JSC Anor Bank

Financial statements

For the period from 22 August 2020 (foundation date) to 31 December 2020 together with independent auditor's report

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Independent auditor's report

To the Shareholders and the Supervisory Board of Joint-Stock Company Anor Bank

Opinion

We have audited the financial statements of Joint-Stock Company Anor Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and its financial performance and its cash flows for the period from 22 August 2020 (the date of registration with the Central Bank of Uzbekistan and obtaining of a license) to 31 December 2020 in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank 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 financial statements in the Republic of Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of management and the Supervisory Board of the Bank for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Audit company „Ernst & Young LLC"

Tashkent, Uzbekistan

3 May 2021

Statement of financial position

as at 31 December 2020

(thousands of Uzbek soums)

	Notes	*31 December 2020*
Assets		
Cash and cash equivalents	5	6,853,253
Amounts due from banks	6	51,149,482
Loans to customers	7	22,691,055
Property and equipment	8	11,900,302
Intangible assets	9	2,891,324
Deferred income tax assets	10	425,922
Other assets	12	8,120,016
Total assets		**104,031,354**
Liabilities		
Amounts due to customers	13	4,825,170
Current income tax liabilities		46,778
Provisions	11.15	3,238
Other liabilities		727,168
Total liabilities		**5,602,354**
Equity		
Share capital	14	100,000,000
Accumulated deficit		(1,571,000)
Total equity		**98,429,000**
Total equity and liabilities		**104,031,354**

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

Sherzod Akramov — Chairman of the Management Board

Umid Babaev — Chief Accountant

3 May 2021

The accompanying notes on pages 5-30 are an integral part of these financial statements.

Statement of comprehensive income

for the period from 22 August 2020 (foundation date) to 31 December 2020

(thousands of Uzbek soums)

	Notes	**For the period from 22 August 2020 to 31 December 2020**
Interest revenue calculated using the effective interest rate	16	3,470,013
Net interest income	16	**3,470,013**
Credit loss expense	11	(1,418,767)
Net interest income after credit loss expense		**2,051,246**
Fee and commission income	17	1,368,558
Fee and commission expense	17	(280,105)
Net gains/(losses) from foreign currencies:		
- Dealing		(19,853)
- Translation differences		88,288
Other income		260,862
Non-interest income		**1,417,750**
Personnel expenses	18	(3,417,537)
Depreciation and amortization	8, 9	(183,197)
Other operating expenses	18	(1,818,406)
Non-interest expense		**(5,419,140)**
Loss before income tax expense		**(1,950,144)**
Income tax benefit	10	379,144
Loss for the year		**(1,571,000)**
Total comprehensive income for the year		**(1,571,000)**

The accompanying notes on pages 5-30 are an integral part of these financial statements.

Statement of changes in equity

for the period from 22 August 2020 (foundation date) to 31 December 2020

(thousands of Uzbek soums)

	Share capital	*Accumulated deficit*	*Total*
22 August 2020	–	–	–
Issue of share capital (Note 14)	100,000,000	–	**100,000,000**
Loss for the year	–	(1,571,000)	**(1,571,000)**
31 December 2020	**100,000,000**	**(1,571,000)**	**98,429,000**

The accompanying notes on pages 5-30 are an integral part of these financial statements.

Statement of cash flows

for the period from 22 August 2020 (foundation date) to 31 December 2020

(thousands of Uzbek soums)

	Notes	For the period from 22 August 2020 to 31 December 2020
Cash flows from operating activities		
Interest received		3,252,742
Fees and commissions received		1,368,558
Fees and commissions paid		(280,105)
Realized gains less losses from dealing in foreign currencies		(19,853)
Other income received		260,862
Personnel expenses paid		(3,843,459)
Other operating expenses paid		(1,359,493)
Cash flows from operating activities before changes in operating assets and liabilities		**(620,748)**
Net (increase)/decrease in operating assets		
Amounts due from banks		(52,009,234)
Loans to customers		(23,022,166)
Other assets		(3,527,541)
Net increase/(decrease) in operating liabilities		
Amounts due to customers		4,825,170
Other liabilities		689,701
Net cash flows from operating activities before income tax		**(73,664,818)**
Income tax paid		-
Net cash used in operating activities		**(73,664,818)**
Cash flows from investing activities		
Purchase of property and equipment		(12,040,637)
Purchase of intangible assets		(7,439,262)
Net cash used in investing activities		**(19,479,899)**
Cash flows from financing activities		
Proceeds from issue of share capital		100,000,000
Net cash from financing activities		**100,000,000**
Effect of exchange rate changes on cash and cash equivalents		5,365
Effect of expected credit losses on cash and cash equivalents		(7,395)
Net increase in cash and cash equivalents		**6,853,253**
Cash and cash equivalents at 22 August 2020		-
Cash and cash equivalents at 31 December 2020	5	**6,853,253**

The accompanying notes on pages 5-30 are an integral part of these financial statements.

1. Principal activities

JSC Anor Bank (the "Bank") was founded in 2020 as a joint-stock company under the laws of the Republic of Uzbekistan and is a digital bank. The Bank operates under a banking license issued by the Central Bank of Uzbekistan (the "CBU") on 22 August 2020.

The Bank accepts deposits from the public and extends credits in the Republic of Uzbekistan and provides other banking services to its commercial and retail customers. The Bank's main office is in Tashkent. The Bank's registered legal address is 4, Sayram street 5th driveway, Tashkent, Uzbekistan.

As at 31 December 2020, the shareholders of the Bank were as follows:

Shareholder	***31 December 2020, %***
Kaxramonjon Olimov	95.1%
Davron Turakulov	4.9%
Total	**100.0%**

The Bank is ultimately controlled by Mr. Kaxramonjon Olimov.

2. Basis of preparation

General

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

The Bank is required to maintain accounting records and prepare financial statements in accordance with the Uzbekistani accounting and banking legislation and related instructions ("UAL"). These financial statements are based on UAL, as adjusted and reclassified in order to comply with IFRS.

These financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies below.

These financial statements are presented in thousands of Uzbek soums ("UZS"), unless otherwise indicated.

Effect of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in 2020 many governments, including the Government of the Republic of Uzbekistan, 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 the 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 Central Bank of Uzbekistan 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 Bank continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

Estimation uncertainty

To the extent that information is available as at 31 December 2020, the Bank has reflected current estimates of expected future cash flows in its assessment of expected credit losses (ECL) (Note 7) and estimates of fair values of financial instruments (Note 20).

3. Summary of accounting policies

Fair value measurement

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 inputs that are significant to the fair value measurement are directly or indirectly observable
- Level 3 – valuation techniques for which the lowest level inputs that are significant to the fair value measurement are unobservable.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities under a contract that requires 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 fair value including transaction costs unless financial assets and financial liabilities are measured at fair value through profit or loss.

Measurement categories of financial assets and liabilities

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

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL).

Financial liabilities are measured at amortized cost or at FVPL, when they are held for trading, are derivative instruments or the fair value designation is applied at the entity's discretion.

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Amounts due from banks and loans to customers

The Bank only measures amounts due from banks, loans to customers and other financial investments at amortized 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.

Business model assessment

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

The Bank'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 Bank'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 realized in a way that is different from the Bank's original expectations, the Bank 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 Bank assesses the contractual terms of a financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of a financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization 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 Bank applies judgment 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 principal amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Bank measures debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains or losses arising due to changes in the fair value recognized in OCI. Interest revenue and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance for expected losses that would arise if the assets were measured at amortized cost, is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of the asset.

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Undrawn loan commitments

The Bank issues commitments to extend credit.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Such commitments are in the scope of the ECL requirements.

The Bank 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 recognized less, when appropriate, the cumulative amount of income recognized.

Reclassification of financial assets and liabilities

The Bank does not reclassify financial assets after their initial recognition, apart from exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

Cash and cash equivalents

Cash and cash equivalents consist of amounts due from the the CBU, excluding obligatory reserves, and amounts due from banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize 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 or any of its counterparties.

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

Renegotiated loans

Where possible, the Bank 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 Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been revised to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized 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 derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- A change in the currency of the loan
- A change in the counterparty
- If the modification is such that the instrument no longer meets 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 Bank records a modification gain or loss, presented within interest revenue calculated using the effective interest rate in the statement of profit or loss to the extent that an impairment loss has not already been recognized.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

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 derecognized where:

- The rights to receive cash flows from the asset have expired
- The Bank 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 Bank 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 Bank 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 recognized to the extent of the Bank'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 Bank 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 Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or entirely only when the Bank has stopped pursuing the recovery. If the amount to be written off is higher than the accumulated allowance for impairment, the difference is at first recorded as the increase in the allowance that is subsequently applied to 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 derecognized when the obligation under the liability is discharged or canceled 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 recognized in profit or loss.

Taxation

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

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 amounts 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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax regulations 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 also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, 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.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Property and equipment (continued)

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts 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
Furniture and fixtures	5-13
Computers and office equipment	5-15
Motor vehicles	5

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 other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 5 years or more and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least annually at each financial year-end.

Provisions

Provisions are recognized when the Bank 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 the obligation can be made.

Retirement and other employee benefit obligations

The Bank 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. Apart from the above, the Bank has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

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

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar revenue and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate ("EIR") to the gross carrying amount of financial assets other than credit-impaired assets. The 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 EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest revenue or expenses.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortized 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 amortized cost of the POCI assets.

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission 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 the 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 recognized as an adjustment to the effective interest rate on the loan.

Fee and commission income from providing transaction services

Fees or components of fees that are linked to certain performance obligations are recognized 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.

Foreign currency translation

The financial statements are presented in Uzbek soums, which are the Bank's functional and presentation 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 statement of profit or loss as gains less losses from foreign currencies – translation differences. 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 gains less losses from dealing in foreign currencies. The official CBU exchange rate as at 31 December 2020 was UZS 10,477 to USD 1.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The new standards, amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new standards, amendments 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 financial reporting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

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

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

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

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

IFRS 17 is effective for reporting periods beginning on or after 22 August 2023, with comparative figures required. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

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

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 22 August 2022 with earlier adoption permitted. The Bank will apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first adopt the amendment and does not expect that this will result in a material impact on its 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 Bank will apply IBOR reform Phase 2 from January 2021.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant uses of judgments and estimates are as follows:

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the 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 20.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, when determining ECL/impairment losses and assessing 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 of credit quality of loan portfolios and trade accounts receivable (in addition to others) resulting from the COVID-19 pandemic may have a significant effect on the Bank's estimate of ECL. The Bank'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 judgments and estimates include:

- The probability of default is assigned against benchmarks based on comparable lending segments in other Uzbekistani banks
- The Bank'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 lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL are assessed on a collective basis
- Development of ECL models, including various formulae and the choice of inputs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The amount of allowance recognized in the statement of financial position as at 31 December 2020 was UZS 2,105,483 thousand. More details are provided in Notes 5, 6, 7, 15 and 11.

(thousands of Uzbek soums)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2020
Time deposits with credit institutions up to 90 days	5,000,000
Current accounts with the CBU	1,742,771
Current accounts with other credit institutions	117,877
Less allowance for impairment	(7,395)
Cash and cash equivalents	**6,853,253**

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

	For the period from 22 August 2020 (foundation date) to 31 December 2020
ECL allowance as at 22 August	–
Changes in ECL	(7,395)
ECL allowance as at 31 December	**(7,395)**

6. Amounts due from banks

Amounts due from banks comprise:

	31 December 2020
Time deposits for more than 90 days	52,000,000
Obligatory reserve with the CBU	9,234
Less allowance for impairment	(859,752)
Amounts due from banks	**51,149,482**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBU, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2020, UZS 52,000,000 thousand was placed on current accounts and interbank deposits with 5 Uzbekistani banks.

An analysis of changes in the gross carrying amount and corresponding ECL allowances for the period from 22 August 2020 to 31 December 2020 is as follows:

	Stage 1	*Total*
Gross carrying amount at 22 August 2020	–	–
New assets originated or purchased	52,009,234	**52,009,234**
At 31 December 2020	**52,009,234**	**52,009,234**

	Stage 1	*Total*
ECL allowance at 22 August 2020	–	–
New assets originated or purchased	859,752	**859,752**
At 31 December 2020	**859,752**	**859,752**

7. Loans to customers

Loans to customers comprise:

	2020
Auto lending	11,123,081
Corporate lending	10,124,192
Consumer lending	1,992,164
Gross loans to customers at amortized cost	**23,239,437**
Less allowance for impairment	(548,382)
Loans to customers at amortized cost	**22,691,055**
Total loans to customers	**22,691,055**

(thousands of Uzbek soums)

7. Loans to customers (continued)

Allowance for impairment of loans to customers measured at amortized cost

An analysis of changes in the gross carrying amount and corresponding ECL in relation to auto lending during the period from 22 August 2020 to 31 December 2020 is as follows:

Auto lending	*Stage 1*	*Total*
Gross carrying amount at 22 August 2020	–	–
New assets originated or purchased	11,123,081	**11,123,081**
At 31 December 2020	**11,123,081**	**11,123,081**

Auto lending	*Stage 1*	*Total*
ECL at 22 August 2020	–	–
New assets originated or purchased	171,182	**171,182**
At 31 December 2020	**171,182**	**171,182**

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

Corporate lending	*Stage 1*	*Total*
Gross carrying amount at 22 August 2020	–	–
New assets originated or purchased	10,124,192	**10,124,192**
At 31 December 2020	**10,124,192**	**10,124,192**

Corporate lending	*Stage 1*	*Total*
ECL at 22 August 2020	–	–
New assets originated or purchased	323,744	**323,744**
At 31 December 2020	**323,744**	**323,744**

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

An analysis of changes in the gross carrying amount and corresponding ECL in relation to consumer lending during the period from 22 August 2020 to 31 December 2020 is as follows:

Consumer lending	*Stage 1*	*Total*
Gross carrying amount at 22 August 2020	–	–
New assets originated or purchased	1,992,164	**1,992,164**
At 31 December 2020	**1,992,164**	**1,992,164**

Consumer lending	*Stage 1*	*Total*
ECL at 22 August 2020	–	–
New assets originated or purchased	53,456	**53,456**
At 31 December 2020	**53,456**	**53,456**

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

Concentration of loans to customers

As at 31 December 2020, the Bank had a concentration of loans of UZS 10,892,344 thousand (46.9% of the gross loan portfolio) due from the ten largest third-party entities. An allowance of UZS 336,242 thousand was recognized against these loans.

Loans have been extended to the following types of customers:

	31 December 2020
Individuals	13,115,245
Private companies	10,124,192
	23,239,437

Loans are extended to customers in Uzbekistan. Commercial loans were provided to microfinance organizations. Additional details are provided in Note 22.

(thousands of Uzbek soums)

8. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Computers and office equipment*	*Motor vehicles*	*Total*
Cost				
22 August 2020	–	–	–	–
Additions	622,114	11,066,983	351,540	12,040,637
31 December 2020	**622,114**	**11,066,983**	**351,540**	**12,040,637**
Accumulated depreciation				
22 August 2020	–	–	–	–
Depreciation charge	529	133,946	5,860	140,335
31 December 2020	**529**	**133,946**	**5,860**	**140,335**
Net book value				
22 August 2020	–	–	–	–
31 December 2020	**621,585**	**10,933,037**	**345,680**	**11,900,302**

9. Intangible assets

The movements in intangible assets were as follows:

	Computer software
Cost	
22 August 2020	–
Additions	2,934,186
31 December 2020	**2,934,186**
Accumulated amortization and impairment	
22 August 2020	–
Amortization charge	42,862
31 December 2020	**42,862**
Net book value	
22 August 2020	–
31 December 2020	**2,891,324**

10. Taxation

The corporate income tax expense comprises:

	For the period from 22 August 2020 to 31 December 2020
Current tax charge/(credit)	46,778
Deferred tax charge/(credit) — origination and reversal of temporary differences	(425,922)
Income tax benefit	**(379,144)**

Uzbekistani legal entities have to file individual corporate income tax declarations. The standard income tax rate for companies (including banks) was 20% for 2020. Dividends are taxed at the standard corporate income tax rate of 5%, which could be reduced to 0% subject to certain criteria.

(thousands of Uzbek soums)

10. Taxation (continued)

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

	For the period from 22 August 2020 to 31 December 2020
Loss before tax	**(1,950,144)**
Statutory tax rate	20%
Theoretical income tax benefit at the statutory tax rate	**(390,029)**
Non-deductible expenditures	10,885
Income tax benefit	**(379,144)**

Deferred tax assets and liabilities as at 31 December 2020 and their movements for the period from 22 August 2020 to 31 December 2020 comprise:

	22 August 2020	*Origination and reversal of temporary differences* *In the statement of profit or loss*	*31 December 2020*
Tax effect of deductible temporary differences			
Allowance for loan impairment	–	(283,743)	**(283,743)**
Property and equipment	–	(8,147)	**(8,147)**
Other liabilities	–	(134,032)	**(134,032)**
Deferred tax assets	**–**	**(425,922)**	**(425,922)**

11. Credit loss expense

The table below shows the ECL expense on financial instruments recorded in the statement of comprehensive income for the period from 22 August 2020 to 31 December 2020:

	Notes	*Stage 1*	*Total*
Cash and cash equivalents	5	7,395	**7,395**
Amounts due from banks	6	859,752	**859,752**
Loans to customers at amortized cost	7	548,382	**548,382**
Undrawn loan commitments	15	3,238	**3,238**
Total credit loss expense		**1,418,748**	**1,418,748**

12. Other assets

Other assets comprise:

	31 December 2020
Software prepayment	4,505,076
Other prepayments	3,598,487
Other non-financial assets	16,453
Other assets	**8,120,016**

(thousands of Uzbek soums)

13. Amounts due to customers

Amounts due to customers are non-interest-bearing and comprise the following:

	31 December 2020
Current accounts	4,825,170
Amounts due to customers	**4,825,170**

As at 31 December 2020, amounts due to customers of UZS 4,170,730 thousand (88.8%) were due to the ten largest customers.

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

	31 December 2020
Members of the Supervisory Board	3,083,392
Private enterprises	1,042,136
Employees	450,468
Other individuals	249,174
Amounts due to customers	**4,825,170**

An analysis of customer accounts by economic sector is as follows:

	31 December 2020
Individuals	3,783,034
Consulting services	286,285
Transport and communication	639,287
Insurance	87,075
Trade	18,530
Financing	10,959
Amounts due to customers	**4,825,170**

14. Equity

Movements in shares issued, fully paid and outstanding were as follows:

	Number of shares	*Nominal value*	
	Ordinary	*Ordinary*	*Total*
22 August 2020	–	–	–
Issue of share capital	100,000,000	1,000	**100,000,000**
31 December 2020	**100,000,000**	**1,000**	**100,000,000**

The total number of authorized ordinary shares is 100,000,000 with a nominal value per share of UZS 1,000.

The share capital of the Bank was contributed by the shareholders in Uzbek soums and they are entitled to dividends.

(thousands of Uzbek soums)

15. Commitments and contingencies

Operating environment

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

Legal

In the ordinary course of business, the Bank 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 position or the results of future operations of the Bank.

Taxation

Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Tax authorities of Uzbekistan may be taking a more assertive position in their interpretation and application of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and fines may be assessed. Fiscal periods remain open and subject to review by the tax authorities for a period of five calendar years immediately preceding the year of review. Under certain circumstances, reviews may cover longer periods.

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

Commitments and contingencies

As at 31 December, the Bank's commitments and contingencies comprised the following:

	31 December 2020
Credit-related commitments	
Undrawn loan commitments	175,917
Commitments and contingencies	**175,917**
Allowances for ECL from credit-related commitments	3,238

An analysis of changes in the ECL allowances for the period from 22 August 2020 to 31 December 2020 is as follows:

Undrawn loan commitments	*Stage 1*	*Total*
ECL allowance at 22 August 2020	–	–
New commitments	3,238	**3,238**
At 31 December 2020	**3,238**	**3,238**

16. Net interest income

Net interest income comprises:

	For the period from 22 August 2020 to 31 December 2020
Financial assets at amortized cost	
Amounts due from banks	2,957,452
Loans to customers	397,493
Cash and cash equivalents	115,068
Net interest income	**3,470,013**

(thousands of Uzbek soums)

17. Net fee and commission income

Net fee and commission income comprises:

	For the period from 22 August 2020 to 31 December 2020
Settlement operations	1,368,361
Other	197
Fee and commission income	**1,368,558**
Settlement operations	278,488
Other	1,617
Fee and commission expense	**280,105**
Net fee and commission income	**1,088,453**

18. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	For the period from 22 August 2020 to 31 December 2020
Salaries and bonuses	2,889,029
Social security costs	528,508
Personnel expenses	**3,417,537**
Marketing and advertising	432,982
Office supplies	267,369
Legal and consultancy	584,945
Repair and maintenance of property and equipment	117,479
Deposit insurance fees	100,059
Fuel expenses	99,490
Communications	41,771
Entertainment expenses	38,767
Occupancy and rent	25,084
Operating taxes	18,912
Business travel and related expenses	7,916
Other	83,632
Other operating expenses	**1,818,406**

19. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank 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 operational 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 Bank'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.

Supervisory Board

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

Management Board

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

(thousands of Uzbek soums)

19. Risk management (continued)

Introduction (continued)

Risk Committee

The objective of the Risk Committee is to assist the Supervisory Board in performing its supervisory and regulatory functions involving control over the existence and effective functioning of the Bank's risk management system, risk analysis, as well as fostering and improvement of the risk management system.

Risk Management Unit

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

Bank Treasury

The Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also responsible for analysis and control over the Bank's liquidity position, and draws up proposals to optimize the assets and liabilities structure of the Bank to maximize return on assets while retaining their liquidity and enhancing the appeal for depositors and those who use the Bank's resources.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank'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 assessment and reporting systems

The Bank'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 economic conditions. The Bank also performs stress tests and 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 Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all types of risk and activity.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify 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 quarterly basis detailed reporting of industry, customer and geographic risks takes place. The Credit Committee assesses the appropriateness of the allowance for expected credit losses on a monthly basis. The Supervisory Board receives a comprehensive risk report once a quarter containing information necessary to assess risks and conclude on the risks of the Bank.

For all levels throughout the Bank, 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 Bank on the utilization of established limits, analysis of proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

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

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 Bank's performance to developments affecting a particular industry or geographical location.

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

(thousands of Uzbek soums)

19. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur losses because its clients or counterparties failed to discharge their contractual obligations. The Bank 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 Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Impairment assessment

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

Probability of default (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 derecognized and is still in the portfolio.
Exposure at default (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, as well as expected repayment of loans issued and interest accrued on overdue payments.
Loss given default (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 realization of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on credit losses expected to arise over the life of the asset (the lifetime expected credit losses or lifetime ECL), if there has been a significant increase in credit risk since the initial recognition, otherwise the allowance is calculated in the amount equal to 12-month expected credit losses (12-month ECL). The 12-month ECL are the portion of lifetime ECL that represent the ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank 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 changes in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans as follows:

Stage 1	When loans are first recognized, the Bank recognizes an allowance based on 12-month ECL. 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 Bank records an allowance for the lifetime ECL. 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 Bank records an allowance for the lifetime ECL.
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 recognized based on a credit-adjusted EIR. The allowance for ECL is only recognized or derecognized to the extent that there is a subsequent change in the lifetime expected credit losses.

(thousands of Uzbek soums)

19. Risk management (continued)

Credit risk (continued)

Default and recovery

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes more than 90 days past due on its contractual payments. The Bank 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 Bank also considers a variety of instances that may indicate unlikeliness to pay. Such events include the following:

- A default grade assigned
- A moratorium imposed on settling claims of creditors
- A decision on financial stabilization and/or bankruptcy prevention (financial rehabilitation) measures
- A withdrawal of the license for operations.

In accordance with the Bank's policy, financial instruments are considered to be recovered and, therefore, are transferred from Stage 3, when none of the default criteria has been observed for at least six consecutive months. The decision on whether a recovered asset should be included in Stage 2 or Stage 1 depends on the revised credit rating at the time of recovery and the assessment of whether a significant increase in credit risk has occurred since the initial recognition.

Treasury and interbank relationships

The Bank's treasury and interbank relationships comprise relationships with counterparties such as financial services institutions, banks, broker-dealers, exchanges and clearing houses. For these relationships, the Bank's risk management department analyzes publicly available information such as financial statements and other external data.

Corporate and small business lending

For corporate loans, the borrowers are assessed by the corporate lending department. As there are no internal statistics yet, the Bank's assessment is based on expert analysis of probability of default for comparable lending segments in other Uzbekistani banks and macroeconomic forecasts.

Consumer lending

Consumer lending comprises secured loans to individuals and credit cards. These products are rated the same way as corporate loans and small business loans: based on expert analysis of probability of default until statistics could be used. The credit risk assessment for the segment also considers macroeconomic forecasts.

The probability of default is assigned against benchmarks based on comparable lending segments in other Uzbekistani banks. The table below shows the average PD on loans to customers as at 31 December 2020 by class:

	Rating	*PD*
- Auto lending	Standard grade	4.0%
- Corporate loans	Standard grade	8.0%
- Consumer loans	Standard grade	4.0%

(thousands of Uzbek soums)

19. Risk management (continued)

Credit risk (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the customer's ability to increase its exposure while approaching default.

The Bank's product offering to retail customers includes credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit the exposure to risk of credit losses by the contractual term to file the notification and instead calculates the ECL for the period that represents the Bank's expectations with respect to the customer's behavior, probability of default and future measures to reduce the credit risk taken by the Bank, which may involve reducing or terminating credit lines.

Loss given default

For corporate lending assets, LGD values are assessed each time the allowance is calculated.

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD as compared to the amounts expected to be recovered or realized as a result of the sale of any collateral held.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank believes that credit risk on a financial instrument has increased significantly since its initial recognition if the following criteria are satisfied:

For corporate and consumer lending

1. Overdue amounts of loan principal and/or interest payable to the Bank at the reporting date, as well as other contractual payments that are 31 to 90 days overdue
2. Restructuring performed for the past year

For treasury and interbank transactions:

1. A decrease in the external credit rating of a counterparty at the reporting date by three or more grades as compared to the external credit rating assigned at the initial recognition date
2. A decrease in the Moody's rating to Caa1 and below.

Grouping financial assets measured on a collective basis

Depending on the factors below, the Bank calculates ECL either on a collective or on an individual basis.

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

- Stage 2 and Stage 3 corporate lending portfolio exceeding the approved threshold
- Large and unique exposures of the small business lending portfolio.

Asset classes where the Bank calculates ECL on a collective basis include:

- Small and standard assets within the small business lending portfolio
- Stage 1 consumer loans.

(thousands of Uzbek soums)

19. Risk management (continued)

Credit risk (continued)

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

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as the rate of inflation.

The inputs and models used to calculate ECL 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 significant.

The Bank obtains the forward-looking information from third-party sources (external rating agencies, governmental bodies, e.g. central banks, and international financial institutions). Experts of the Bank's credit risk department determine the weights attributable to the multiple scenarios. The table shows the value of the key forward looking economic variable/assumption used in each of the economic scenarios for the ECL calculations.

Key factors	*ECL scenario*	*Assigned probability, %*	*2021*
Inflation rate, %			
	Upside	40%	5.21%
	Base-case	50%	9.50%
	Downside	10%	13.79%

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit rating system, as described above. As at 31 December 2020, all the Bank's assets are assigned a standard grade.

See Note 7 for more details on the allowance for impairment of loans to customers.

The Bank's financial assets and liabilities are concentrated in Uzbekistan.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required.

The Bank maintains a cash deposit (obligatory reserve) with the CBU, the amount of which depends on the level of customer funds attracted.

(thousands of Uzbek soums)

19. Risk management (continued)

Liquidity risk and funding management (continued)

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

	31 December 2020
Liquidity coverage ratio (highly liquid assets / net outflow for the following 30 days) (the CBU requirement: at least 100%)	843.9%
Net stable funding ratio (available stable funding / required stable funding) (the CBU requirement: at least 100%)	190.6%

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given at the earliest possible date. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

At 31 December 2020	*Less than 3 months*
Financial liabilities	
Amounts due to customers	4,825,170
Other liabilities	727,168
Total undiscounted financial liabilities	**5,552,338**

The table below shows the contractual maturities of the Bank's credit-related commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	Less than 3 months
31 December 2020	175,917

The Bank expects that not all of the credit-related commitments will be drawn before their expiry.

Included in amounts due to customers are term deposits of individuals. In accordance with the legislation of Uzbekistan, the Bank is obliged to repay term deposits of individuals upon demand of a depositor. See Note 13.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

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. As at 31 December 2020, the Bank did not issue or receive any loans at a floating rate.

(thousands of Uzbek soums)

19. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on currency positions based on the CBU regulations. Positions are monitored on a daily basis.

The table below indicates the currency to which the Bank had significant exposure as at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a possible movement of the currency rate against the Uzbek soum on the statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in the 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*
USD	21.2%	243,800
USD	(21.2%)	(243,800)

Operational risk

Operational risk is the risk 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 Bank 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 include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

20. Fair value measurement

Fair value measurement procedures

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

- Level 1 - quoted (unadjusted) market 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 for which some of the inputs that are significant to the recorded fair value are not based on observable market data.

For the purpose of fair value disclosures, the Bank 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:

	Fair value measurement using			
31 December 2020	*Level 1 inputs*	*Level 2 inputs*	*Level 3 inputs*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	6,853,253	–	–	**6,853,253**
Amounts due from banks	–	–	51,149,482	**51,149,482**
Loans to customers at amortized cost	–	–	22,147,818	**22,147,818**
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	4,825,170	**4,825,170**

(thousands of Uzbek soums)

20. Fair value measurement (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 Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2020	*Fair value 2020*	*Unrecognized gain/(loss) 2020*
Financial assets			
Cash and cash equivalents	6,853,253	6,853,253	–
Amounts due from banks	51,149,482	51,149,482	–
Loans to customers at amortized cost	22,691,055	22,147,818	543,237
Financial liabilities			
Amounts due to customers	4,825,170	4,825,170	–
Total unrecognized change in fair value			**543,237**

21. 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 19 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2020		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	6,853,253	–	**6,853,253**
Amounts due from banks	51,149,482	–	**51,149,482**
Loans to customers	11,766,015	10,925,040	**22,691,055**
Property and equipment	–	11,900,302	**11,900,302**
Intangible assets	–	2,891,324	**2,891,324**
Deferred income tax assets	–	425,922	**425,922**
Other assets	8,120,016	–	**8,120,016**
Total	**77,888,766**	**26,142,588**	**104,031,354**
Amounts due to customers	4,825,170	–	**4,825,170**
Current income tax liabilities	46,778	–	**46,778**
Provisions	814	2,424	**3,238**
Other liabilities	727,168	–	**727,168**
Total	**5,599,930**	**2,424**	**5,602,354**
Net position	**72,288,836**	**26,140,164**	**98,429,000**

22. 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.

(thousands of Uzbek soums)

22. Related party disclosures (continued)

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	For the period from 22 August 2020 to 31 December 2020
	Entities under common control
Loans outstanding at 22 August	–
Loans issued during the year	11,100,000
Interest accrued	124,192
Loans repaid during the year	(1,100,000)
Loans outstanding at 31 December	**10,124,192**
Less allowance for impairment at 31 December	(323,744)
Loans outstanding at 31 December, net of allowance	**9,800,448**

	Entities under common control	Key management personnel	Members of the Supervisory Board
Current accounts at 31 December	98,033	205,805	4,083,392

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

	For the period from 22 August 2020 to 31 December 2020
	Entities under common control
Interest revenue on loans calculated using EIR	198,740
Credit loss expense on loans	517,616
Fee and commission income	99,370
Other operating expenses	1,323

Compensation to key management personnel comprises the following:

	2020
Salaries and other short-term benefits	1,369,637
Social security costs	160,205
Total key management personnel compensation	**1,529,842**

23. Capital adequacy

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

(thousands of Uzbek soums)

23. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

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

	2020
Tier 1 capital	98,429,000
Tier 2 capital	–
Total capital	**98,429,000**
Risk-weighted assets	
Credit risk	101,453,545
Market risk	3,751,673
	105,205,218
Tier 1 capital adequacy ratio	93.6%
Total capital ratio	93.6%