
Net unrealized loss on foreign exchange operations		333,980	327,365
Net gains from financial instruments at FVTPL		(16,660)	(28,263)
Depreciation and amortization	12	166,965	90,469
Dividends received		(46,101)	-
Other income	25	36,566	-
Share of profit or loss from associates	10	24,137	(9,911)
Change in interest income accrual		(960,038)	(543,819)
Change in interest expenses accrual		131,039	146,953
Other non-cash accruals		13,659	103,303
Cash flows from operating activities before changes in operating assets and liabilities		**2,284,304**	**1,565,668**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(26,147)	231,715
Derivative financial assets		-	(74,247)
Loans to customers		(7,078,339)	(19,532,606)
Assets held for sale		1,150	10,493
Other assets		(169,846)	(108,130)
Net (increase)/decrease in operating liabilities			
Amounts due to the CBU and the Government		(420,331)	1,135,846
Amounts due to credit institutions		1,253,298	106,973
Amounts due to customers		1,475,709	3,092,009
Other liabilities		(742)	(45,960)
Net cash flows used in operating activities before income tax		**(2,680,944)**	**(13,618,239)**
Income tax paid		(233,641)	(219,927)
Net cash used in operating activities		**(2,914,585)**	**(13,838,166)**

Consolidated statement of cash flows

for the year ended 31 December 2020

(millions of Uzbek Soums)

	Notes	*2020*	*2019*
Cash flows from investing activities			
Purchase of investment securities		(364,877)	(171,531)
Proceeds from sale and redemption of investment securities		90,769	-
Purchase of investments in associates		(247,536)	(39,771)
Dividends received from associates and investments securities		10,069	14,402
Acquisition of a subsidiary, net of cash acquired	36	(12,589)	-
Purchase of property and equipment		(292,777)	(841,984)
Proceeds from sale of property and equipment		57,927	280,609
Net cash used in investing activities		**(759,014)**	**(758,275)**
Cash flows from financing activities			
Proceeds from issue of debt securities	29	3,126,568	-
Redemption of debt securities issued	29	(131,326)	(14,274)
Proceeds from other borrowed funds	29	11,322,780	18,778,808
Repayment of other borrowed funds	29	(7,976,821)	(4,923,235)
Proceeds from subordinated loans		-	1,346,861
Change in non-controlling interests		56,499	13,842
Dividends paid to shareholders of the Bank		(265,343)	-
Net cash from financing activities		**6,132,357**	**15,202,002**
Effect of changes in foreign exchange rates on cash and cash equivalents		(81,321)	(213,405)
Effect of expected credit losses on cash and cash equivalents	14	11	(4,711)
Net increase in cash and cash equivalents		**2,377,448**	**387,445**
Cash and cash equivalents, beginning		7,001,599	6,614,154
Cash and cash equivalents, ending	5	**9,379,047**	**7,001,599**
Interest received		4,079,320	3,427,263
Interest paid		(1,879,981)	(1,991,277)

Signed and authorized for release on behalf of the Management Board of the Bank

O'ZBEKISTON RESPUBLIKASI TASHQI IQTISODIY FAOLIYAT MILLIY BANKI» AKSIYADORLIK JAMIYATI
JOINT-STOCK COMPANY «NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN»
NBU

Alisher Mirsoatov — Chairman of the Management Board

Bohodir Rikhsiev — Chief Accountant

7 May 2021

(millions of Uzbek Soums)

1. Principal activities

The Joint Stock Company National Bank for Foreign Economic Activity of the Republic of Uzbekistan (“the Bank”) is the parent company in the Group, it was formed by the Decree of the President of the Republic of Uzbekistan dated 7 September 1991 No. PD-244. Based on the Decree of the President of the Republic of Uzbekistan No. PD-4540 dated 30 November 2019, the Bank was transformed from a unitary enterprise into a joint-stock company. The Bank is part of the banking system of the Republic of Uzbekistan and operates under a general banking license No. 22 reissued by the Central Bank of the Republic of Uzbekistan (“CBU”) on 15 February 2020.

The Bank provides services to the Government of the Republic of Uzbekistan, accepts deposits from the public and extends credits, transfers payments in the Republic of Uzbekistan and abroad, exchanges currencies and provides other banking services to its corporate and individual customers. The main office of the Bank is located in Tashkent. The Bank has 68 branches (73 in 2019) located in the territory of the Republic of Uzbekistan.

The Bank’s registered legal address is 101 Amir Timur street, Tashkent, the Republic of Uzbekistan.

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

As of 31 December, the following shareholders owned the issued shares of the Group:

Shareholder	***2020, %***	***2019, %***
The Fund for Reconstruction and Development of the Republic of Uzbekistan	58.5	58.5
The Ministry of Finance of the Republic of Uzbekistan	41.5	41.5
Total	**100**	**100**

The ultimate shareholder and controlling party of the Bank is the Government of the Republic of Uzbekistan.

These consolidated financial statements were authorized for issue by the Management Board of the Group on 7 May 2021.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

The Group maintains its accounting records in accordance with the respective laws of the Republic of Uzbekistan, the Russian Federation. These consolidated financial statements have been prepared from statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassification of certain assets and liabilities, income and expenses to appropriate financial statement caption.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, investment securities have been measured at fair value.

These consolidated financial statements are presented in millions of Uzbek Soums (“UZS”), except per share amounts and unless otherwise indicated.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 33.

(millions of Uzbek Soums)

3. Summary of accounting policies

Changes in accounting policies

The Group has early adopted *Amendment to IFRS 16: COVID-19-Related Rent Concessions*, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Group.

Several other amendments effective since 1 January 2020 were applied but do not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform – Phase 1

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The *Conceptual Framework* is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the *Conceptual Framework* is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised *Conceptual Framework* includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI and non-financial assets such as investment property, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/ discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2020.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Central Bank, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory reserves with the Central Banks

Obligatory reserves with the Central Banks represent the amount of mandatory reserves deposited with the Central Banks of the Republic of Uzbekistan and the Russian Federation, which are not available to finance the Group’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net dealing gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, presented within interest revenue calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Uzbekistan and of Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Uzbekistan and Russia also have various operating taxes that are assessed on the Group’s activities. These taxes are included as a component of operating expenses.

Property and equipment

Property and equipment are carried at restated cost after the change of functional currency adjustment applied on 1 January 2007, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture and equipment	2-10

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Property and equipment (continued)

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in “Personnel and other operating expenses”, unless they qualify for capitalization.

Intangible assets

Intangible assets with finite useful lives (5 years) that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their useful lives. The useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group’s management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Uzbekistan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

Share capital

Share capital represents contributions made by the Fund for Reconstruction and Development of the Republic of Uzbekistan and the Ministry of Finance of the Republic of Uzbekistan.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Other reserves

Other reserves represent the special purpose tax privileges and exchange difference on translation of foreign operations. The special purpose tax privileges are granted to newly established subsidiaries on the base of foreclosed property of former bankrupt entities and recognized by the Group at the time of their granting. At the time of utilization of these privileges, e.g. for financing capital expenditures, technological modernization and other reimbursements related to those subsidiaries, the special tax privileges are debited to the Group's retained earnings. The exchange difference on translation of foreign operations arises on translation of the financial statements of foreign consolidated entities.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar revenue and expense

The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Group's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Uzbek Soums, which is the Group's presentation currency. The functional currency of the Group entities operating in the Republic of Uzbekistan is UZS, while the functional currency of the Group entity operating in the Russian Federation is Russian Ruble. The Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of profit or loss as net gain on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBU exchange rate on the date of the transaction are included in net gain/(loss) on foreign exchange operations. The official CBU exchange rates at 31 December 2020 and 31 December 2019, were 10,476.92 and 9,507.56 UZS to 1 USD, 12,786.03 and 10,624.70 to 1 EUR, 153.17 and 141.27 UZS to 1 Ruble respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into UZS at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of profit or loss.

Standards issued but not yet effective

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

IFRS 17 Insurance contracts

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

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

(millions of Uzbek Soums)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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

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

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

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

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to consolidated financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

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

In August 2020 the IASB issued *Interest Rate Benchmark Reform – Phase 2* Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Group will apply amendments in IFRSs related with the Phase 2 of the IBOR Reform from 1 January 2021.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 32.

(millions of Uzbek Soums)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Deterioration in credit quality of loan portfolios (amongst other items) as a result of the COVID-19 pandemic may have a significant impact on the Group's ECL measurement. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

In 2020 the Group changed its estimation of ECL with regard to entities categorized as Government and social structure. Upon the analysis performed the Group estimated and applied PD specified for such category of borrowers and recalculated ECL as at 31 December 2020, which resulted in reversal of ECL allowances for UZS 264,837 (Note 8).

The amount of allowance for loan impairment recognised in consolidated statement of financial position at 31 December 2020 was UZS 3,009,168 (2019 − UZS 1,903,350). More details are provided in Notes 14 and 33.

Borrowings from financial institutions

The Group obtains long term financing from government, state and international financial institutions at interest rates at which such institutions ordinarily lend in emerging markets and which may be lower than rates at which the Group could source the funds from local lenders. As a result of this financing, the Group is able to advance funds to specific customers at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of these instruments and its judgment is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgment management also considered that these instruments are a separate market sector.

Recoverability of deferred tax assets

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary since it is probable that the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to UZS 397,171 and UZS 244,136 as at 31 December 2020 and 2019, respectively.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2020	***2019***
Current accounts with other credit institutions	7,314,459	2,886,310
Current accounts with the Central Banks	1,056,539	1,352,159
Cash on hand	657,965	564,006
Time deposits with credit institutions up to 90 days	350,174	2,199,225
	9,379,137	**7,001,700**
Less – allowance for impairment	(90)	(101)
Cash and cash equivalents	**9,379,047**	**7,001,599**

(millions of Uzbek Soums)

5. Cash and cash equivalents (continued)

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

	2020	*2019*
ECL allowance as at 1 January	**101**	**4,812**
Changes in ECL	(11)	(4,711)
At 31 December	**90**	**101**

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2020	*2019*
Time deposits for more than 90 days	1,541,113	823,479
Obligatory reserve with the Central Banks	339,112	958,719
	1,880,225	**1,782,198**
Less – allowance for impairment	(28,881)	(4,691)
Amounts due from credit institutions	**1,851,344**	**1,777,507**

As at 31 December 2020 the Group had balances with various banks, with individual exposure not exceeding 10% of the Group's equity.

Credit institutions are required to maintain a non-interest earning cash deposit obligatory reserve with the Central Banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by the statutory legislation. The Obligatory reserves with Central Banks are formed on the basis of the level of funds attracted from customers and reserves against assets impairment.

As at 31 December 2020, obligatory reserves with Central Banks comprise mandatory cash balances with the Central Banks of the Republic of Uzbekistan and the Russian Federation in the amounts of UZS 299,790 and UZS 39,322, respectively (2019: UZS 931,395 and UZS 27,324).

All balances of amounts due from credit institutions allocated to Stage 1. An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the years ended 31 December is as follows:

	2020	*2019*
Gross carrying value as at 1 January	**1,782,198**	**1,895,320**
New assets originated or purchased	1,212,196	322,950
Assets repaid	(1,125,775)	(440,592)
Foreign exchange adjustments	11,606	4,520
At 31 December	**1,880,225**	**1,782,198**

	2020	*2019*
ECL allowance as at 1 January	**4,691**	**3,320**
New assets originated or purchased	27,636	2,211
Assets repaid	(3,459)	(1,600)
Foreign exchange adjustments	13	760
At 31 December	**28,881**	**4,691**

(millions of Uzbek Soums)

7. Derivative financial instruments

	2020			2019		
	Notional amount	Fair values Asset	Fair values Liability	Notional amount	Fair values Asset	Fair values Liability
Foreign exchange contracts						
Swaps – domestic	32,000	119,170	–	32,000	102,510	–
Total derivative assets	**32,000**	**119,170**	**–**	**32,000**	**102,510**	**–**

In 2019, the Group placed EUR 10,000,000 in PJSCB “Orient Finans” at a rate of 5.5% per annum for 60 months. For the same period, a deposit was received from PJSCB “Orient Finans” of UZS 32,000 at a rate of 12%. Swap contract is classified as financial instrument at fair value through profit and loss.

8. Loans to customers

Loans to customers comprise:

	2020	2019
Corporate lending		
State companies	25,971,671	21,885,807
Private companies	24,704,564	19,348,145
State budget or local authorities	9,160,258	9,222,146
Gross investment in finance lease	887,302	973,109
Non-banking financial institutions	122,076	87,803
Total corporate lending	**60,845,871**	**51,517,010**
Loans to individuals		
Mortgage loans	3,307,470	2,746,278
Car loans	1,124,770	657,190
Consumer loans	681,697	751,487
Agriculture loans	470,654	353,887
Education loans	54,381	51,506
Total loans to individuals	**5,638,972**	**4,560,348**
Gross loans to customers	**66,484,843**	**56,077,358**
Less: allowance for impairment	(3,009,168)	(1,903,350)
Loans to customers	**63,475,675**	**54,174,008**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state companies during the year ended 31 December 2020 is as follows:

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**21,401,592**	**3,539**	**480,676**	**21,885,807**
New assets originated or purchased	3,728,222	-	-	**3,728,222**
Assets repaid	(805,566)	(3,260)	(97,044)	**(905,870)**
Transfers to Stage 1	3,467	-	(3,467)	**-**
Transfers to Stage 2	(1,821,295)	1,970,278	(148,983)	**-**
Transfers to Stage 3	(3,401)	(508)	3,909	**-**
Amounts written off	-	-	(223,763)	**(223,763)**
Foreign exchange adjustments	1,487,046	229	-	**1,487,275**
At 31 December 2020	**23,990,065**	**1,970,278**	**11,328**	**25,971,671**

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**537,153**	**1,094**	**66,474**	**604,721**
New assets originated or purchased	122,007	-	-	**122,007**
Assets repaid	(14,223)	(1,053)	(55)	**(15,331)**
Transfers to Stage 1	854	-	(854)	**-**
Transfers to Stage 2	(63,180)	123,006	(59,826)	**-**
Transfers to Stage 3	(269)	(40)	309	**-**
Impact on period end ECL of exposures transferred between stages during the period	(701)	68,563	285	**68,147**
Amounts written off	-	-	(223,763)	**(223,763)**
Net remeasurement of loss allowance	464,652	64,893	223,853	**753,398**
Foreign exchange adjustments	34,769	106	-	**34,875**
At 31 December 2020	**1,081,062**	**256,569**	**6,423**	**1,344,054**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to private companies during the year ended 31 December 2020 is as follows:

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**17,342,231**	**697,841**	**1,308,073**	**19,348,145**
New assets originated or purchased	7,821,372	-	-	**7,821,372**
Assets repaid	(3,664,969)	(131,033)	(166,446)	**(3,962,448)**
Transfers to Stage 1	646,776	(394,271)	(252,505)	**-**
Transfers to Stage 2	(1,841,334)	2,155,609	(314,275)	**-**
Transfers to Stage 3	(1,092,263)	(156,682)	1,248,945	**-**
Foreign exchange adjustments	1,397,313	46,930	53,252	**1,497,495**
At 31 December 2020	**20,609,126**	**2,218,394**	**1,877,044**	**24,704,564**

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**306,815**	**89,829**	**434,636**	**831,280**
New assets originated or purchased	223,051	-	-	**223,051**
Assets repaid	(23,191)	(4,709)	(26,528)	**(54,428)**
Transfers to Stage 1	156,244	(65,025)	(91,219)	**-**
Transfers to Stage 2	(37,491)	124,723	(87,232)	**-**
Transfers to Stage 3	(43,480)	(15,907)	59,387	**-**
Impact on period end ECL of exposures transferred between stages during the period	(140,195)	97,829	213,448	**171,082**
Net remeasurement of loss allowance	33,552	16,940	12,663	**63,155**
Foreign exchange adjustments	18,145	6,342	5,656	**30,143**
At 31 December 2020	**493,450**	**250,022**	**520,811**	**1,264,283**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state budget or local authorities during the year ended 31 December 2020 is as follows:

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**9,222,146**	**-**	**-**	**9,222,146**
New assets originated or purchased	215,080	-	-	**215,080**
Assets repaid	(1,465,759)	-	-	**(1,465,759)**
Transfers to Stage 2	(125,821)	125,821	-	**-**
Foreign exchange adjustments	1,188,791	-	-	**1,188,791**
At 31 December 2020	**9,034,437**	**125,821**	**-**	**9,160,258**

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**404,364**	**-**	**-**	**404,364**
New assets originated or purchased	1,825	-	-	**1,825**
Assets repaid	(31,328)	-	-	**(31,328)**
Transfers to Stage 2	(124)	124	-	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	1,498	-	**1,498**
Net remeasurement of loss allowance	(264,837)	-	-	**(264,837)**
Foreign exchange adjustments	33,467	-	-	**33,467**
At 31 December 2020	**143,367**	**1,622**	**-**	**144,989**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to gross investment in finance lease during the year ended 31 December 2020 is as follows:

Gross investment in finance lease	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2020	**973,109**	**-**	**-**	**973,109**
Assets repaid	(187,029)	-	-	**(187,029)**
Foreign exchange adjustments	101,222	-	-	**101,222**
At 31 December 2020	**887,302**	**-**	**-**	**887,302**

Gross investment in finance lease	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2020	**21,141**	**-**	**-**	**21,141**
Assets repaid	(2,301)	-	-	**(2,301)**
Net remeasurement of loss allowance	15,125	-	-	**15,125**
Foreign exchange adjustments	2,155	-	-	**2,155**
At 31 December 2020	**36,120**	**-**	**-**	**36,120**

An analysis of changes in the gross carrying value and corresponding ECL in relation to non-banking financial institutions during the year ended 31 December 2020 is as follows:

Non-banking financial institutions	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2020	**87,803**	**-**	**-**	**87,803**
New assets originated or purchased	68,721	-	-	**68,721**
Assets repaid	(34,448)	-	-	**(34,448)**
Net remeasurement of loss allowance	-	-	-	**-**
Foreign exchange adjustments	-	-	-	**-**
At 31 December 2020	**122,076**	**-**	**-**	**122,076**

Non-banking financial institutions	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2020	**751**	**-**	**-**	**751**
New assets originated or purchased	1,607	-	-	**1,607**
Assets repaid	(18)	-	-	**(18)**
Net remeasurement of loss allowance	351	-	-	**351**
At 31 December 2020	**2,691**	**-**	**-**	**2,691**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals during the year ended 31 December 2020 is as follows:

Loans to Individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2020	**4,508,881**	**28,524**	**22,943**	**4,560,348**
New assets originated or purchased	1,737,425	-	-	**1,737,425**
Assets repaid	(654,213)	(2,312)	(2,276)	**(658,801)**
Transfers to Stage 1	13,342	(10,011)	(3,331)	**-**
Transfers to Stage 2	(289,937)	292,671	(2,734)	**-**
Transfers to Stage 3	(252,351)	(10,965)	263,316	**-**
At 31 December 2020	**5,063,147**	**297,907**	**277,918**	**5,638,972**

Loans to Individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2020	**22,851**	**4,090**	**14,152**	**41,093**
New assets originated or purchased	36,139	-	-	**36,139**
Assets repaid	(1,585)	(328)	(1,264)	**(3,177)**
Transfers to Stage 1	4,408	(1,116)	(3,292)	**-**
Transfers to Stage 2	(5,801)	7,494	(1,693)	**-**
Transfers to Stage 3	(18,689)	(1,581)	20,270	**-**
Impact on period end ECL of exposures transferred between stages during the period	(4,242)	33,922	83,537	**113,217**
Net remeasurement of loss allowance	27,685	(436)	2,510	**29,759**
At 31 December 2020	**60,766**	**42,045**	**114,220**	**217,031**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state companies during the year ended 31 December 2019 is as follows:

State companies	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2019	**23,671,587**	**340,202**	**477,196**	**24,488,985**
New assets originated or purchased	6,751,830	-	-	**6,751,830**
Assets repaid	(10,589,766)	(51,964)	(196,891)	**(10,838,621)**
Transfers to Stage 1	159,754	(159,754)	-	**-**
Transfers to Stage 2	(3,539)	3,539	-	**-**
Transfers to Stage 3	(5,053)	(128,484)	133,537	**-**
Foreign exchange adjustments	1,416,779	-	66,834	**1,483,613**
At 31 December 2019	**21,401,592**	**3,539**	**480,676**	**21,885,807**

State companies	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2019	**678,555**	**5,939**	**209,682**	**894,176**
New assets originated or purchased	365,158	-	-	**365,158**
Assets repaid	(305,057)	(7)	(138,346)	**(443,410)**
Transfers to Stage 1	4,157	(4,157)		
Transfers to Stage 2	(110)	110		**-**
Transfers to Stage 3	(94)	(1,775)	1,869	**-**
Impact on period end ECL of exposures transferred between stages during the period	(3,477)	(2,214)	17,727	**12,036**
Net remeasurement of loss allowance	(243,441)	3,198	(38,438)	**(278,682)**
Foreign exchange adjustments	41,462	-	13,980	**55,442**
At 31 December 2019	**537,153**	**1,094**	**66,474**	**604,721**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to private companies during the year ended 31 December 2019 is as follows:

Private companies	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2019	**12,635,013**	**372,684**	**283,317**	**13,291,014**
New assets originated or purchased	8,960,169	-	-	**8,960,169**
Assets repaid	(3,405,575)	(199,270)	(168,255)	**(3,773,100)**
Transfers to Stage 1	24,163	(13,227)	(10,936)	**-**
Transfers to Stage 2	(696,335)	705,991	(9,656)	**-**
Transfers to Stage 3	(936,272)	(214,379)	1,150,651	**-**
Foreign exchange adjustments	761,068	46,042	62,952	**870,062**
At 31 December 2019	**17,342,231**	**697,841**	**1,308,073**	**19,348,145**

Private companies	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2019	**240,067**	**43,960**	**128,648**	**412,675**
New assets originated or purchased	450,258	-	-	**450,258**
Assets repaid	(37,479)	(43,137)	(296,543)	**(377,159)**
Transfers to Stage 1	12,030	(1,596)	(10,434)	**-**
Transfers to Stage 2	(41,265)	45,445	(4,180)	**-**
Transfers to Stage 3	(46,587)	(34,973)	81,560	**-**
Impact on period end ECL of exposures transferred between stages during the period	(11,358)	65,449	258,927	**313,018**
Net remeasurement of loss allowance	(272,098)	13,307	274,869	**16,078**
Foreign exchange adjustments	13,247	1,374	1,789	**16,410**
At 31 December 2019	**306,815**	**89,829**	**434,636**	**831,280**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state budget or local authorities during the year ended 31 December 2019 is as follows:

State budget or local authorities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2019	**5,681,138**	**-**	**-**	**5,681,138**
New assets originated or purchased	4,621,454	-	-	**4,621,454**
Assets repaid	(1,733,559)	-	-	**(1,733,559)**
Foreign exchange adjustments	653,114	-	-	**653,114**
At 31 December 2019	**9,222,146**	**-**	**-**	**9,222,146**

State budget or local authorities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2019	**181,229**	**-**	**-**	**181,229**
New assets originated or purchased	211,059	-	-	**211,059**
Assets repaid	(28,467)	-	-	**(28,467)**
Net remeasurement of loss allowance	20,279	-	-	**20,279**
Foreign exchange adjustments	20,264	-	-	**20,264**
At 31 December 2019	**404,364**	**-**	**-**	**404,364**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to gross investment in finance lease during the year ended 31 December 2019 is as follows:

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**989,714**	**-**	**-**	**989,714**
Assets repaid	(158,767)	-	-	**(158,767)**
Foreign exchange adjustments	142,162	-	-	**142,162**
At 31 December 2019	**973,109**	**-**	**-**	**973,109**

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**28,093**	**-**	**-**	**28,093**
Assets repaid	(7,380)	-	-	**(7,380)**
Net remeasurement of loss allowance	(3,507)	-	-	**(3,507)**
Foreign exchange adjustments	3,935	-	-	**3,935**
At 31 December 2019	**21,141**	**-**	**-**	**21,141**

An analysis of changes in the gross carrying value and corresponding ECL in relation to non-banking financial institutions during the year ended 31 December 2019 is as follows:

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**78,797**	**-**	**-**	**78,797**
New assets originated or purchased	48,219	-	-	**48,219**
Assets repaid	(39,213)	-	-	**(39,213)**
At 31 December 2019	**87,803**	**-**	**-**	**87,803**

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**936**	**-**	**-**	**936**
New assets originated or purchased	456	-	-	**456**
Assets repaid	(14)	-	-	**(14)**
Net remeasurement of loss allowance	(627)	-	-	**(627)**
At 31 December 2019	**751**	**-**	**-**	**751**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to individuals in during the year ended 31 December 2019 is as follows:

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**3,043,818**	**3,234**	**16,828**	**3,063,880**
New assets originated or purchased	1,969,827	-	-	**1,969,827**
Assets repaid	(446,509)	(8,234)	(18,616)	**(473,359)**
Transfers to Stage 1	2,959	(1,014)	(1,945)	**-**
Transfers to Stage 2	(33,604)	34,811	(1,207)	**-**
Transfers to Stage 3	(27,610)	(273)	27,883	**-**
At 31 December 2019	**4,508,881**	**28,524**	**22,943**	**4,560,348**

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**44,311**	**706**	**6,070**	**51,087**
New assets originated or purchased	23,323	-	-	**23,323**
Assets repaid	(11,867)	(3,471)	(17,973)	**(33,311)**
Transfers to Stage 1	298	(100)	(198)	**-**
Transfers to Stage 2	(2,643)	3,445	(802)	**-**
Transfers to Stage 3	(6,360)	(60)	6,420	**-**
Impact on period end ECL of exposures transferred between stages during the period	(1,115)	626	6,877	**6,388**
Net remeasurement of loss allowance	(23,096)	2,944	13,758	**(6,394)**
At 31 December 2019	**22,851**	**4,090**	**14,152**	**41,093**

During 2020, the Group recognized loss on loans bearing interest rates lower than market interest in total amount of UZS 72,018 (2019: UZS 188,565).

As at 31 December 2020, the Group introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. In particular, it has revised indicators of significant increase in credit risk and does not automatically consider the credit risk to have significantly increased in the case of a loan modification being part of the Government support measures. The Group also updated forward looking information, including forecasts of macroeconomic indicators and scenarios' weights.

Modified and restructured loans

During the 2020, the Group has modified the terms and conditions of certain mortgage and consumer loans, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID-19 pandemic. The Group considered these modifications to be non-substantial.

In April 2020, according to the Government Decree, the Group modified several loans in the total amount of UZS 5,512,312 issued to JSC "Uzbekistan Railways", JSC "Uzbekistan Airways" and JSC "Uzbekneftegaz" by decreasing interest rates from 16% to 10%. This modification resulted in 10% decrease in discounted cash flows of original financial assets. According to the Group's accounting policy, it recognized modified instruments as new financial assets and recorded the loss of UZS 524,111 through equity, as a transaction under common control.

(millions of Uzbek Soums)

8. Loans to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, third party guarantees, vehicles and cash deposits;
- For retail lending, mortgages over residential properties and vehicle;
- For letters of credit and guarantees cash deposits.

The Group also obtains guarantees from Government of the Republic of Uzbekistan for loans to the government related entities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2020 and 2019 would have been higher by:

	2020	***2019***
State companies	209,278	83,392
Private companies	103,971	212,146
Loans to individuals	19,616	5,573
	332,865	**301,111**

During the years ended 31 December 2020 and 2019, the Group received financial and non-financial assets by taking possession of collateral it held as security and calling on guarantees and similar credit enhancements. As at 31 December 2020 and 2019 such assets amounting to UZS 7,799 and UZS 14,476 (See Note 15), respectively, are included in other assets. The management of the Group expects to dispose these assets within 12 months period through public auctions.

Concentration of loans to customers

As of 31 December 2020, the Group had a concentration of loans in the amount of UZS 32,182,180 due from ten largest borrowers representing 49% of gross loan portfolio (2019: UZS 26,851,657 or 49%). An allowance of UZS 1,379,525 (2019: UZS 819,784) was recognized against these loans. The majority of these loans is guaranteed by the Government of the Republic of Uzbekistan.

As at 31 December 2020 and 2019, a significant amount of loans was granted to companies operating in the Republic of Uzbekistan, which represented a significant geographical concentration in one region.

Loans are principally issued to companies operating in the following industry sectors:

	2020	***2019***
Transport and communication	21,138,803	18,558,532
Manufacturing	19,526,088	14,910,171
Government social structure	7,792,172	7,905,070
Individuals	5,638,972	4,560,348
Trade and catering	2,974,768	2,845,057
Construction	2,674,975	2,578,144
Agriculture	1,763,586	1,397,323
Housing and Utilities	373,807	375,132
Other	4,601,672	2,947,581
Total loans to customers	**66,484,843**	**56,077,358**
Less: allowance for impairment	(3,009,168)	(1,903,350)
Loans to customers	**63,475,675**	**54,174,008**

(millions of Uzbek Soums)

9. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	2020	*2019*
Debt securities at amortised cost		
State bonds	438,736	163,769
Less: allowance for impairment	(2,039)	(951)
Debt securities at amortised cost	**436,697**	**162,818**
Equity securities at FVOCI		
Corporate shares	100,766	55,524
Equity shares at FVOCI	**100,766**	**55,524**
Investment securities	**537,463**	**218,342**

State bonds comprise debt securities issued by the Ministry of Finance of the Republic of Uzbekistan at 15% and 16% interest rates with original maturity up to 2 years.

As at 31 December 2020, State bonds with a carrying amount of UZS 300,000 were pledged under Repo transactions (Note 16). As at 31 December 2019, the Group did not have any debt securities which were pledged.

Equity securities at FVOCI comprise equity investments in:

	2020	*2019*
JSC Uzbekinvest	47,036	935
JSC Uzbek Korean Development bank	25,603	24,163
JSC Uzbekistan Mortgage Refinancing Company	10,000	-
JSC Uzmetkombinat	7,715	7,715
JSC Kafolat	4,160	4,160
Republican Stock Exchange „Tashkent“	2,838	2,838
O'yinchoqlar Fabrikasi LLC	1,688	-
JSC Qurilishmashleasing	1,500	1,500
JSC Tashkent Mechanical Plant	-	12,520
JSC Republican Currency Exchange	119	119
Other	107	1,574
Equity securities at FVOCI	**100,766**	**55,524**

All balances of investment in securities are allocated to Stage 1. An analysis of changes in the gross carrying values and associated ECL during the year is, as follows:

Debt securities at amortised cost	*2020*	*2019*
Gross carrying value as at 1 January	163,769	-
New assets originated or purchased	365,736	163,769
Repaid	(90,769)	-
At 31 December	**438,736**	**163,769**

Debt securities at amortised cost	*2020*	*2019*
ECLs as at 1 January	951	-
New assets originated or purchased	1,681	951
Repaid	(593)	-
At 31 December	**2,039**	**951**

(millions of Uzbek Soums)

10. Investments in associates

The following major associates are accounted for under the equity method:

31 December 2020	***Ownership/ voting, %***	***Principal place of business***	***Country of incorporation***	***Nature of activities***	***Carrying Value***
Yangi Zamon Bino LLC	25%	Tashkent	Uzbekistan	Construction	165,083
Samarkand Touristic Center LLC	40%	Tashkent	Uzbekistan	Tourism	77,351
Uzbek Leasing International JSC	42%	Tashkent	Uzbekistan	Leasing	61,090
Navro'z Bogi LLC	50%	Tashkent	Uzbekistan	Amusement	42,500
O'zbegim Otlari LLC	42%	Tashkent	Uzbekistan	Horse breeding	21,408
Avtomatlashtirilgan Transport To'lov Tizimi Operatori LLC	26%	Tashkent	Uzbekistan	Transportation	28,335
Paxtakor Gold Textile LLC	36%	Tashkent	Uzbekistan	Textile	10,704
Other associates, individually immaterial		Other	Other	Other	3,259
Total carrying value of investments in associates					**409,730**

31 December 2019	***Ownership/ voting, %***	***Principal place of business***	***Country of incorporation***	***Nature of activities***	***Carrying Value***
Navro'z Bogi LLC	50%	Tashkent	Uzbekistan	Amusement	85,000
Uzbek Leasing International JSC	42%	Tashkent	Uzbekistan	Leasing	53,644
O'zbegim Otlari LLC	42%	Tashkent	Uzbekistan	Horse breeding	52,000
Yangi Zamon Bino LLC	25%	Tashkent	Uzbekistan	Construction	36,076
Other associates, individually immaterial		Other	Other	Other	12,815
Total carrying value of investments in associates					**239,535**

The summarised financial information of material associates is presented below:

YANGI ZAMON BINO LLC	***2020***	***2019***
Current assets	1,492,474	498,461
Non-current assets	198,486	173,696
Total assets	**1,690,960**	**672,157**
Current liabilities	1,030,626	527,853
Non-current liabilities	-	-
Total liabilities	**1,030,626**	**527,853**
Net assets	**660,334**	**144,304**
The Group's share of ownership	25%	25%
Carrying value of the investment in the associate	**165,083**	**36,076**

YANGI ZAMON BINO LLC	***2020***	***2019***
Gross profit	57,952	106,379
Profit for the year	**1,619**	**9,059**
Share of the Group in the profit of company	**405**	**2,265**

(millions of Uzbek Soums)

10. Investments in associates (continued)

Samarkand Touristic Center LLC	***2020***	***2019***
Current assets	636,833	-
Non-current assets	568,488	-
Total assets	**1,205,322**	**-**
Current liabilities	83,476	-
Non-current liabilities	928,468	-
Total liabilities	**1,011,944**	**-**
Net assets	**193,378**	**-**
The Group's share of ownership	40%	-
Carrying value of the investment in the associate	**77,351**	**-**

Samarkand Touristic Center LLC	***2020***	***2019***
Gross profit	-	-
Loss for the year	**(73,907)**	**-**
Share of the Group in the loss of company	**(29,563)**	**-**

Uzbek Leasing International JSC	***2020***	***2019***
Current assets	242,887	55,876
Non-current assets	298,889	450,738
Total assets	**541,776**	**506,614**
Current liabilities	177,364	28,305
Non-current liabilities	218,959	350,585
Total liabilities	**396,323**	**378,890**
Net assets	**145,453**	**127,724**
The Group's share of ownership	42%	42%
Carrying value of the investment in the associate	**61,090**	**53,644**

Uzbek Leasing International JSC	***2020***	***2019***
Gross profit	76,954	50,866
Profit for the year	**24,236**	**23,890**
Share of the Group in the profit of company	**10,179**	**10,034**

Navro'z Bogi LLC	***2020***	***2019***
Current assets	21,255	38,168
Non-current assets	149,690	132,142
Total assets	**170,945**	**170,310**
Current liabilities	-	-
Non-current liabilities	945	310
Total liabilities	**945**	**310**
Net assets	**170,000**	**170,000**
The Group's share of ownership	50%	50%
Carrying value of the investment in the associate	**85,000**	**85,000**

(millions of Uzbek Soums)

10. Investments in associates (continued)

Navro'z Bogi LLC	***2020***	***2019***
Gross profit	112	255
Profit for the year	0	**166**
Share of the Group in the profit of company	**0**	**83**

The Group’s share of profit or loss and other comprehensive income of individually immaterial associates is as follows:

	2020	***2019***
(Loss)/ profit for the year	**(5,158)**	**6,897**
Other comprehensive income	-	-
Total comprehensive (loss)/ income for the year	**(5,158)**	**6,897**

As at 31 December 2020, there were no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

As at 31 December 2020, the Group identified signs of impairment for the investments in Navro’z Bogi LLC and O’zbegim Otlari LLC. The Group recognized impairment loss in the amount of UZS 63,908 in the consolidated statement of profit or loss.

11. Non-current assets held for sale

	2020	***2019***
Buildings held for sale	45,582	-
Equipment held for sale	36,818	-
Others assets held for sale	9,112	10,262
Total non-current assets held for sale	**91,512**	**10,262**

As at 31 December 2020, non-current assets held for sale include repossessed collaterals in the amount of UZS 82,400. In September 2020, the Group’s Management approved and initiated an active program to locate a buyer within one year. Non-current assets held for sale were measured at the lower of their carrying amount and fair value less costs to sell. For the year ended 31 December 2020 impairment loss on non-current assets classified as held for sale was recognized in the amount of UZS 31,390.

(millions of Uzbek Soums)

12. Property and equipment

The movements in property and equipment and right-of-use assets were as follows:

	Buildings and other real estate	*Construction in progress*	*Furniture and equipment*	*Other*	*Total*
Cost					
31 December 2018	**317,252**	**500,873**	**485,673**	**3,296**	**1,307,094**
Additions	13,111	296,049	524,646	8,178	**841,984**
Disposals and write-offs	(17,991)	(163,176)	(124,939)	(3,705)	**(309,811)**
Transfers	105,244	(223,997)	118,753	-	**-**
31 December 2019	**417,616**	**409,749**	**1,004,133**	**7,769**	**1,839,267**
Additions	7,401	183,092	100,914	1,370	**292,777**
Acquisition of subsidiaries (Note 36)	-	9,169	71,917	8,829	**89,915**
Disposal and write-offs	(7,526)	(41,073)	(14,772)	(510)	**(63,881)**
Disposal of subsidiaries (Note 36)	(31,127)	(594)	(118,606)	-	**(150,327)**
Transfers	31,246	(297,312)	259,129	6,937	**-**
31 December 2020	**417,610**	**263,031**	**1,302,715**	**24,395**	**2,007,751**

	Buildings and other real estate	*Construction in progress*	*Furniture and equipment*	*Other*	*Total*
Accumulated depreciation					
31 December 2018	**(203,015)**	**-**	**(191,444)**	**(70)**	**(394,529)**
Charge for the year	(18,169)	-	(72,186)	(114)	**(90,469)**
Disposals and write-offs	12,201	-	15,700	1,301	**29,202**
31 December 2019	**(208,983)**	**-**	**(247,930)**	**1,117**	**(455,796)**
Charge for the year	(16,143)	-	(149,917)	(905)	**(166,965)**
Disposals and write-offs	3,892	-	1,608	477	**5,977**
Disposal of subsidiaries (Note 36)	898	-	6,429	-	**7,327**
31 December 2020	**(220,336)**	**-**	**(389,810)**	**689**	**(609,457)**
Net book value					
31 December 2019	**208,633**	**409,749**	**756,203**	**8,886**	**1,383,471**
31 December 2020	**197,274**	**263,031**	**912,905**	**25,084**	**1,398,294**

13. Taxation

The corporate income tax expense comprises:

	2020	*2019*
Current income tax	285,292	207,330
Deferred tax (credit)/charge - origination and reversal of temporary differences	(48,213)	215
Income tax expense	**237,079**	**207,545**

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Uzbekistan and the Russian Federation, where the Group operates, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

(millions of Uzbek Soums)

13. Taxation (continued)

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2020 and 2019 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The corporate income tax rate applicable to the majority of the Bank's income comprised 20% for 2020 and 2019, respectively (20% for 2020 and 2019 in the Russian Federation).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2020	*2019*
Profit before tax	**1,142,798**	**997,634**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**228,560**	**199,527**
Non-deductible expenditures	8,809	14,298
Income tax privileges	(290)	(2,307)
Effect of tax rate different from the rate of 20%	-	(24,306)
Effect of change in tax rate	-	(4,887)
Tax effect of other permanent differences	-	25,220
Income tax expense	**237,079**	**207,545**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences		*Origination and reversal of temporary differences*		
Tax effect of deductible temporary differences	*1 January 2019*	*In the statement of profit or loss*	*31 December 2019*	*In the statement of profit or loss*	*In the statement of changes in equity*	*31 December 2020*
Loans to customers	192,621	(901)	191,720	74,588	104,822	371,130
Other borrowed funds	-	4,284	4,284	(4,284)	-	-
Amounts due from credit institutions	-	22,214	22,214	9,134	-	31,348
Property and equipment	42,123	(33,740)	8,383	27,656	-	36,039
Other liabilities	-	33,450	33,450	(12,112)	-	21,338
Other provisions and accruals	40,743	(10,668)	30,075	(7,495)	-	22,580
Deferred tax asset	**275,487**	**14,639**	**290,126**	**87,487**	**104,822**	**482,435**
Tax effect of taxable temporary differences						
Investments in associates and subsidiaries	3,395	10,260	13,655	17,052	-	30,707
Other borrowed funds	-	-	-	24,322	-	24,322
Derivative financial assets	-	20,502	20,502	3,332	-	23,834
Amounts due to credit institutions	-	6,250	6,250	151	-	6,401
Other provisions and accruals	27,741	(22,158)	5,583	(5,583)	-	-
Deferred tax liability	**31,136**	**14,854**	**45,990**	**39,274**	**-**	**85,264**
Net deferred tax asset	**244,351**	**(215)**	**244,136**	**48,213**	**104,822**	**397,171**

(millions of Uzbek Soums)

14. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2020:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	(11)	-	-	**(11)**
Amounts due from credit institutions	6	24,190	-	-	**24,190**
Loans to customers at amortised cost	8	438,146	448,797	344,299	**1,231,242**
Debt securities measured at amortised cost	9	1,088	-	-	**1,088**
Other financial assets	15	(3,483)	-	(9,519)	**(13,002)**
Financial guarantees	30	19,797	-	-	**19,797**
Loan commitments	30	3,209	-	-	**3,209**
Letters of credit	30	1,055	-	-	**1,055**
Total credit loss expense		**483,991**	**448,797**	**334,780**	**1,267,568**

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2019:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	(4,711)	-	-	**(4,711)**
Amounts due from credit institutions	6	1,371	-	-	**1,371**
Loans to customers at amortised cost	8	119,667	44,408	171,080	**335,155**
Debt securities measured at amortised cost	9	951	-	-	**951**
Other financial assets	15	45	-	13,561	**13,606**
Financial guarantees	30	(89,042)	-	-	**(89,042)**
Loan commitments	30	7,793	-	-	**7,793**
Letters of credit	30	6,522	-	-	**6,522**
Total credit loss expense		**42,596**	**44,408**	**184,641**	**271,645**

15. Other assets and liabilities

Other assets comprise:

	2020	*2019*
Other financial assets		
Trade receivables	91,608	44,345
Receivables as a result of court proceedings	4,013	9,115
Other financial assets	12,089	9,985
	107,710	**63,445**
Less allowance for impairment of other financial assets	(16,684)	(29,686)
Total other financial assets	**91,026**	**33,759**
Other non-financial assets		
Prepayments for materials and services	147,938	71,776
Inventory	98,232	58,736
Other property	45,179	64,043
Repossessed assets	7,799	14,746
Other non-financial assets	83,980	71,321
Total other assets non-financial assets	**383,128**	**280,622**
Other assets	**474,154**	**314,381**

(millions of Uzbek Soums)

15. Other assets and liabilities (continued)

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2020 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2020	**4,882**	**632**	**24,172**	**29,686**
ECL recovery	(3,483)	-	(9,519)	**(13,002)**
At 31 December 2020	**1,399**	**632**	**14,653**	**16,684**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2019 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2019	**4,837**	**632**	**10,611**	**16,080**
ECL charge	45	-	13,561	**13,606**
At 31 December 2019	**4,882**	**632**	**24,172**	**29,686**

Other liabilities comprise:

	2020	*2019*
Other financial liabilities		
Accounts payable	172,595	173,053
Payables to employees	13,843	22,684
Total other financial liabilities	**186,438**	**195,737**
Other non-financial liabilities		
Contingent liability for litigations	17,287	14,275
Taxes payable, other than income tax	4,102	5,678
Unearned revenue	3,766	1,204
Other	29,863	25,304
Total other non-financial liabilities	**55,018**	**46,462**
Allowance for credit related liabilities and financial guarantees (Note 30)	75,841	51,780
Other liabilities	**317,297**	**293,979**

16. Amounts due to the CBU and the Government

Amounts due to the Central Bank of the Republic of Uzbekistan and the Government consist of the following short-term balances:

	2020	*2019*
Current accounts	1,089,168	1,695,207
Repos	311,019	-
Amounts due to the CBU and Government	**1,400,187**	**1,695,207**

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2020	*2019*
Correspondent accounts with other banks	2,238,966	898,860
Time deposits	236,605	240,582
Amounts due to Credit Institutions	**2,475,571**	**1,139,442**

(millions of Uzbek Soums)

18. Amounts due to customers

The amounts due to customers include the following:

	2020	*2019*
Current accounts	10,709,616	9,079,076
Time deposits	6,742,994	6,428,165
Amounts due to customers	**17,452,610**	**15,507,241**
Held as security against letters of credit	2,020,598	2,875,481

As at 31 December 2020 and 2019, customer accounts in the amount of UZS 9,308,866 and UZS 7,598,307 (53% and 49% of total customer accounts), respectively, were due to ten customers, which represents a significant concentration.

Amounts due to customers include accounts with the following types of customers:

	2020	*2019*
State owned and budgetary organizations	7,667,135	6,220,986
Private enterprises	5,206,527	5,436,424
Individuals	4,524,607	3,739,821
Other	54,342	110,009
Amounts due to customers	**17,452,610**	**15,507,241**

An analysis of customer accounts by economic sector follows:

	2020	*2019*
Manufacturing	4,560,074	4,472,072
Government social structure	4,556,903	3,816,122
Individuals	4,524,607	3,739,821
Transport and communication	1,496,022	1,714,313
Trading and catering	736,182	767,487
Construction	360,153	226,329
Agriculture	159,184	9,541
Financial sector	89,854	251,859
Other	969,632	509,696
Amounts due to customers	**17,452,610**	**15,507,241**

19. Debt securities issued

Debt securities issued consisted of the following:

	2020	*2019*
Eurobonds	3,173,591	-
Bonds	14,138	21,483
Certificates of deposit	315	110,158
Debt securities issued	**3,188,044**	**131,641**

In October 2020, the Group had issued Eurobonds in London Stock Exchange having aggregate nominal value of USD 300,000,000 (UZS 3,173,591) bearing annual interest rate of 4.85% and maturing in October 2025.

The debt securities issued do not stipulate financial covenants except for Eurobonds, which stipulate the Group is to comply with the certain financial covenants, non-compliance of which may give the lender a right to demand repayment. As at 31 December 2020, the Group was in compliance with respective financial covenants for Eurobonds.

(millions of Uzbek Soums)

20. Other borrowed funds

Other borrowed funds consisted of the following:

	2020	*2019*
Eximbank of China	11,307,276	10,867,733
China Development Bank Corporation	7,906,399	4,730,138
Ministry of Finance of the Republic of Uzbekistan	3,615,694	3,606,913
Fund for Reconstruction and Development of the Republic of Uzbekistan (FRDU)	3,419,160	4,576,742
Natixis Bank	1,929,127	1,512,552
State Development Corporation "VEB.RF"	1,686,657	557,853
Sumitomo Mitsui Banking Corporation	1,405,315	964,844
Credit Suisse AG	1,275,124	1,057,616
Islamic Development Bank	910,840	992,798
Deutsche Bank AG	878,518	1,241,643
Gazprombank JSC	805,441	319,819
Silk Road Fund	665,640	-
VTB Bank (Europe)	664,871	-
Landesbank Baden-Wuerttemberg	639,222	467,722
European Bank for Reconstruction and Development	565,954	615,691
Eximbank of Korea	410,456	201,522
Baobab Securities Limited	287,312	381,556
"Yoshlar-Kelajagimiz" Fund	261,613	291,122
Commerzbank	146,437	-
KEB Hana Bank	141,384	-
Banque Du Caire	106,769	-
Eximbank of Turkey	98,072	-
Central Bank of the Republic of Uzbekistan	63,993	80,648
AKA Ausfuhrkredit-Gesellschaft MBH	-	316,267
Sberbank AG	-	97,059
Other	83,544	234,990
Other borrowed funds	**39,274,816**	**33,115,229**

In 2020 the Group concluded a new contract with China Development Bank for USD 309,000,000. The Group received USD 202,193,933 (the equivalent of UZS 2,118,370) with a maturity period of 120 months.

On the basis of several loan agreements concluded with the Ministry of Finance in 2020, the Group received funds in the total amount of UZS 804,518 with a maturity period of 298 months, where UZS 44,344 was refinanced from the funds provided by Japan International Cooperation Agency.

In 2020, in accordance with the Decree of the President of the Republic of Uzbekistan No. 4487 dated 9 October 2019, the Group returned previously received borrowings from FRDU in the amount of UZS 1,415,837. Accordingly, the Group derecognized and transferred loans for the same amount issued from FRDU funds.

In accordance with the loan agreement concluded in July 2020 with FRDU, the Group received a loan in the amount of UZS 180,000. Maturity period of the loan is 64 months with a grace period of 36 months.

State Development Corporation “VEB.RF” issued the Group a loan in the amount of EUR 14,251,316 (the equivalent of UZS 182,218) with a maturity period of 48 months.

In accordance with the loan agreement concluded in March 2020 with Gazprombank, the Group received a loan in the amount of USD 149,390,499 (the equivalent of UZS 1,534,134). This loan was repaid by the end of 2020. In addition, based on the agreement signed in November 2020, Gazprombank provided a credit line of USD 100,000,000, of which the Group received USD 63,000,000 (UZS 660,046) with the maturity of 6 months.

On the basis of loan agreement with Silk Road Fund CO. LTD. concluded in April 2020, the Group received the loan in Chinese yuan renminbi (CNY) of 420,000,000 (the equivalent of UZS 672,748) with a grace period of 36 months and maturing in 120 months.

In December 2020 the Group received a new loan in the amount EUR 53,747,303 (the equivalent of UZS 687,215) from VTB Bank (Europe). The maturity date of this loan is 24 months from the date of issue. Another loan in the amount of EUR 15,000,000 (the equivalent of UZS 181,997) provided by VTB Bank (Europe) was repaid prior to maturity during the 2020.

(millions of Uzbek Soums)

20. Other borrowed funds (continued)

The Group received a loan of EUR 11,247,143 (the equivalent of UZS 143,806) according to the agreement concluded with Landesbank Baden-Württemberg in April 2020. The loan matures in 72 months with a grace period of 6 months.

In 2020 the Group continued its borrowings from European Bank of Reconstruction and Development based on the agreement concluded in November 2017 and the outstanding amount increased by USD 3,698,550 (the equivalent of UZS 39,904) as of 31 December 2020 compared to prior year-end.

Commerzbank provided the Group with the loan of EUR 11,486,421 (the equivalent of UZS 146,866) with a maturity period of 96 months based on the agreements signed in 2019 and 2020.

The Group entered into new loan agreement with KEB Hana Bank in April 2020, on the basis of which KEB Hana Bank made available to the Group credit line of up to EUR 13,000,000 from which the Group received EUR 11,049,968 (the equivalent of UZS 141,285) in 2020. The maturity period for the facility is 96 months.

In 2020 the Group received a loan of USD 10,000,000 (the equivalent of UZS 104,769) from Banque Du Caire with maturity of 12 months.

The Group received loans in the amount of USD 3,850,000 (the equivalent of UZS 34,574) and EUR 5,523,904 (the equivalent of UZS 60,984) from Eximbank of Turkey based on the agreements concluded in 2019 and 2020.

During 2020 the Group received funds in the total amount of UZS 3,134,740 under already existing loan agreements with Eximbank of China, China Development Bank, Sumitomo Mitsui Banking Corporation, Landesbank Baden-Wuerttemberg, State Development Corporation “VEB.RF”, Eximbank of Korea, FRDU, Natixis, Ministry of Finance and other creditors.

In 2020 the Group repaid loans in the total amount of UZS 7,976,821 under the loan agreements with Eximbank of China, China Development Bank, Sumitomo Mitsui Banking Corporation, Central Bank of the Republic of Uzbekistan, Landesbank Baden-Wuerttemberg, State Development Corporation "VEB.RF", Islamic Development Bank, Ministry of Finance, Gazprombank JSC, Deutsche Bank AG, Baobab Securities Limited, Eximbank of Korea, FRDU, Natixis, "Yoshlar Kelajagimiz" Fund, Landesbank Berlin AG, European Bank for Reconstruction and Development, AKA Ausfuhrkredit-Gesellschaft MBH, Sberbank AG, VTB Bank (Europe), Eximbank of Turkey and Commerzbank.

The loan agreements with Silkroad Fund, Eximbank of Turkey, VTB Bank (Europe), European Bank for Reconstruction and Development, Gazprombank JSC and China Development Bank stipulate financial covenants, which the Group is required to comply with. Non-compliance with financial covenants may give the lender a right to demand early repayment. As at 31 December 2020, the Group breached following covenants under the terms of the agreements with Silkroad Fund:

- Non-performing loans ratio.

As at 31 December 2020, due to breach of abovementioned covenants, the Group classified UZS 665,640 obtained under the agreements with Silkroad Fund as a current liability, as it was subject to immediate repayment under the terms of contracts. The Management has had regular dialogues with lenders regarding the breach of financial covenant and believes this level of funding will remain with the Group for the foreseeable future and the Group would be given sufficient notice, in the event of withdrawal of funds, so it can take appropriate actions to enable repayment.

This non-compliance has triggered cross default clause stipulated in the credit facility agreement with Gazprombank. Under this agreement the cross-default events give the respective financial institutions the right to demand early repayment of the loans provided to the Bank. As at 31 December 2020, the Bank classifies the borrowings from Gazprombank as a current liability.

21. Subordinated loans

Subordinated loans consisted of the following:

	2020	***2019***
International Bank for Reconstruction and Development	919,600	845,687
Ministry of Finance of the Republic of Uzbekistan	367,647	360,037
Asian Development Bank	279,567	253,652
Subordinated loans	**1,566,814**	**1,459,376**

(millions of Uzbek Soums)

22. Equity

Distribution to shareholders of the Bank

As at 31 December 2020 and 2019 the number of authorised ordinary shares were 11,978,074,379 and 11,582,700,201 respectively, with a nominal value per share of UZS 1000. All authorised shares have been issued and fully paid.

During 2019, the share capital of the Group increased by UZS 7,261,730 due to the following transactions:

- In accordance with the Decree of the President of the Republic of Uzbekistan dated 9 October 2019 No. 4487, previously received borrowings from the Fund for Reconstruction and Development of the Republic of Uzbekistan (FRDU) in the amount of UZS 6,355,378 were transferred to the share capital as an increase in the share of ownership of the FRDU.
- In accordance with the Decree of the President of the Republic of Uzbekistan dated 30 November 2019 No. 4540, UZS 906,352 were transferred from retained earnings as an increase in the share of ownership of the Ministry of Finance of the Republic of Uzbekistan.

At the Shareholders’ Meeting in July 2020, the Group declared dividends in respect of 2019 in the amount of UZS 588,957 on ordinary shares (UZS 50.85 per share). The part of the declared dividends in the amount UZS 395,374 was capitalized to Share Capital in proportion to the size of share of shareholders. The remaining UZS 193,583 has been paid to shareholders in cash. In accordance with Uzbekistan legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Group’s financial statements prepared in accordance with local accounting legislation.

During 2020, according to the Decree of the President of the Republic of Uzbekistan, the Group modified initial terms of the loans issued to large state-owned companies JSC “Uzbekistan Railways”, JSC “Uzbekistan Airways” and JSC “Uzbekneftegaz” in the total amount of UZS 5,512,312 by changing their interest rates from 16% to 10%. As a result of this modification, loss on initial recognition of the assets in the amount of UZS 524,111 was recognized by the Group as a distribution to shareholders through retained earnings.

The Group’s distributable reserves among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies.

Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The Group has no potentially dilutive ordinary shares, therefore the diluted earnings per share are equal to the basic earnings per share.

	2020	***2019***
Profit attributable to shareholders of the Group	919,863	815,070
Weighted average number of ordinary shares	11,747,439,442	6,136,402,550
Basic and diluted earnings per share in UZS	**78**	**133**

(millions of Uzbek Soums)

23. Net interest income

Net interest income comprises:

	2020	*2019*
Loans to customers	4,867,312	3,770,997
Investment securities	102,934	14,340
Amounts due from credit institutions	47,792	60,249
Cash equivalents	15,478	120,451
Interest revenue calculated using effective interest rate	**5,033,516**	**3,966,037**
Finance leases	5,842	5,045
Other interest revenue	**5,842**	**5,045**
Total interest revenue	**5,039,358**	**3,971,082**
Other borrowed funds	(1,218,936)	(1,530,095)
Amounts due to customers	(584,989)	(530,030)
Amounts due to Central Bank and Government	(71,369)	-
Amounts due to credit institutions	(55,645)	(41,915)
Subordinated loans	(45,184)	(26,161)
Debt securities issued	(34,897)	(10,029)
Interest expense calculated using effective interest rate	**(2,011,020)**	**(2,138,230)**
Net interest income	**3,028,338**	**1,832,852**

24. Net fee and commission income

Net fee and commission income comprises:

	2020	*2019*
Settlement operations	139,304	200,742
Foreign currency exchange operations	85,222	64,981
Letters of credit and guarantee issuance	50,789	73,410
Cash operations	48,076	34,178
Foreign settlement operations	41,000	34,773
Operations with plastic cards	28,457	14,613
Other	23,516	24,094
Fee and commission income	**416,364**	**446,791**
Operations with plastic cards	20,385	18,034
Settlement expenses	17,620	14,584
Conversion expenses	17,245	3,001
Cash collection services	15,176	38,505
Commission expense for conducting operations on guarantees	1,538	6,582
Other	3,904	2,368
Fee and commission expense	**75,868**	**83,073**
Net fee and commission income	**340,496**	**363,718**

25. Other income

	2020	*2019*
Gain on bargain purchase (Note 36)	33,566	-
Gain on disposal of fixed assets	8,771	19,818
Fines and penalties	3,983	3,301
Rental Income	1,839	7,507
Other	6,020	5,366
Total other income	**54,179**	**35,992**

(millions of Uzbek Soums)

26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2020	***2019***
Salaries and bonuses	503,324	421,063
Social security costs	52,910	94,909
Personnel expenses	**556,234**	**515,972**
Depreciation and amortization	95,798	50,654
Security	43,532	46,100
Legal and consultancy	36,307	55,192
Maintenance	30,832	20,148
Operating taxes	27,952	21,189
Membership fee	26,628	30,766
Office supplies	22,444	18,749
Occupancy and rent	18,085	13,670
Charity and Sponsorship	16,278	17,863
Communications	10,928	6,945
Penalties incurred	4,744	4,562
Transportation	2,161	3,467
Business travel and related expenses	1,019	2,819
Other	25,767	62,801
Other operating expenses	**362,475**	**354,925**
Total operating expenses	**918,709**	**870,897**

27. Revenues from non-banking activities

	2020	***2019***
Textile	280,246	308,604
Information technologies	83,123	-
Services	22,469	18,573
Asset management	17,134	14,163
Other	25,498	24,383
Revenues from non-banking activities	**428,470**	**365,723**

28. Cost of sales from non-banking activities

	2020	***2019***
Cost of sales	242,195	222,986
Depreciation and amortisation	71,167	39,815
Staff cost	22,656	29,695
Cost of sales from non-banking activities	**336,018**	**292,496**

(millions of Uzbek Soums)

29. Changes in liabilities arising from financial activities

	Debt securities issued	*Other borrowed funds*	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2018	**145,915**	**37,439,050**	**-**	**37,584,965**
Proceeds from issue	-	18,778,808	1,346,861	**20,125,669**
Redemption	(14,274)	(4,923,235)	-	**(4,937,509)**
Capitalization of borrowings into equity (Note 21)	-	(6,355,378)	-	**(6,355,378)**
Derecognition of borrowings (Note 20)	-	(16,727,920)	-	**(16,727,920)**
Foreign currency translation	-	4,458,820	94,813	**4,553,633**
Other	-	445,083	17,702	**462,785**
Carrying amount at 31 December 2019	**131,641**	**33,115,228**	**1,459,376**	**34,706,245**
Proceeds from issue	3,126,568	11,322,780	-	**14,449,348**
Redemption	(131,326)	(7,976,821)	-	**(8,108,147)**
Derecognition of borrowings (Note 20)	-	(1,415,837)	-	**(1,415,837)**
Foreign currency translation	30,782	4,153,390	110,865	**4,184,172**
Other	30,379	76,076	(3,427)	**106,455**
Carrying amount at 31 December 2020	**3,188,044**	**39,274,816**	**1,566,814**	**42,462,860**

The “Other” line includes the effect of accrued but not yet paid interest on bonds issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

30. Commitments and contingencies

Operating environment

Uzbekistan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Uzbekistan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group’s business in the current circumstances.

Effect of COVID-19 pandemic

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

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

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

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

(millions of Uzbek Soums)

30. Commitments and contingencies (continued)

Taxation

Uzbekistan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Implementing regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations (like the State Tax Committee and its various inspectorates) thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities that are empowered by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Uzbekistan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

As at 31 December 2020 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision

As of 31 December, the Group's commitments and contingencies comprised the following:

	2020	***2019***
Credit related commitments		
Letters of credit	5,417,476	5,790,913
Undrawn loan commitments	4,813,507	3,824,638
Financial guarantees	1,921,195	1,958,601
	12,152,178	**11,574,152**
Other commitments		
Performance guarantees	278,002	172,411
	278,002	**172,411**
Commitments and contingencies	**12,430,180**	**11,746,563**
Provision for ECL for credit related commitments	(75,841)	(51,780)
Deposits held as securities against letters of credit	(2,020,598)	(2,875,481)

(millions of Uzbek Soums)

30. Commitments and contingencies (continued)

Taxation (continued)

All balances of commitments and contingencies are allocated to Stage 1. An analysis of changes in the ECL allowances during the years ended 31 December is as follows:

Undrawn loan commitments	***2020***	***2019***
ECL allowance as at 1 January	**7,937**	**144**
New exposures	2,513	693
Amounts paid	(1,702)	-
Changes to models and inputs used for ECL calculations	2,398	7,100
At 31 December	**11,146**	**7,937**

Letters of credit	***2020***	***2019***
ECL allowance as at 1 January	**23,092**	**16,570**
New exposures	8,641	17,686
Amounts paid	(8,800)	(11,164)
Changes to models and inputs used for ECL calculations	1,214	-
At 31 December	**24,147**	**23,092**

Financial guarantees	***2020***	***2019***
ECL allowance as at 1 January	**20,751**	**109,793**
New exposures	1,241	-
Amounts paid	(1,419)	(1,732)
Changes to models and inputs used for ECL calculations	19,975	(87,310)
At 31 December	**40,548**	**20,751**

Undrawn loan commitments include UZS 3,788,865 (2019: UZS 3,154,800) of commitments that shall be satisfied only after receiving related funds from the Fund for Reconstruction and Development of the Republic of Uzbekistan and foreign banks.

Letter of credits included commitments in the amount of UZS 1,827,863 or 34% (2019: UZS 467,545 or 8%), where the Group acted as an agent, thus bearing no risk.

31. Risk management

Introduction

Risk is inherent in the Group’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group’s continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group’s strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

(millions of Uzbek Soums)

31. Risk management (continued)

Introduction (continued)

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Group’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group’s compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for expected credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

(millions of Uzbek Soums)

31. Risk management (continued)

Introduction (continued)

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which allocates each counterparty to a certain risk category. Risk are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment assessment

The Group calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

(millions of Uzbek Soums)

31. Risk management (continued)

Credit risk (continued)

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Other impairment triggers include:

- Loan restructure with "default" category;
- Default rating;
- The moratorium on the satisfaction of creditors;
- Implementation measures for financial recovery/ or prevention of bankruptcy (reorganization);
- Withdrawal of the license for operations

It is the Group’s policy to consider a financial instrument as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria are present at reporting date. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on whether there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

The Group independent Credit Risk Department estimates PD on a portfolio divided by its key segments. The estimation process incorporates payment behavior information and, where practical, also utilizes information from the international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each PD bucket. This is repeated for each economic scenario as appropriate.

(millions of Uzbek Soums)

31. Risk management (continued)

Credit risk (continued)

The Group's internal credit rating grades are as follows:

Internal rating grade	*International external rating agency (Fitch) rating*	*Internal rating description*
1	AA+ to AAA	
	AA	High grade
2	A+ to AA-	
	A-	
	BBB+	
	BBB	Standard grade
	BBB-	
	BB+	
3	BB- to BB	
	B- to B+	Sub-standard grade
	CCC	
	CCC-	
4-5	D	Impaired

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing client's ability to increase its exposure while approaching default. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

For corporate lending assets, LGD values are assessed at least semiannually by account managers and reviewed and approved by the Group's credit risk department.

The credit risk assessment is based on a LGD assessment process that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

Significant increase in credit risk

In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk using following criteria:

- The principal and / or interest on financial assets are past due for 31 - 90 days;
- Restructure of loans «potentially bad debt»;
- External rating decreases for 3 notches.

(millions of Uzbek Soums)

31. Risk management (continued)

Credit risk (continued)

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Group calculates ECLs either on a collective or on an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

- Stage 3 assets, with exposure greater than UZS 200,000.

For other assets classes the Group calculates ECL on a collective basis.

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan-to-value ratios, or borrower's industry.

Forward-looking information and multiple economic scenarios

In its ECL estimation process, the Group relies on a broad range of forward-looking information as economic inputs, such as:

- Inflation rates;

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

Credit quality per class of financial assets

A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

(millions of Uzbek Soums)

31. Risk management (continued)

Credit risk (continued)

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt burden on a borrower.

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The credit quality of financial assets is managed by the Group internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system.

31 December 2020	*Note*	*Stage*	*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	8,677,477	43,605	-	-	**8,721,082**
Amounts due from credit institutions	6	Stage 1	1,851,344	-	-	-	**1,851,344**
Loans to customers at amortised cost	8						
- State companies		Stage 1	22,908,315	688	-	-	**22,909,003**
		Stage 2	-	938,016	775,693	-	**1,713,709**
		Stage 3	-	-	-	4,905	**4,905**
- Private companies		Stage 1	19,617,258	498,418	-	-	**20,115,676**
		Stage 2	-	179,597	1,788,775	-	**1,968,372**
		Stage 3	-	-	-	1,356,233	**1,356,233**
- State budget or local authorities		Stage 1	8,891,070	-	-	-	**8,891,070**
		Stage 2	-	24,586	99,613	-	**124,199**
		Stage 3	-	-	-	-	**-**
- Gross investment in finance lease		Stage 1	851,182	-	-	-	**851,182**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Non-banking financial institutions		Stage 1	119,385	-	-	-	**119,385**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Individuals		Stage 1	5,002,381	-	-	-	**5,002,381**
		Stage 2	-	17,518	238,344	-	**255,862**
		Stage 3	-	-	-	163,698	**163,698**
Debt investment securities	9						
- Measured at amortised cost		Stage 1	-	436,697	-	-	**436,697**
Other financial assets	15	Stage 1	68,941	-	-	-	**68,941**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	22,085	**22,085**
Financial guarantees	30	Stage 1	1,921,195	-	-	-	**1,921,195**
Undrawn loan commitments	30	Stage 1	4,813,507	-	-	-	**4,813,507**
Letters of credit	30	Stage 1	5,417,476	-	-	-	**5,417,476**
			80,139,530	**2,139,125**	**2,902,425**	**1,546,921**	**86,728,002**

(millions of Uzbek Soums)

31. Risk management (continued)

Credit risk (continued)

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

31 December 2019	*Note*	*Stage*	*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	4,200,769	2,236,824	-	-	**6,437,593**
Amounts due from credit institutions	6	Stage 1	256,816	1,520,692	-	-	**1,777,507**
Loans to customers at amortised cost	8						
- State companies		Stage 1	20,310,228	506,374	47,838	-	**20,864,439**
		Stage 2	1,634	810	1	-	**2,445**
		Stage 3	-	-	-	414,202	**414,202**
- Private companies		Stage 1	15,970,024	965,076	100,316	-	**17,035,416**
		Stage 2	401,063	179,335	27,615	-	**608,012**
		Stage 3	-	-	-	873,437	**873,437**
- State budget or local authorities		Stage 1	7,866,884	950,898	-	-	**8,817,782**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Gross investment in finance lease		Stage 1	951,968	-	-	-	**951,968**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Non-banking financial institutions		Stage 1	87,052	-	-	-	**87,052**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Individuals		Stage 1	4,313,912	137,741	34,287	-	**4,485,940**
		Stage 2	10,512	14,012	-	-	**24,524**
		Stage 3	-	-	-	8,791	**8,791**
Debt investment securities	9						
- Measured at amortised cost		Stage 1	-	162,818	-	-	**162,818**
Other financial assets	15	Stage 1	42,834	-	-	-	**42,834**
		Stage 2	1,078	-	-	-	**1,078**
		Stage 3	-	-	-	19,533	**19,533**
Financial guarantees	30	Stage 1	1,897,757	5,341	-	-	**1,903,098**
Undrawn loan commitments	30	Stage 1	3,824,638	-	-	-	**3,824,638**
Letters of credit	30	Stage 1	5,790,913	-	-	-	**5,790,913**
			65,928,079	**6,679,921**	**210,057**	**1,315,964**	**74,134,021**

(millions of Uzbek Soums)

31. Risk management (continued)

Credit risk (continued)

The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Uzbekistan.

	2020			
	Republic of Uzbekistan	***OECD***	***CIS and other foreign countries***	***Total***
Assets				
Cash and cash equivalents	2,079,082	7,135,133	164,832	**9,379,047**
Amounts due from credit institutions	1,589,190	262,154	-	**1,851,344**
Derivative financial assets	119,170	-	-	**119,170**
Loans to customers	63,305,855	-	169,820	**63,475,675**
Investment securities	537,463	-	-	**537,463**
Other financial assets	91,026	-	-	**91,026**
	67,721,786	**7,397,287**	**334,652**	**75,453,725**
Liabilities				
Amounts due to CBU and Government	1,400,187	-	-	**1,400,187**
Amounts due to the credit institutions	1,870,097	4	605,470	**2,475,571**
Amounts due to customers	17,452,610	-	-	**17,452,610**
Debt securities issued	14,453	3,173,591	-	**3,188,044**
Other borrowed funds	7,370,744	28,600,665	3,303,407	**39,274,816**
Subordinated loans	1,566,814	-	-	**1,566,814**
Other financial liabilities	186,524	-	-	**186,524**
	29,861,429	**31,774,260**	**3,908,877**	**65,544,566**
Net assets/(liabilities)	**37,860,357**	**(24,376,973)**	**(3,574,225)**	**9,909,159**

	2019			
	Republic of Uzbekistan	***OECD***	***CIS and other foreign countries***	***Total***
Assets				
Cash and cash equivalents	2,766,527	2,839,651	1,395,421	**7,001,599**
Amounts due from credit institutions	1,277,659	256,815	243,032	**1,777,507**
Derivative financial assets	102,510	-	-	**102,510**
Loans to customers	54,055,674	-	118,334	**54,174,008**
Investment securities	218,342	-	-	**218,342**
Other financial assets	33,759	-	-	**33,759**
	58,454,471	**3,096,466**	**1,756,787**	**63,307,725**
Liabilities				
Amounts due to CBU and Government	1,695,207	-	-	**1,695,207**
Amounts due to the credit institutions	792,809	4	346,628	**1,139,442**
Amounts due to customers	15,477,598	-	29,643	**15,507,241**
Debt securities issued	131,641	-	-	**131,641**
Other borrowed funds	9,047,896	7,958,397	16,108,935	**33,115,228**
Subordinated loans	360,037	845,687	253,652	**1,459,376**
Other financial liabilities	195,737	-	-	**195,737**
	27,700,925	**8,804,088**	**16,738,858**	**53,243,872**
Net assets/(liabilities)	**30,753,546**	**(5,707,622)**	**(14,982,071)**	**10,063,853**

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposits withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Treasury Department controls these types of risks by means of maturity analysis, determining the Group’s strategy for the next financial periods. Current liability is managed by the Treasury Department, which deals in the money markets for current liquidity and cash flow optimization.

(millions of Uzbek Soums)

31. Risk management (continued)

Liquidity risk (continued)

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

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the CBU. As at 31 December, these ratios were as follows:

	2020, %	*2019, %*
“Current Liquidity Ratio” (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	70,9%	63,30%

The tables below summarise the maturity profile of the Group’s financial liabilities at 31 December based on contractual undiscounted repayment obligations except for trading derivatives which are shown at fair value in a separate column and gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

As at 31 December 2020	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to CBU and Government	1,400,187	-	-	-	**1,400,187**
Amounts due to credit institutions	2,241,839	70,787	160,192	30,427	**2,503,245**
Gross settled derivative financial instruments	-	-	-	-	
-Contractual amounts payable	-	-	44,730	-	**44,730**
-Contractual amounts receivable	-	-	(151,497)	-	**(151,497)**
Amounts due to customers	10,050,004	3,309,054	3,312,893	2,417,378	**19,089,330**
Debt securities issued	39,859	114,329	3,714,723	-	**3,868,911**
Other borrowed funds	2,564,336	3,266,033	10,129,347	31,903,692	**47,863,408**
Subordinated loans	7,763	34,932	186,305	2,132,500	**2,361,500**
Other liabilities	186,438	-	-	-	**186,438**
Total undiscounted financial liabilities	**16,490,426**	**6,795,135**	**17,396,693**	**36,483,998**	**77,166,252**

As at 31 December 2019	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to CBU and Government	1,695,207	-	-	-	**1,695,207**
Amounts due to credit institutions	682,958	243,399	158,483	118,431	**1,203,272**
Gross settled derivative financial instruments	-	-	-	-	
-Contractual amounts payable	-	-	48,570	-	**48,570**
-Contractual amounts receivable	-	-	(135,465)	-	**(135,465)**
Amounts due to customers	7,552,510	4,666,113	2,901,448	1,797,461	**16,917,532**
Debt securities issued	1,468	134,871	-	-	**136,339**
Other borrowed funds	1,056,361	2,440,101	10,219,780	27,315,746	**41,031,987**
Subordinated loans	7,216	32,471	236,444	1,938,632	**2,214,763**
Other liabilities	195,737	-	318,644	-	**514,381**
Total undiscounted financial liabilities	**11,191,456**	**7,516,955**	**13,747,905**	**31,170,270**	**63,626,585**

The Group’s all commitments and contingencies are considered to be as on demand due to the fact that according to contractual terms they can be allocated to the earliest period in which they can be called. The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The amounts of financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(millions of Uzbek Soums)

31. Risk management (continued)

Liquidity risk (continued)

Group has received significant funds from Export Import Bank of China, China Development Bank, Deutsche Bank, the Ministry of Finance of the Republic of Uzbekistan, Natixis Bank, Credit Suisse and other financial institutions (See Note 20). Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is that the risk that the Group’s earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, and equity prices that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Group is exposed to interest rate risks as it borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The Treasury Department also manages interest rate and market risks by matching the Group’s interest rate position, which provides the Group with a positive interest margin. The Treasury Department conducts monitoring of the Group’s current financial performance, estimates the Group’s sensitivity to changes in interest rates and its influence on the Group’s profitability.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group’s consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate debt financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Assets/Liabilities	*Increase in basis point 2020*	*Sensitivity of net interest income 2020*	*Sensitivity of equity 2020*
Financial assets	+100	263,973	-
Financial liabilities		(269,504)	

Assets/Liabilities	*Decrease in basis point 2020*	*Sensitivity of net interest income 2020*	*Sensitivity of equity 2020*
Financial assets	-100	(263,973)	-
Financial liabilities		269,504	

Assets/Liabilities	*Increase in basis point 2019*	*Sensitivity of net interest income 2019*	*Sensitivity of equity 2019*
Financial assets	+100	606,827	-
Financial liabilities		(505,620)	

Assets/Liabilities	*Decrease in basis point 2019*	*Sensitivity of net interest income 2019*	*Sensitivity of equity 2019*
Financial assets	-100	606,827	-
Financial liabilities		(505,620)	

(millions of Uzbek Soums)

31. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Treasury Department controls currency risk by managing the open currency position on the estimated basis of UZS devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations towards its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the Central Bank of the Republic of Uzbekistan.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	UZS	*USD*	*EURO*	*Other Currency*	*2020*
Financial assets					
Cash and cash equivalents	1,219,845	6,121,155	1,528,000	510,047	**9,379,047**
Amounts due from credit institutions	465,555	1,188,729	156,843	40,217	**1,851,344**
Loans to customers	17,821,159	35,076,942	8,255,415	2,322,159	**63,475,675**
Investment securities	511,860	25,603	-	-	**537,463**
Other financial assets	25,904	7,854	-	-	**33,759**
Total financial assets	**20,044,323**	**42,420,284**	**9,940,258**	**2,872,423**	**75,277,288**
Financial liabilities					
Amounts due to CBU and Government	311,019	181,629	902,156	5,384	**1,400,187**
Amounts due to credit institutions	130,527	1,724,848	510,936	109,260	**2,475,571**
Amounts due to customers	6,045,237	10,408,082	648,666	350,624	**17,452,610**
Debt securities issued	14,453	3,173,591	-	-	**3,188,044**
Other borrowed funds	3,841,337	25,234,307	7,851,313	2,347,860	**39,274,816**
Subordinated loans	373,959	1,192,855	-	-	**1,566,814**
Other financial liabilities	179,563	6,863	12	-	**186,438**
Total financial liabilities	**10,896,094**	**41,922,174**	**9,913,084**	**2,813,128**	**65,544,480**
Open balance sheet position	**9,148,229**	**498,109**	**27,174**	**59,295**	

	UZS	*USD*	*EURO*	*Other Currency*	*2019*
Financial assets					
Cash and cash equivalents	1,518,146	3,409,511	1,404,502	669,439	**7,001,599**
Amounts due from credit institutions	686,799	556,656	38,750	495,301	**1,777,507**
Loans to customers	18,852,503	27,922,453	6,225,212	1,173,841	**54,174,008**
Investment securities	194,179	24,163	-	-	**218,342**
Other financial assets	25,904	7,854	-	-	**33,759**
Total financial assets	**21,277,532**	**31,920,638**	**7,668,464**	**2,338,581**	**63,205,215**
Financial liabilities					
Amounts due to CBU and Government	-	517,737	1,171,897	5,573	**1,695,207**
Amounts due to credit institutions	279,884	689,869	154,892	14,797	**1,139,442**
Amounts due to customers	4,984,316	8,969,537	1,053,568	499,820	**15,507,241**
Debt securities issued	131,641	-	-	-	**131,641**
Other borrowed funds	3,724,081	22,806,727	5,457,665	1,126,756	**33,115,229**
Subordinated loans	360,037	1,099,339	-	-	**1,459,376**
Other financial liabilities	170,430	25,220	87	-	**195,737**
Total financial liabilities	**9,650,388**	**34,108,430**	**7,838,109**	**1,646,946**	**53,243,873**
Open balance sheet position	**11,627,143**	**(2,187,792)**	**(169,645)**	**691,636**	

(millions of Uzbek Soums)

31. Risk management (continued)

Market risk (continued)

Currency risk sensitivity

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the UZS, with all other variables held constant on the consolidated statement of profit or loss. The effect on equity does not differ from the effect on the consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	***Change in currency rate in % 2020***	***Effect on profit before tax 2020***	***Change in currency rate in % 2019***	***Effect on profit before tax 2019***
USD	21.2%	172,231	22.1%	(41,494)
EUR	21.3%	5,788	21.4%	7,432
USD	-21.2%	(172,231)	-22.1%	41,494
EUR	-21.3%	(5,788)	-21.4%	(7,432)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group’s assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group’s financial risk management strategy aims to manage the exposure to market fluctuations. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group’s view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

32. Fair value measurements

Fair value measurement procedures

The Group’s investment committee determines the policies and procedures for both recurring fair value measurement, such as investment securities.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The investment committee also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the investment committee present the valuation results to the audit committee and the Group’s independent auditors. This includes a discussion of the major assumptions used in the valuations.

(millions of Uzbek Soums)

32. Fair value measurements (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

At 31 December 2020	*Date of valuation*	*Fair value measurement using*			
		Level 1	*Level 2*	*Level 3*	*Total*
Assets measured at fair value					
Investment securities - equity securities at FVOCI	31-Dec-20	-	-	100,766	**100,766**
Derivative assets	31-Dec-20	-	-	119,170	**119,170**
Assets for which fair values are disclosed					
Cash and cash equivalents	31-Dec-20	9,379,047	-	-	**9,379,047**
Amounts due from credit institutions	31-Dec-20	-	-	1,760,663	**1,760,663**
Investment securities measured at amortised cost	31-Dec-20	-	-	422,965	**422,965**
Loans to customers	31-Dec-20	-	-	62,745,381	**62,745,381**
Liabilities for which fair values are disclosed					
Amounts due to CBU and Government	31-Dec-20	1,400,187	-	-	**1,400,187**
Amounts due to credit institutions	31-Dec-20	-	-	2,464,521	**2,464,521**
Amounts due to customers	31-Dec-20	-	-	17,534,663	**17,534,663**
Debt securities issued	31-Dec-20	-	3,188,044	-	**3,188,044**
Other borrowed funds	31-Dec-20	-	-	38,971,374	**38,971,374**
Subordinated loans	31-Dec-20	-	-	1,552,405	**1,552,405**

At 31 December 2019	*Date of valuation*	*Fair value measurement using*			
		Level 1	*Level 2*	*Level 3*	*Total*
Assets measured at fair value					
Investment securities - debt securities at FVOCI	31-Dec-19	-	-	55,524	**55,524**
Derivative assets	31-Dec-19	-	-	102,510	**102,510**
Assets for which fair values are disclosed					
Cash and cash equivalents	31-Dec-19	7,001,599	-	-	**7,001,599**
Amounts due from credit institutions	31-Dec-19	-	-	1,688,833	**1,688,833**
Investment securities measured at amortised cost	31-Dec-19	-	-	162,818	**162,818**
Loans to customers	31-Dec-19	-	-	53,053,125	**53,053,125**
Liabilities for which fair values are disclosed					
Amounts due to CBU and Government	31-Dec-19	1,695,207	-	-	**1,695,207**
Amounts due to credit institutions	31-Dec-19	-	-	1,132,582	**1,132,582**
Amounts due to customers	31-Dec-19	-	-	15,507,241	**15,552,582**
Debt securities issued	31-Dec-19	-	131,641	-	**131,641**
Other borrowed funds	31-Dec-19	-	-	32,312,769	**32,312,769**
Subordinated loans	31-Dec-19	-	-	1,437,402	**1,437,402**

(millions of Uzbek Soums)

32. Fair value measurements (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group’s financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2020			2019		
	Carrying value	*Fair value*	*Unrecog-nised gain/(loss*	*Carrying value*	*Fair value*	*Unrecog-nised gain/(loss)*
Financial assets						
Amounts due from credit institutions	1,851,344	1,760,663	(90,681)	1,777,507	1,688,833	(88,674)
Loans to customers	63,475,675	62,745,381	(730,294)	54,174,008	53,053,125	(1,120,883)
Investment securities - debt securities at amortised cost	436,697	422,965	(13,732)	162,818	156,024	(6,794)
Financial liabilities						
Amounts due to CBU and Government	1,400,187	1,400,187	-	1,695,207	1,695,207	-
Amounts due to credit institutions	2,475,571	2,464,521	11,050	1,139,442	1,132,582	6,860
Amounts due to customers	17,452,610	17,534,663	(82,053)	15,507,241	15,552,582	(45,341)
Debt securities	3,188,044	3,188,044	-	151,397	131,641	19,756
Other borrowed funds	39,274,816	38,971,374	303,442	33,115,228	32,312,769	802,459
Subordinated loans	1,566,814	1,552,405	14,409	1,459,376	1,437,402	21,974
Total unrecognised change in fair value			**(587,859)**			**(410,643)**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case, they are Level 3.

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBU and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(millions of Uzbek Soums)

32. Fair value measurements (continued)

Movements in level 3 assets at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	At 31 December 2019	*Total gain recorded in profit or loss*	*Purchases*	*At 31 December 2020*
Financial assets				
Derivative financial instruments	102,510	16,660	–	119,170
Investment securities − equity securities at FVOCI	55,524	–	45,242	100,766
Total level 3 financial assets	**158,034**	**16,660**	**45,242**	**220,236**

	At 31 December 2018	*Total gain recorded in profit or loss*	*Purchases*	*At 31 December 2019*
Financial assets				
Derivative financial instruments	–	28,263	74,247	102,510
Investment securities − equity securities at FVOCI	47,762	–	7,762	55,524
Total level 3 financial assets	**47,762**	**28,263**	**82,009**	**158,034**

During the year ended 31 December, there were no transfers between the levels of fair value hierarchy.

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

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

31 December 2020	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Derivative financial instruments					
Foreign currency swaps	119,170	Discounted cash flow	Discount rate	12-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the Derivative financial instruments by UZS 2,383 / (UZS 2,383)
Investment securities measured at FVOCI					
Equity securities	100,766	Discounted cash flow of dividend payments	Discount rate	12-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the Investment securities measured at FVOCI by UZS 2,015 / (UZS 2,015)

31 December 2019	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Derivative financial instruments					
Foreign currency swaps	102,510	Discounted cash flow	Discount rate	12-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the Derivative financial instruments by UZS 2,050 / (UZS 2,050)
Investment securities measured at FVOCI					
Equity securities	55,524	Discounted cash flow of dividend payments	Discount rate	12-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the Investment securities measured at FVOCI by UZS 1,110 / (UZS 1,110)

(millions of Uzbek Soums)

32. Fair value measurements (continued)

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

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2020			*2019*		
	Realised gains/ (losses)	*Unrealised gains/ (losses)*	*Total*	*Realised gains/ (losses)*	*Unrealised gains/ (losses)*	*Total*
Net gain from financial instruments at fair value through profit or loss	-	16,660	**16,660**	-	28,263	**28,263**

Unrealised gains are recognised in net gain from financial instruments at fair value through profit or loss.

33. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 31 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2020		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	9,379,047	-	**9,379,047**
Amounts due from credit institutions	245,213	1,606,131	**1,851,344**
Derivative financial assets	-	119,170	**119,170**
Loans to customers	14,317,822	49,157,853	**63,475,675**
Assets held for sale	91,512	-	**91,512**
Investment securities	373,000	164,463	**537,463**
Investments in associates	-	409,730	**409,730**
Property and equipment	-	1,398,294	**1,398,294**
Deferred income tax assets	-	397,171	**397,171**
Other assets	474,154	-	**474,154**
Total	**24,880,748**	**53,252,812**	**78,133,560**
Amounts due to the CBU and Government	1,400,187	-	**1,400,187**
Amounts due to credit institutions	2,133,854	341,717	**2,475,571**
Amounts due to customers	13,090,710	4,361,900	**17,452,610**
Debt securities issued	14,453	3,173,591	**3,188,044**
Other borrowed funds	5,660,552	33,614,264	**39,274,816**
Subordinated loans	-	1,566,814	**1,566,814**
Other liabilities	317,297	-	**317,297**
Total	**22,617,053**	**43,058,286**	**65,675,339**
Net	**2,263,695**	**10,194,526**	**12,458,221**

(millions of Uzbek Soums)

33. Maturity analysis of assets and liabilities (continued)

	2019		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	7,001,599	-	**7,001,599**
Amounts due from credit institutions	1,777,507	-	**1,777,507**
Derivative financial assets	-	102,510	**102,510**
Loans to customers	13,315,161	40,858,847	**54,174,008**
Assets held for sale	10,262	-	**10,262**
Investment securities	-	218,342	**218,342**
Current income tax assets	23,590	-	**23,590**
Investments in associates	-	239,535	**239,535**
Property and equipment	-	1,383,471	**1,383,471**
Deferred income tax assets	-	244,136	**244,136**
Other assets	314,381	-	**314,381**
Total	**22,442,500**	**43,046,841**	**65,489,341**
Amounts due to the CBU and Government	1,695,207	-	**1,695,207**
Amounts due to credit institutions	982,158	157,284	**1,139,442**
Amounts due to customers	11,778,076	3,729,165	**15,507,241**
Debt securities issued	-	131,641	**131,641**
Other borrowed funds	2,459,168	30,656,060	**33,115,228**
Subordinated loans	16,201	1,443,175	**1,459,376**
Other liabilities	293,979	-	**293,979**
Total	**17,224,790**	**36,117,324**	**53,342,114**
Net	**5,217,710**	**6,929,516**	**12,147,227**

34. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with government-related entities

The Government of the Republic of Uzbekistan, acting through The Fund of Reconstruction and Development of the Republic of Uzbekistan and The Ministry of Finance of the Republic of Uzbekistan controls over the Group.

The Government of the Republic of Uzbekistan, directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as "government-related entities"). The Group enters into banking transactions with these entities including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions. These transactions comprise a large portion of the Group's transactions.

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(millions of Uzbek Soums)

34. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2020					*2019*				
	Parent	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***	***Parent***	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***
Cash and cash equivalents	-	1,056,539	98,196	-	**9,379,047**	-	190,327	479,830	-	**7,001,599**
Due from credit institutions	-	299,790	-	-	**1,851,344**	-	931,395	-	-	**1,777,507**
Investment securities	-	508,446	-	-	**537,463**	-	184,017	-	-	**218,342**
Loans to customers	-	34,644,130	405,241	-	**63,475,675**	-	30,179,247	345,120	-	**54,174,008**
Allowance for impairment losses – loans to customers	-	(1,528,471)	(37,991)	-	**(3,009,168)**	-	(1,064,958)	(13,750)	-	**(1,942,121)**
Debt securities	-	-	-	-	**3,188,044**	-	110,000	-	-	**131,641**
Subordinated loans	-	914,385	-	-	**1,566,814**	-	359,683	-	-	**1,459,376**
Amounts due to CBU and Government	-	1,400,502	-	-	**1,400,187**	-	1,695,207	-	-	**1,695,207**
Customer accounts	-	7,667,135	22,613	-	**17,452,610**	-	3,839,553	22,479	-	**15,507,241**
Due to credit institutions	-	822,386	-	-	**2,475,571**	-	637,095	488	-	**1,139,442**
Other borrowed funds	7,034,854	7,370,744	-	-	**39,274,816**	2,051,876	20,862,255	-	-	**33,115,228**
Guarantees	-	1,424,442	-	-	**1,921,195**	-	1,636,778	3	-	**1,903,098**
Letters of credit	-	2,469,657	8,049	-	**5,417,476**	-	2,531,645	20,304	-	**5,790,913**

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

	2020					*2019*				
	Parent	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***	***Parent***	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***
Interest income on loans	-	1,671,872	23,935	-	**4,867,312**	-	1,412,275	2,416	-	**3,770,997**
Impairment charge for loans	-	(631,527)	(33,138)	-	**(1,222,568)**	-	(347,882)	(1,100)	-	**(940,219)**
Interest expense on deposits	-	(210,513)	(2,343)	-	**(584,989)**	-	(201,940)	(1,124)	-	**(530,030)**
Amounts due to Central Bank and	-	(71,369)	-	-	**(71,369)**	-	-	-	-	**-**
Interest expense on other borrowed funds	(81,970)	(128)	-	-	**(1,218,936)**	(47,031)	(310,056)	-	-	**(1,530,095)**
Fee and commission income	-	93,422	3,968	-	**416,364**	-	118,295	69	-	**446,791**
Fee and commission expense	(180)	(24,659)	-	-	**(75,868)**	(7,275)	(19,786)	(514)	-	**(83,073)**
Operating expenses	-	-	-	(4,275)	**(362,475)**	-	-	-	(3,499)	**(354,925)**
Salaries and other benefits	-	-	-	(3,817)	**(556,234)**	-	-	-	(3,347)	**515,972**
Social Security Costs	-	-	-	(458)	**(52,910)**	-	-	-	(152)	**94,909**

(millions of Uzbek Soums)

35. Segment information

The Group's operations are a single reportable segment.

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

The chief operating decision-maker ("CODM") has been determined as the Group's Chairman of the Management Board. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The Management has determined a single operating segment being banking services based on these internal reports.

Revenue from transactions with a single external customer comprised more than 10% of the Group's total revenue and amounted to UZS 1,671,872 (2019: UZS 1,412,275) (See Note 34).

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

36. Subsidiaries

The consolidated financial statements include the following major subsidiaries:

2020

Subsidiary	***Principal place of business***	***Country of incorporation***	***Date of incorporation***	***Nature of activities***	***Ownership/ voting, %***
Asia Invest Bank CJSC	Moscow	Russia	1996	Banking	96%
Invest Group Centre LLC	Tashkent	Uzbekistan	1999	Office maintenance	100%
NBU Invest Group LLC	Tashkent	Uzbekistan	2008	Asset management	100%
Tashkent Palace New LLC	Tashkent	Uzbekistan	2010	Hotel business	100%
NBU Bunyodkor Invest LLC	Tashkent	Uzbekistan	2017	Construction	100%
NBU Gazgan Invest LLC	Navoiy	Uzbekistan	2017	Asset management	100%
NBU Samarkand Invest LLC	Samarkand	Uzbekistan	2017	Asset management	100%
Shomanay Eco Teks LLC	Tashkent	Uzbekistan	2017	Textile	59%
Zarbdor Textile LLC	Jizzakh	Uzbekistan	2017	Textile	53%
Ostex Jizzakh LLC	Jizzakh	Uzbekistan	2017	Textile	74%
Sherobod Jizzakh LLC	Sherobod	Uzbekistan	2017	Textile	53%
Marmarobod LLC	Navoiy	Uzbekistan	2019	Manufacturing	100%
United National Company LLC	Tashkent	Uzbekistan	2019	Manufacturing	74%
Unified Republican Processing Center LLC	Tashkent	Uzbekistan	2020	Payment processing	51%
Gazgan Stone Invest LLC	Navoiy	Uzbekistan	2020	Asset management	67%
Royal Silk LLC	Andijan	Uzbekistan	2020	Textile	100%

2019

Subsidiary	***Principal place of business***	***Country of incorporation***	***Date of incorporation***	***Nature of activities***	***Ownership/ voting, %***
Asia Invest Bank CJSC	Moscow	Russia	1996	Banking	85%
Invest Group Centre LLC	Tashkent	Uzbekistan	1999	Office maintenance	100%
NBU Invest Group LLC	Tashkent	Uzbekistan	2008	Asset management	100%
Tashkent Palace New LLC	Tashkent	Uzbekistan	2010	Hotel business	100%
Paxtakor Gold Textile LLC	Tashkent	Uzbekistan	2016	Textile	56%
NBU Bunyodkor Invest LLC	Tashkent	Uzbekistan	2017	Construction	100%
NBU Gazgan Invest LLC	Navoiy	Uzbekistan	2017	Asset management	100%
NBU Samarkand Invest LLC	Samarkand	Uzbekistan	2017	Asset management	100%
Shomanay Eco Teks LLC	Tashkent	Uzbekistan	2017	Textile	59%
Zarbdor Textile LLC	Jizzakh	Uzbekistan	2017	Textile	53%
Funny Kids World LLC	Tashkent	Uzbekistan	2017	Manufacturing	84%
National Products LLC	Tashkent	Uzbekistan	2017	Manufacturing	99%
Ostex Jizzakh LLC	Jizzakh	Uzbekistan	2017	Textile	74%
Jayhun Gold Tex LLC	Karakalpakstan	Uzbekistan	2017	Textile	100%
Sherobod Textile LLC	Sherobod	Uzbekistan	2017	Textile	61%
Marmarobod LLC	Navoiy	Uzbekistan	2019	Manufacturing	100%
United National Company LLC	Tashkent	Uzbekistan	2019	Manufacturing	74%

(millions of Uzbek Soums)

36. Subsidiaries (continued)

Acquisition of Unified Republican Processing Center LLC

On 3 August 2020, the Group acquired 51% of the voting shares of Unified Republican Processing Center LLC, a company specializing in processing transactions with plastic cards, point-of-sale terminals and ATMs. The Group acquired from unrelated third party Unified Republican Processing Center LLC based on the decision of the Government of the Republic of Uzbekistan at nominal amount which resulted in recognition of the bargain purchase gain.

The fair value of the identifiable assets and liabilities of Unified Republican Processing Center LLC acquired as at the date of acquisition were:

Assets	
Cash and cash equivalents	8,913
Trade receivables	28,584
Advances paid	23,235
Property and equipment	89,915
Other assets	11,595
	162,242
Liabilities	
Trade payables	(9,658)
Payables to shareholders	(43,154)
Other liabilities	(1,453)
	(54,265)
Total identifiable net assets	**107,977**
Non-controlling Interests	(52,909)
Bargain purchase gain (Note 25)	(33,566)
Purchase consideration transferred	**21,502**

The gross contractual amount of trade receivables is UZS 29,317. The best estimate at the acquisition date of the contractual cash flows from trade receivables not expected to be collected is UZS 733.

The Group has elected to measure the non-controlling interests in Unified Republican Processing Center LLC at the non-controlling interests’ proportionate share of the acquiree’s identifiable net assets.

From the date of acquisition, Unified Republican Processing Center LLC has contributed UZS 82,768 of revenue from non-banking activities and UZS 31,030 to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, the profit for the year of the Group would have been UZS 950,402 and revenue from non-banking activities would have been UZS 547,565.

Cash outflow on acquisition of the subsidiary

Net cash acquired with the subsidiary (included in cash flows from investing activities)	8,913
Cash paid (included in cash flows from investing activities)	(21,502)
Net cash outflow	**(12,589)**

(millions of Uzbek Soums)

36. Subsidiaries (continued)

Disposal of Paxtakor Gold Textile LLC

In 2020 the Group lost control over Paxtakor Gold Textile LLC as a result of increase in share of second shareholder. The Group accounted for the remaining 36% of voting shares in Paxtakor Gold Textile LLC as an investment in associate under the equity method.

The assets and liabilities of Paxtakor Gold Textile LLC as at the date of disposal were as follows:

Assets	
Cash and cash equivalents	82
Trade receivables	4,121
Advances paid	9,159
Inventories	4,392
Property and equipment	77,886
	95,640
Liabilities	
Trade payables	(9,347)
Short-term borrowings	(56,607)
Other liabilities	(10,385)
	(76,339)

Disposal of National Products LLC

In 2020 the Group disposed of its subsidiary National Products LLC as a result of sale to an unrelated third party. The Group recognised a gain of UZS 238 on this disposal within other income in the consolidated statement of profit or loss.

The assets and liabilities in National Products LLC as at the date of disposal were as follows:

Assets	
Cash and cash equivalents	6,660
Trade receivables	3,025
Property and equipment	65,114
Other assets	3,589
	78,388
Liabilities	
Trade payables	(6,504)
Long-term borrowings	(65,900)
Other liabilities	(4,976)
	(77,380)

(millions of Uzbek Soums)

37. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBU in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's general policy in relation to risks related to capital management is reflected in the Bank's Capital Management Policy approved by the Supervisory Board and amended from time to time based on the Group's strategic goals and the regulatory requirements of the Central Bank of the Republic of Uzbekistan.

The following table analyses the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee:

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2020 and 2019, comprised:

Composition of regulatory capital:		
Tier 1 capital		
Share capital	11,978,074	11,582,700
Contribution from Shareholders	126,096	126,096
Retained earnings	72,956	190,358
	12,177,126	**11,899,154**
Tier 2 capital		
Subordinated debt	1,566,814	1,459,376
General provision	635,809	1,293,073
Other reserves	121,258	101,232
Total capital	**14,501,007**	**14,752,835**
Capital adequacy ratio:		
Tier 1 capital ratio	19%	20%
Total capital ratio	23%	25%
Laverage - Debt-to-Equity ratio (Total liabilities/Equity)	5.29	4.39

(millions of Uzbek Soums)

38. Events after the reporting period

New borrowings

In January 2021 the Group received a loan in the amount of EUR 5,922 thousand from Raiffeisen Bank International AG. The Group sign an agreement with Eximbank of Russia for the amount of RUB 2,500,000,000, however the Group have not received this amount yet.

During the first 4 months of 2021 the Bank repaid loans in the total amount of UZS 123,098 originally received from Banque De Caire, European Bank for Reconstruction and Development and Eximbank of Korea.

Investment in associates

At the beginning of 2021, on the basis of protocol decision dated 29 January 2020 No.14 of the Board of Directors of the Bank and protocol dated 29 January 2020 No.4 of the Supervisory Board of the Bank, the Bank transferred UZS 45,086 to NBU Samarkand Invest LLC further to inject into charter capital of Samarkand Touristic Center LLC in order to realize the Project "Samarkand Touristic Center" in the Samarkand region.