JSC “ANOR BANK”

Financial statements

For 2021 together with independent auditor’s report

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Building a better working world

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Independent auditor's report

To the Shareholders and the Council of the JSC "ANOR BANK"

Report on the audit of the financial statements

Opinion

We have audited the financial statements of JSC Anor Bank (hereinafter, the "Bank", which comprise the statement of financial position as at 31 December 2021, 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 2021 and its financial performance and its 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 financial statements* section of our report. We are independent of the Company [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), 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.

Emphasis of matter

We draw attention to Note 14 of the financial statements, which describes a significant concentration of the Bank's customers deposits. Our opinion is not modified in respect of this matter.

Responsibilities of management and the Council of the Bank for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 Council of the Bank is responsible for overseeing the Bank's financial reporting process.

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 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 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 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 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 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 Council of the Bank 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.

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

Tashkent, Uzbekistan

14 June 2021

Audit organization „Ernst & Young LLC"

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

A. Azamov

Anvarkhon Azamov
Qualified auditor
Auditor qualification certificate authorizing audit of banks
#11/4 dated 11 May 2017 issued by the Central Bank of
the Republic of Uzbekistan on 30 March 2018
Head of Uzbekistan practice
«Ernst & Young» Audit Organization LLC

Statement of financial position

As of December 31, 2021

(thousands of Uzbek sums)

	Note	2021	2020
Assets			
Cash and cash equivalents	5	280,437,908	6,853,253
Amounts due from credit institutions	6	5,762,776	51,149,482,
Loans to customers	7	597,030,863	22,691,055
Property and equipment	8	129,910,234	11,900,302
Intangible assets	9	32,709,010	2,891,324
Current income tax assets		787,965	–
Deferred income tax assets	10	6,332,201	425,922
Other assets	12	37,884,582	,8,120,016
Total assets		**1,090,855,539**	**104,031,354**
Liabilities			
Amounts due to credit institutions	13	61,000,000	–
Amounts due to customers	14	864,529,046	4,825,170
Current income tax liabilities		–	46,778
Other liabilities	12	7,942,430	730,406
Total liabilities		**933,471,476**	**5,602,354**
Equity	15		
Equity capital		185,000,000	100,000,000
Accumulated deficit		(27,615,937)	(1,571,000)
Total equity		**157,384,063**	**98,429,000**
Total equity and liabilities		**1,090,855,539**	**104,031,354**

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

Sherzod Akramov — Chairman of the Management Board

Umid Babayev — Chief Accountant

June 14, 2022

The accompanying notes on pages 10-41 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended December 31, 2021

(thousands of Uzbek sums)

	Note	*2021*	*For the period from August 22, 2020 to December 31, 2020*
Interest revenue calculated using the effective interest rate	17	92,916,536	3,470,013
Interest expenses	17	(54,564,078)	-
Net interest income	17	**38,352,458**	**3,470,013**
Credit loss expense	11	(18,764,504)	(1,418,767)
Net interest income after credit loss expense		**19,587,954**	**2,051,246**
Fee and commission income	18	28,088,231	1,368,558
Fee and commission expense	18	(3,371,366)	(280,105)
Net gains/(losses) on foreign exchange operations:			
- dealing		777,848	(19,853)
- translation differences		279,216	88,288
Other income		23,261	260,862
Non-interest income		**25,797,190**	**1,417,750**
Personnel expenses	19	(41,747,918)	(3,417,537)
Depreciation and amortization	8, 9	(8,613,436)	(183,197)
Other operating expenses	19	(26,975,006)	(1,818,406)
Non-interest expenses		**(77,336,360)**	**(5,419,140)**
Loss before income tax benefit		**(31,951,216)**	**(1,950,144)**
Income tax benefit	10	5,906,279	379,144
Loss for the year		**(26,044,937)**	**(1,571,000)**
Other comprehensive income for the year, net of taxes		-	-
Total comprehensive loss for the year		**(26,044,937)**	**(1,571,000)**

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Sherzod Akramov — Chairman of the Management Board

Umid Babayev — Chief Accountant

June 14, 2022

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Statement of changes in equity

For the year ended December 31, 2021

(thousands of Uzbek soums)

	Share capital	*Accumulated deficit*	*Total*
As of 22 August 2020 (date of formation)	–	–	–
Loss for the year	–	(1,571,000)	**(1,571,000)**
Total comprehensive loss for the year	–	**(1,571,000)**	**(1,571,000)**
Share capital increase (Note 15)	100,000,000	–	**100,000,000**
As of 31 December 2020	**100,000,000**	**(1,571,000)**	**98,429,000**
Loss for the year	–	(26,044,937)	**(26,044,937)**
Total comprehensive loss for the year	–	**(27,615,937)**	**(27,615,937)**
Share capital increase (Note 15)	85,000,000	–	**85,000,000**
As of 31 December 2021	**185,000,000**	**(27,615,937)**	**157,384,063**

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Sherzod Akramov — Chairman of the Management Board

Umid Babayev — Chief Accountant

June 14, 2022

The accompanying notes on pages 10-41 are an integral part of these financial statements.

Statement of cash flows

For the year ended December 31, 2021

(thousands of Uzbek soums)

	Note	*2021*	*For the period from August 22, 2020 to December 31, 2020*
Cash flows from operating activities			
Interest received		90,075,932	3,252,742
Interest paid		(50,906,848)	–
Fees and commissions received		28,088,231	1,368,558
Fees and commissions paid		(3,371,366)	(280,105)
Realized losses/(gains) net of foreign exchange gains/losses		777,848	(19,853)
Other income received		23,261	260,862
Personnel expenses paid		(39,678,634)	(3,843,459)
Other operating expenses paid		(26,513,346)	(1,359,493)
Cash flows from operating activities before changes in operating assets and liabilities		**(1,504,922)**	**(620,748)**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		46,137,953	(52,009,234)
Loans to customers		(590,218,378)	(23,022,166)
Other assets		(3,963,741)	(3,527,541)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		61,000,000	–
Amounts due to customers		856,046,647	4,825,170
Other liabilities		4,281,342	689,701
Net cash flows from operating activities before income tax		**371,778,901**	**(73,664,818)**
Income tax paid		(834,742)	–
Net cash from / (used in) operating activities		**370,944,159**	**(73,664,818)**
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(182,441,055)	(19,479,899)
Net cash used in investing activities		**(182,441,055)**	**(19,479,899)**
Cash flows from financing activities			
Proceeds from share capital increase	15	85,000,000	100,000,000
Net cash from financing activities		**85,000,000**	**100,000,000**
Effect of changes in exchange rates on cash and cash equivalents		279,216	5,365
Effect of expected credit losses on cash and cash equivalents		(197,665)	(7,395)
Net increase in cash and cash equivalents		**273,584,655**	**6,853,253**
Cash and cash equivalents at the beginning of the reporting year		6,853,253	-
Cash and cash equivalents at the end of the reporting year	5	**280,437,908**	**6,853,253**

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

Sherzod Akramov — Chairman of the Management Board

Umid Babayev — Chief Accountant

June 14, 2022

The accompanying notes on pages 10-41 are an integral part of these financial statements.

(thousands of Uzbek soums)

1. Principal activities

"ANOR BANK" JSC (hereinafter referred to as the "Bank") was established in 2020 in the form of a joint stock company in accordance with the legislation of the Republic of Uzbekistan and it is a digital bank. The bank operates on the basis of a license for the right to carry out banking activities issued by the Central Bank of the Republic of Uzbekistan (hereinafter referred to as the "CBU") on August 22, 2020.

The Bank accepts deposits from the population and provides loans in the territory of the Republic of Uzbekistan, as well as provides other banking services to legal entities and individuals who are the Bank's customers. The head office of the Bank is located in Tashkent. Legal address of the Bank: Republic of Uzbekistan, Tashkent, st. Sayram 5-passage, 4.

The shareholders of the Bank as of December 31 are:

Shareholder	*2021* %	*2020* %
Kakhramonjon Olimov	97.4%	95.1%
Davron Turakulov	2.6%	4.9%
Total	**100.0%**	**100.0%**

The bank is under the effective control of Kakhramonjon Olimov.

2. Basis of preparation

General

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

The Bank is obliged to keep accounting records and prepare financial statements in accordance with the legislation and regulations of the Republic of Uzbekistan on accounting and banking activities (hereinafter referred to as "NAS"). These financial statements are based on NAS, as adjusted and reclassified in order to comply with IFRS.

These financial statements have been prepared in accordance with the historical cost principle, except as noted in the Significant Accounting Policies section.

These financial statements are presented in thousands of Uzbek sums (hereinafter referred to as "thousand sums"), unless otherwise indicated.

Impact of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in 2020, which continued into 2021, many governments, including the Government of the Republic of Uzbekistan, have taken various measures to combat the outbreak, including imposing travel restrictions, quarantine, closing businesses, institutions and individual regions. These measures have had an impact on the global supply chain, on the demand for goods and services, and on the level of business activity in general. It is expected that the pandemic itself, as well as related public health and social measures, may have an impact on the activities of organizations in various sectors of the economy.

Support measures have been taken by the Government and the Central Bank of the Republic of Uzbekistan to prevent a significant deterioration in economic performance as a result of the COVID-19 outbreak. These measures include, but are not limited to, soft loans for entities operating in affected industries and affected individuals, credit holidays, and easing of certain regulatory restrictions to support the financial sector and its ability to provide resources and help customers avoid liquidity shortages as a result of measures to containment of the spread of COVID-19.

The Bank continues to evaluate the impact of the pandemic and changes in economic conditions on its operations, financial position and financial results.

Estimation uncertainty

To the extent that information was available as of December 31, 2021, the Bank has reflected revised estimates of expected future cash flows when estimating ECL (Note 7) and the fair value of financial instruments (Note 21).

(thousands of Uzbek soums)

3. Summary of accounting policies

Changes in accounting policy

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

Base Interest Rate Reform – Stage 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 ("IBOR Reform – Stage 2")

The amendments provide temporary exemptions that are applied to address the financial reporting implications when the Interbank Offered Rate (IBOR) is replaced by an alternative substantially risk-free interest rate. The amendments provide the following:

- A practical simplification that changes to the contract or changes in cash flows directly required by the reform should be treated as changes in the floating interest rate equivalent to a change in the market interest rate;
- It is possible to make changes required by the IBOR reform to the definition of hedging relationships and hedging documentation without discontinuing the hedging relationship;
- Entities are granted a temporary exemption from the need to comply with the separately identifiable components requirement when an instrument with a risk-free rate is designated as a risky component in the hedging relationship.

COVID-19 lease concessions effective after June 30, 2021 – Amendments to IFRS 16

On May 28, 2020, the IASB issued an amendment to IFRS 16 *Leases - Lease Concessions Associated with the COVID-19 Pandemic*. The amendment provides an exemption for lessees from applying the requirements of IFRS 16 to account for lease modifications in the event of lease concessions that arise as a direct consequence of the COVID-19 pandemic. As a practical expedient, a tenant may choose not to analyze whether a lease concession made by a landlord due to the COVID-19 pandemic is a lease modification. A lessee that makes this election must account for any change in lease payments resulting from the COVID-19 lease assignment in the same way that the change would be accounted for under IFRS 16 if it were not a contract modification rent.

This amendment was intended to apply until June 30, 2021, but due to the continued impact of the COVID-19 pandemic on March 31, 2021, the IASB decided to extend the application of this practical expedient until June 30, 2022.

The new amendment applies to annual periods beginning on or after April 1, 2021. The Bank has not been granted any lease concessions related to the COVID-19 pandemic, but if necessary, it plans to apply the practical expedient within a reasonable period.

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. Fair value measurement assumes that a transaction to sell an asset or transfer a liability is:

- In the underlying market for the asset or liability; or
- If there is no underlying market, in the most advantageous market for the asset or liability.

The Bank must have access to the main or most advantageous market. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability if market participants act in their best economic interests. The fair value measurement of a non-financial asset takes into account the ability of a market participant to generate economic benefits either through its highest and best use of the asset or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation models that are appropriate in the circumstances and for which data sufficient to measure fair value are available, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities whose fair value is measured or disclosed in the financial statements are classified within the fair value hierarchy described below, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation models in which the lowest level inputs significant to the fair value measurement are directly or indirectly observable in the market;
- Level 3 – valuation models in which the lowest level inputs significant to the fair value measurement are not observable in the market.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether they need to be transferred between levels of the hierarchy by reassessing the classification (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

Regular way purchases or sales of financial assets and liabilities are recognized on the trade date, i.e. on the date the Bank commits to purchase the asset or liability. Regular way buying or selling refers to the purchase or sale of financial assets and liabilities under a contract that requires the delivery of assets and liabilities within a timeframe specified by market rules or conventions.

Initial assessment

The classification of financial instruments at initial recognition depends on the contractual terms and the business model used to manage the instruments. Financial instruments are initially measured at fair value, including transaction costs, unless financial assets and financial liabilities are measured at FVPL.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets, based on the business model used to manage the assets and the contractual terms of the assets, as measured at:

- Amortized cost;
- FVOCI;
- FVPL.

Financial liabilities, other than loan commitments and financial guarantees, are either measured at amortized cost or at FVPL if they are held for trading and derivatives, or at the discretion of the entity are classified as measured at fair value.

Amounts due from credit institutions, loans to customers, investment securities measured at amortized cost

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

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

These conditions are discussed in more detail below.

Business model assessment

The Bank defines a business model at the level that best reflects how grouped financial assets are managed to achieve a specific business objective.

The Bank's business model is not assessed at the level of individual instruments, but at a higher level of portfolio aggregation and is based on observable factors such as:

- How the performance of the business model and the return on financial assets held within that business model are measured, and how this information is communicated to the entity's key management personnel;
- Risks that affect the performance of the business model (and the return on financial assets held within that business model) and, in particular, how those risks are managed;
- How managers who operate the business are remunerated (for example, whether the remuneration is based on the fair value of the assets being managed or on contractual cash flows received);
- The expected frequency, volume and timing of sales are also important considerations when evaluating the Bank's business model.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

The assessment of the business model is based on scenarios that are reasonably expected to occur, without taking into account the so-called "worst" or "stress" scenarios. If cash flows after initial recognition are realized in a manner different from the Bank's expectations, the Bank does not reclassify the remaining financial assets held within the business model, but takes such information into account when measuring newly created or newly acquired financial assets going forward.

"Solely payments of principal and interest on principal outstanding" test (SPPI test)

As part of the second step of the classification process, the Bank evaluates the contractual terms of the financial asset to determine whether the contractual cash flows of the asset are solely payments of principal and interest on the principal amount outstanding (called the SPPI test).

For the purposes of this test, "principal" is 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 principal repayments or premium/discount amortization).

The most significant elements of interest under a loan agreement are usually consideration for the time value of money and consideration for credit risk. To perform the SPPI test, 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.

However, contractual terms that have more than negligible impact on the exposure or volatility of contractual cash flows that are not related to the underlying loan agreement do not give rise to contractual cash flows that are solely payments of principal and interest. on the outstanding portion of the principal amount of the debt. In such cases, the financial asset must be measured at FVPL.

Debt instruments measured at FVOCI

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

- The instrument is held within a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets;
- The contractual terms of the financial asset comply with the SPPI test criteria.

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

ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of those financial assets in the statement of financial position that continue to be measured at fair value. Instead, an amount equal to the allowance for expected losses that would have been created by measuring the asset at amortized cost is recognized in OCI as cumulative impairment, and the corresponding amounts are recognized in profit or loss. The cumulative loss recognized in OCI is reclassified to profit or loss when the asset is derecognized.

Loan commitments

The Bank issues loan commitments.

Loan commitments are contractual commitments under which, during the life of the commitment, the Bank is required to provide a customer with a loan on pre-agreed terms. For such liabilities, the requirements for measuring ECLs apply.

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

Reclassification of financial assets and liabilities

The Bank does not reclassify financial assets after their initial recognition, except in exceptional cases when the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. In 2021, the Bank did not reclassify financial assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, funds with the Central Bank of Uzbekistan (excluding required reserves) and funds with credit institutions with a maturity of ninety days from the date of origin, not encumbered with any contractual obligations.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Offsetting financial instruments

A financial asset and a financial liability are offset and presented net on the statement of financial position when there is a legally enforceable right to set off the recognized amounts and when there is an intention to settle on a net basis, or to realize the asset and settle the liability at the same time. The right to set off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- In the ordinary course of business;
- In case of default; and
- In case of insolvency or bankruptcy of the organization or any of the counterparties.

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

Loan restructuring

The Bank seeks, to the extent possible, instead of foreclosing collateral, to revise the terms of loans, for example, to extend contractual payment terms and agree on new loan terms.

A bank derecognizes a financial asset, such as a loan to a customer, if the terms of the contract are renegotiated so that, in effect, it becomes a new loan and the difference is recognized as a derecognition gain or loss before an impairment loss is recognized. On initial recognition, loans are treated as Stage 1 for ECL purposes unless the originated loan is considered an POCI asset. When evaluating whether to derecognize a loan to a customer, the Bank considers, among other things, the following factors:

- Changing the loan currency;
- Changing the counterparty;
- Whether the modification causes the instrument to no longer meet the criteria for the SPPI test.

If the modification does not result in a significant change in cash flows, the modification does not result in derecognition. Based on the change in cash flows, discounted at the original effective interest rate, the Bank recognizes gain or loss from a modification that is presented as interest revenue, calculated using the effective interest rate in the statement of profit or loss before any impairment loss is recognized.

In the event of a modification that does not result in derecognition, the Bank also reassesses whether there is a significant increase in credit risk or whether assets need to be classified as credit-impaired. Once an asset is classified as credit-impaired as a result of the modification, it will remain in Stage 3 for at least a 6-month trial period. To transfer a restructured loan out of Stage 3, regular payments of more than insignificant amounts of principal or interest are required for at least half of the trial period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position if:

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

If the Bank has transferred its rights to receive cash flows from an asset, but neither has transferred nor retained substantially all the risks and rewards of the asset, nor has it transferred control of the asset, such an asset is accounted for to the extent of the Bank's continuing involvement in that asset. A continued interest in an asset, in the form of a guarantee on the transferred asset, is measured at the lower of the asset's original carrying amount and the maximum consideration that can be presented to the Bank.

If the continuing involvement in an asset takes the form of a written and/or written option (including a cash-settled option or similar instrument) on the transferred asset, the Bank's continuing involvement is the value of the transferred asset that the Bank can repurchase, unless in the case of a written put-option (including a cash-settled option or similar instrument) on an asset measured at fair value. In this case, the Bank's continuing involvement is determined as the lower of the two values: the fair value of the asset transferred and the strike price of the option.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is when the associated liability is discharged, canceled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognized with the difference in the carrying amount recognized in profit or loss.

Taxation

Current income tax expenses are calculated in accordance with the legislation of the Republic of Uzbekistan.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the balance sheet 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, unless the deferred income tax arises from the initial recognition of goodwill, an asset or a liability in a transaction that does not represent is a business combination and which, at the time of inception, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are only recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilisedutilized. Deferred tax assets and liabilities are measured at the tax rates that will be applied during the period when the asset is realized or the liability is settled, based on the legislation that has entered into force or actually entered into force at the reporting date.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, unless 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.

In addition, the Republic of Uzbekistan has various operating taxes that apply to the activities of the Bank. These taxes are included in other operating expenses.

Property and equipment

Property and equipment are carried at historical cost, excluding day-to-day maintenance costs, less accumulated depreciation and accumulated impairment losses. This cost includes the costs associated with the replacement of equipment, which are recognized when incurred if they meet the recognition criteria.

The carrying amount of property and equipment is assessed for impairment when events or changes in circumstances occur that indicate that the carrying amount of the asset may not be recoverable.

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

	Years
Buildings	30-40
Furniture and accessories	5-13
Computers and office equipment	5-13
Vehicles	5

The residual values, useful lives and depreciation methods of assets are reviewed at the end of each reporting year and adjusted as necessary.

Repair and reconstruction costs are expensed when incurred and included in other operating expenses unless they qualify for capitalization.

Intangible assets

Intangible assets include software and licenses.

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets have a limited or unlimited useful life. Intangible assets with limited useful lives are amortized over their useful lives of 5 years or more and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The timing and procedure for amortization of intangible assets with an indefinite useful life are reviewed at least annually at the end of each reporting year.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Provisions

A provision is recognized, if because of a past event, the Bank has a legal or constructive obligation, the settlement of which is likely to require an outflow of resources embodying future economic benefits, and which can be estimated with a reasonable degree of reliability.

Obligations for pension payments and other employee benefits

The Bank has no additional pension plans other than participation in the state pension system of the Republic of Uzbekistan, which provides for the calculation of current employer contributions as a percentage of current total employee benefits. These expenses are reflected in the reporting period to which the relevant salary relates. In addition, the Bank does not pay significant post-employment benefits to employees.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with rights to discretionary dividends are included in equity. Third party fees directly attributable to the issue of new shares, other than on a business combination, are recognized in equity as a deduction from the proceeds from the issue. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional equity.

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the reporting date. Information about dividends is disclosed in the financial statements if they were recommended before the reporting date, and also recommended or declared after the reporting date, but before the date when the financial statements were authorized for issue.

Contingencies

Contingent liabilities are not recognized in the statement of financial position and are disclosed in the financial statements, unless it is unlikely that an outflow of resources to settle them is probable. Contingent assets are not recognized in the statement of financial position and are disclosed in the financial statements when it is probable that the economic benefits associated with them will flow.

Recognition of income and expenses

Revenue is recognized if it is highly probable that the Bank will receive economic benefits and if revenue can be measured reliably. The following criteria must also be met for revenue to be recognized in the financial statements:

Interest and similar income and expenses

The Bank calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired financial assets. The effective interest rate 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 applicable, 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 any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but exclude future credit losses. The carrying amount of a financial asset or financial liability is adjusted when the Bank revises estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recognized as interest income or expense.

In the case of a financial asset that becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortized cost of that financial asset. If a financial asset clears default and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income using the credit risk-adjusted effective interest rate on the amortized cost of the financial asset. The effective interest rate, adjusted for credit risk, is the rate that, at initial recognition, discounts estimated future cash flows (including credit losses) to the amortized cost of the POCI of assets.

Interest income on all financial assets measured at FVPL is recognized using the contractual interest rate as part of 'Other interest income' in the statement of profit or loss.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

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

- *Fee and commission income received for the provision of services during a certain period of time*

Commissions earned for providing services over a period of time accrue over that period as the related performance obligations are satisfied. Such items include fee and commission income and fees for asset management, custody and other management and advisory services. Commitment fees when the loan is likely to be drawn down and other loan origination fees are deferred (together with incremental costs) and recognized as an adjustment to the effective interest rate of the loan.

- *Fee and commission income from the provision of transaction services*

Commissions received for negotiating or negotiating a transaction on behalf of a third party, for example where the Bank's performance obligation is to enter into an agreement to purchase shares or other securities, or to buy or sell businesses, are recognized upon completion of such transaction. Fees (or a portion of fees) associated with certain performance obligations are recognized when the relevant criteria are met. If the contract contains variable consideration, fee income is recognized only to the extent that it is highly probable that subsequent resolution of the uncertainty inherent in the variable consideration will not result in a significant reduction in the amount of cumulative revenue recognized.

- *Foreign currency conversion*

The financial statements are presented in Uzbek sum, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated to the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the reporting date. Gains and losses arising from the translation of transactions in foreign currencies are recognized in the statement of profit or loss in the line item "Net gains on foreign currency transactions – Revaluation of currency items". Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the rate of exchange ruling at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the rate of exchange ruling at the date the fair value was determined.

The difference between the contractual exchange rate for a foreign currency transaction and the official exchange rate of the Central Bank of the Republic of Uzbekistan on the date of such transaction is included in gains less losses on foreign currency transactions. As of December 31, 2021 and 2020 the official exchange rate of the Central Bank of the Republic of Uzbekistan was 10,838 sums and 10,477 sums for 1 US dollar respectively.

Standards that have been issued but not yet effective

The following are new standards, amendments and interpretations that have been issued but are not yet effective as of the date of publication of the Bank's financial statements. The Bank plans to adopt these new standards, amendments and interpretations, if applicable, once they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB released IFRS 17 *Insurance Contracts*, a comprehensive new financial reporting standard for insurance contracts that addresses recognition and measurement, presentation and disclosure. When IFRS 17 becomes effective, it will replace IFRS 4 *Insurance Contracts*, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life and non-life insurance, direct insurance and reinsurance), regardless of the type of entity that issues them, and to certain guarantees and financial instruments with conditions discretionary participation. There are several exceptions to the scope of the standard. IFRS 17 introduces new accounting requirements for banking products with characteristics of insurance contracts, which may affect the determination of which instruments or their components are within 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 to apply the existing accounting treatment and account for them as financial instruments under IFRS 9. IFRS 17 excludes credit card (or similar contracts that set out credit or payment service agreements) that meet the definition of an insurance contract if and only if an entity does not reflect an assessment of the insurance risk associated with an individual customer when pricing the contract with that customer.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Standards that have been issued but not yet effective (continued)

When insurance coverage is provided as part of the contractual terms and conditions of a credit card, the issuer must:

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

Loan agreements that meet the definition of an insurance agreement, but limit the amount of compensation for insurance events to the amount that would otherwise be required to settle the obligation of the policyholder created by this agreement: issuers of such loans (for example, loans that provide for release from repayment in the event of death borrower) have the choice to apply IFRS 9 or IFRS 17. This decision is made at the portfolio level and is not subject to revision.

IFRS 17 is effective for periods beginning on or after January 1, 2023 with comparative figures required. Early application is permitted provided that the entity is also applying IFRS 9 and IFRS 15 at the date of first application.

The Bank is currently assessing the impact of applying IFRS 17 on its financial statements.

Amendments to IAS 1 – Classification of Liabilities as Current and Non-current

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

- What is meant by the right to delay the settlement of obligations;
- The right to defer the settlement of obligations must exist at the end of the reporting period;
- The classification of liabilities is not affected by the likelihood that the entity will exercise its right to defer settlement of the liability;
- The terms of a liability will not affect its classification only if the derivative embedded in the convertible liability is itself an equity instrument.

These amendments are effective for annual periods beginning on or after January 1, 2023 and are applied retrospectively. The Bank is currently reviewing the possible impact of these amendments on the current classification of liabilities and the need to revise the terms of existing loan agreements.

Amendments to IFRS 3 – References to the Conceptual Framework

In May 2020, the IASB issued amendments to IFRS 3 *Business Combinations – References to Conceptual Frameworks*. The purpose of these amendments is to replace references to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with references to the *Framework for the Presentation of Financial Statements*, issued in March 2018, without making significant changes to the requirements of the standard.

The Board also added an exception to the recognition principle in IFRS 3, to avoid potential day 2 gains or losses, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC Interpretations 21 *Compulsory Payments*, if they arose as part of individual transactions.

At the same time, the Board decided to clarify the existing requirements of IFRS 3 with respect to contingent assets, which would not be affected by the replacement of references to the *Framework for the Preparation and Presentation of Financial Statements*.

These amendments are effective for annual periods beginning on or after January 1, 2022 and are applied prospectively. These amendments are not expected to have a material impact on the Bank.

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

In May 2020, the IASB issued *Property, Plant and Equipment: Receipts Before Use*, which prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds from the sale of items made in the process of bringing that item to its location and bringing it to condition that is required for its operation in accordance with the intentions of management. Instead, the entity recognizes proceeds from the sale of those items, as well as the cost of producing those items, in profit or loss.

These amendments are effective for annual periods beginning on or after January 1, 2022 and must be applied retrospectively to those items of property, plant and equipment that became available for use on or after the start date of the earliest presented in financial statements of the period in which an entity first applies the amendments.

These amendments are not expected to have a material impact on the Bank.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Standards that have been issued but not yet effective (continued)

Amendments to IAS 37 – Onerous Contracts – Costs to Perform a Contract

In May 2020, the IASB issued amendments to IAS 37 that clarify what costs an entity should consider when assessing whether a contract is onerous or unprofitable.

The amendments provide for an approach based on "costs directly attributable to the contract". Costs that are directly attributable to a contract for the provision of goods or services include both the incremental costs of performing that contract and the allocated costs that are directly attributable to the performance of the contract. General and administrative costs are not directly attributable to the contract and are therefore excluded unless they are expressly recoverable by the counterparty to the contract.

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

IFRS 1 First-Time Adoption of International Financial Reporting Standards – Subsidiary First-time Adopter of International Financial Reporting Standards

As part of the 2018-2020 Annual Improvements to IFRSs, the IASB has issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Under the amendment, a subsidiary that elects to apply paragraph D16(a) of IFRS 1 may measure accumulated exchange differences using the amounts recognized in the parent's financial statements based on the parent's date of transition to IFRSs. This amendment also applies to associates and joint ventures that elect to apply paragraph D16(a) of IFRS 1.

This amendment is effective for annual periods beginning on or after January 1, 2022. Early application is allowed.

IFRS 9 Financial Instruments – 10% Test Fee for Derecognizing Financial Liabilities

As part of the 2018-2020 annual improvements to IFRSs, the IASB issued an amendment to IFRS 9. The amendment clarifies the composition of fees that an entity considers when assessing whether the terms of a new or modified financial liability are materially different from the terms of the original financial obligation. Such amounts include only those fees paid or received between a lender and a borrower, including fees paid or received by a lender or borrower on behalf of the other party. An entity shall apply this amendment to financial liabilities that are modified or replaced on or after the start date of the annual reporting period in which the entity first applies the amendment.

This amendment is effective for annual periods beginning on or after January 1, 2022. Early application is allowed. The Bank will apply this amendment to financial liabilities that are modified or replaced on or after the start date of the annual reporting period in which it first applies this amendment.

This amendment is not expected to have a material impact on the Bank's financial statements.

Amendments to IAS 8 – Determination of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8 introducing the definition of "accounting estimates". The amendments clarify the difference between changes in accounting estimates and changes in accounting policies and corrections of errors. It also explains how organizations use measurement methods and inputs to develop accounting estimates.

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

These amendments are not expected to have a material impact on the Bank.

Amendments to IAS 1 and Practice Guideline No. 2 on the Application of IFRS – Accounting Policies Disclosures

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Guideline 2 on *Making Materiality Judgments*, which provide guidance and examples to help entities apply materiality judgments when disclosing accounting policies. The amendments should help entities disclose more useful information about accounting policies by replacing the requirement for entities to disclose "significant information" about accounting policies with a requirement to disclose "material information" about accounting policies, and by adding guidance on how entities should apply the concept materiality in making decisions on disclosure of information about accounting policies.

(thousands of Uzbek soums)

3. Summary of accounting policies (continued)

Standards that have been issued but not yet effective (continued)

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

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

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities as reported in the statement of financial position cannot be determined based on prices in an active market, they are determined using various valuation models, including mathematical models. The inputs for such models are determined based on the observable market, if possible; otherwise, judgment is required to determine fair value. See Note 21 for more information.

Impairment losses on financial assets

The assessment of impairment losses for all categories of financial assets requires the exercise of judgment, in particular, in determining ECL / impairment losses and assessing a significant increase in credit risk, it is necessary to estimate the amount and timing of future cash flows, and the value of collateral. These estimates depend on a number of factors, changes in which could result in different amounts of impairment allowances. In addition, large-scale business disruptions can lead to liquidity problems for some organizations and consumers.

A deterioration in the credit quality of loan portfolios and trade receivables (among other things) as a result of the COVID-19 pandemic could have a significant impact on the Bank's estimate of ECL. The Bank's ECL calculations are the result of complex models that include a number of basic assumptions about the choice of input variables and their interdependencies. Elements of ECL calculation models that are considered judgments and estimates include:

- The internal credit rating system used by the Bank to determine the Probability of Default (PD);
- The criteria used by the Bank to assess whether there has been a significant increase in credit risk such that the impairment allowance for financial assets should be measured at an amount equal to lifetime ECL and qualitative assessment;
- Grouping financial assets when ECLs are measured on a group basis;
- Development of models for calculating ECL, including various formulas and selection of initial data;
- Determining the relationship between macroeconomic scenarios and economic data, as well as the impact on the Probability of Default (PD), Value at Risk of Default (EAD) and Loss on Default (LGD) measures;
- Selecting forward-looking macroeconomic scenarios and weighting them with respect to probability to provide economic inputs for ECL estimation models.

The amount of the allowance recognized in the statement of financial position as of December 31, 2021 was 17,517,046 thousand sums (2020: 2,105,483 thousand sums). Detailed information is provided in Note 7.

(thousands of Uzbek soums)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2021	*2020*
Overnight deposits in the Central Bank	160,105,205	–
Current accounts with the Central Bank	106,633,800	1,742,771
Cash on hand	11,908,091	–
Current accounts with other credit institutions	1,995,872	117,877
Time deposits with credit institutions up to 90 days	–	5,000,000
Less: allowance for impairment	(205,060)	(7,395)
Cash and cash equivalents	**280,437,908**	**6,853,253**

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances for 2021 and for the period from August 22, 2020 (date of formation) to December 31, 2020 is, as follows:

	2021	*For the period from August 22, 2020 (date of formation) to December 31, 2020*
ECL allowance at January 1 / August 22	**(7,395)**	**–**
Changes in ECL	(197,665)	(7,395)
ECL allowance at December 31	**(205,060)**	**(7,395)**

6. Amounts due from credit institutions

Amounts due from credit institutions include the following items:

	2021	*2020*
Obligatory reserve with the Central Bank	4,787,515	9,234
Time deposits for more than 90 days	–	52,000,000
Restricted funds	1,083,766	–
Less: allowance for impairment	(108,505)	(859,752)
Amounts due from credit institutions	**5,762,776**	**51,149,482**

Credit institutions are required to keep an interest-free cash deposit (obligatory reserve) with the Central Bank of the Republic of Uzbekistan, the amount of which depends on the amount of funds attracted by the credit institution, determined in accordance with the instructions of the Central Bank of the Republic of Uzbekistan. The legislation provides for significant restrictions on the ability of the Bank to withdraw this deposit.

As of December 31, 2021, the Bank had no funds on current accounts and interbank deposits (2020: 52,000,000 thousand sums).

All balances with credit institutions are classified as Stage 1. The tables below provide an analysis of changes in the gross carrying amount and related ECL allowances for 2021 and for the period from August 22, 2020 (date of formation) to December 31, 2020:

	2021	*For the period from August 22, 2020 (date of formation) to December 31, 2020*
Gross book value as of January 1 / August 22	**52,009,234**	**–**
New assets originated or purchased	5,862,047	52,009,234
Assets repaid	(52,000,000)	–
As of December 31	**5,871,281**	**52,009,234**

(thousands of Uzbek soums)

6. Amounts due from credit institutions (continued)

	2021	*For the period from August 22, 2020 (date of formation) to December 31, 2020*
ECL allowance at January 1 / August 22	**859,752**	**-**
New assets originated or purchased	108,505	859,752
Assets repaid	(859,752)	-
As of December 31	**108,505**	**859,752**

7. Loans to customers

Loans to customers include the following items:

	2021	*2020*
Consumer loans	564,467,169	13,115,245
Commercial loans	44,727,570	10,124,192
Small business loans	7,056,707	-
Total loans to customers measured at amortized cost	**616,251,446**	**23,239,437**
Less: allowance for impairment	(19,220,583)	(548,382)
Total loans to customers	**597,030,863**	**22,691,055**

Allowance for impairment of loans to customers measured at amortized cost

Below is an analysis of changes in gross carrying amount and related ECLs in the context of consumer lending for the year ended December 31, 2021:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross book value as of January 1, 2021	**13,115,245**	-	-	**13,115,245**
New assets originated or purchased	552,489,869	-	-	**552,489,869**
Assets repaid	(1,137,945)	-	-	**(1,137,945)**
Transfers to Stage 2	(16,075,123)	16,075,123	-	-
Transfers to Stage 3	(5,654,426)	-	5,654,426	-
As of December 31, 2021	**542,737,620**	**16,075,123**	**5,654,426**	**564,467,169**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as of January 1, 2021	**224,638**	-	-	**224,638**
New assets originated or purchased	17,478,809	-	-	**17,478,809**
Assets repaid	(28,356)	-	-	**(28,356)**
Transfers to Stage 2	(2,850,294)	2,850,294	-	-
Transfers to Stage 3	(3,059,238)	-	3,059,238	-
Impact on period end ECL of exposures transferred between stages during the period	-	40,077	5,450	**45,527**
Net remeasurement of loss allowance	107,237	-	-	**107,237**
As of December 31, 2021	**11,872,796**	**2,890,371**	**3,064,688**	**17,827,855**

(thousands of Uzbek soums)

7. Loans to customers (continued)

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

Below is an analysis of changes in the gross carrying amount and related ECLs for commercial lending for the year ended December 31, 2021:

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross book value as of January 1, 2021	**10,124,192**	–	–	**10,124,192**
New assets originated or purchased	34,703,543	–	–	**34,703,543**
Assets repaid	(100,165)	–	–	**(100,165)**
As of December 31, 2021	**44,727,570**	–	–	**44,727,570**

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as of January 1, 2021	**323,744**	–	–	**323,744**
New assets originated or purchased	1,041,106	–	–	**1,041,106**
Assets repaid	(3,649)	–	–	**(3,649)**
Net remeasurement of loss allowance	(93,964)	–	–	**(93,964)**
As of December 31, 2021	**1,267,237**	–	–	**1,267,237**

Below is an analysis of changes in the gross carrying amount and related ECLs in the context of small business lending for the year ended December 31, 2021:

Small business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross book value as of January 1, 2021	–	–	–	–
New assets originated or purchased	7,056,707	–	–	**7,056,707**
As of December 31, 2021	**7,056,707**	–	–	**7,056,707**

Small business loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as of January 1, 2021	–	–	–	–
New assets originated or purchased	125,491	–	–	**125,491**
As of December 31, 2021	**125,491**	–	–	**125,491**

Below is an analysis of changes in the gross carrying amount and related ECLs in the context of commercial lending for the period from August 22, 2020 (date of formation) to December 31, 2020:

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross book value as of August 22, 2020	–	–	–	–
New assets originated or purchased	10,124,192	–	–	**10,124,192**
As of December 31, 2020	**10,124,192**	–	–	**10,124,192**

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as of August 22, 2020	–	–	–	–
New assets originated or purchased	323,744	–	–	**323,744**
As of December 31, 2020	**323,744**	–	–	**323,744**

Below is an analysis of changes in the gross carrying amount and related ECLs in the context of consumer lending for the period from August 22, 2020 (date of formation) to December 31, 2020:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross book value as of August 22, 2020	–	–	–	–
New assets originated or purchased	13,115,245	–	–	**13,115,245**
As of December 31, 2020	**13,115,245**	–	–	**13,115,245**

(thousands of Uzbek soums)

7. Loans to customers (continued)

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

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as of August 22, 2020	–	–	–	–
New assets originated or purchased	224,638	–	–	**224,638**
As of December 31, 2020	**224,638**	–	–	**224,638**

Concentration of loans to customers

As of December 31, 2021, the concentration of loans issued by the Bank to the ten largest independent parties was 52,872,982 thousand sums (8% of total loan portfolio) (2020: 10,892,344 thousand sums (46.9% of total loan portfolio) An allowance of 1,949,636 thousand sums was created for these loans (2020: 336,242 thousand sums).

The structure of the loan portfolio by types of customers is presented as follows:

	2021	*2020*
Individuals	564,467,169	13,115,245
Private companies	51,784,277	10,124,192
	616,251,446	**23,239,437**

Loans are issued to customers in the Republic of Uzbekistan operating in the following sectors of the economy:

	2021	*2020*
Individuals	564,467169	13,115,245
Microfinancing	44,727,570	10,124,192
Trade enterprises	2,910,293	–
Agriculture and food industry	2,024,763	–
Construction	1,989,300	–
Other	132,351	–
	616,251,446	**23,239,437**

8. Property and equipment

Below is the movement by item of property and equipment:

	Buildings	*Furniture and accessories*	*Computers and office equipment*	*Vehicles*	*Total*
Cost					
As of January 1, 2021	–	**622,114**	**11,066,982**	**351,541**	**12,040,637**
Additions	76,835,601	10,283,189	33,296,636	3,596,607	**124,012,033**
As of December 31, 2021	**76,835,601**	**10,905,303**	**44,363,618**	**3,948,148**	**136,052,670**
Accumulated depreciation					
As of January 1, 2021	–	**(529)**	**(133,947)**	**(5,859)**	**(140,335)**
Depreciation charge	(1,522,199)	(2,609,436)	(1,597,775)	(272,691)	**(6,002,101)**
As of December 31, 2021	**(1,522,199)**	**(2,609,965)**	**(1,731,722)**	**(278,550)**	**(6,142,436)**
Net book value					
As of January 1, 2021	–	**621,585**	**10,933,035**	**345,682**	**11,900,302**
As of December 31, 2021	**75,313,402**	**8,295,338**	**42,631,896**	**3,669,598**	**129,910,234**

(thousands of Uzbek soums)

8. Property and equipment (continued)

	Buildings	*Furniture and accessories*	*Computers and office equipment*	*Vehicles*	*Total*
Cost					
As of August 22, 2020 (date of formation)	–	–	–	–	–
Additions	–	622,114	11,066,982	351,541	**12,040,637**
As of December 31, 2020	**–**	**622,114**	**11,066,982**	**351,541**	**12,040,637**
Accumulated depreciation					
As of August 22, 2020 (date of formation)	–	–	–	–	–
Depreciation charge	–	(529)	(133,947)	(5,859)	**(140,335)**
As of December 31, 2020	**–**	**(529)**	**(133,946)**	**(5,859)**	**(140,335)**
Net book value					
As of August 22, 2020 (date of formation)	–	–	–	–	–
As of December 31, 2020	**–**	**621,585**	**10,933,035**	**345,682**	**11,900,302**

9. Intangible assets

Below is the movement by item of intangible assets:

	Software	*Total*
Cost		
As of December 31, 2020	**2,934,186**	**2,934,186**
Additions	32,429,021	**32,429,021**
As of December 31, 2021	**35,363,207**	**35,363,207**
Accumulated amortization		
As of December 31, 2021	**(42,862)**	**(42,862)**
Amortization charge	(2,611,335)	**(2,611,335)**
As of December 31, 2021	**(2,654,197)**	**(2,654,197)**
Net book value		
As of December 31, 2021	**2,891,324**	**2,891,324**
As of December 31, 2021	**32,709,010**	**32,709,010**

	Software	*Total*
Cost		
As of August 22, 2020 (date of formation)	–	–
Additions	2,934,186	**2,934,186**
As of December 31, 2020	**2,934,186**	**2,934,186**
Accumulated amortization		
As of August 22, 2020 (date of formation)	–	–
Amortization charge	(42,862)	**(42,862)**
As of December 31, 2020	**(42,862)**	**(42,862)**
Net book value		
As of August 22, 2020 (date of formation)	–	–
As of December 31, 2020	**2,891,324**	**2,891,324**

(thousands of Uzbek soums)

10. Taxation

Income tax expense is represented by the following items:

	2021	For the period from August 22, 2020 (date of formation) to December 31, 2020
Current tax charge	–	46,778
Deferred tax credit – origination and reversal of temporary differences	(5,906,279)	(425,922)
Income tax benefit	**(5,906,279)**	**(379,144)**

The effective income tax rate differs from the statutory income tax rate. Below is a reconciliation of income tax expense calculated at the statutory rate with actual income tax expense:

	2021	For the period from August 22, 2020 (date of formation) to December 31, 2020
Loss before tax	**(31,951,216)**	**(1,950,144)**
Statutory tax rate	20%	20%
Theoretical income tax benefit at the statutory tax rate	**(6,390,243)**	**(390,029)**
Unrecognized tax loss	319,538	–
Non-deductible expenses	164,427	10,885
Income tax benefit	**(5,906,279)**	**(379,144)**

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

	August 22, 2020	Origination and reversal of temporary differences In the profit or loss statement	December 31, 2020	Origination and reversal of temporary differences In the profit or loss statement	December 31, 2021
Tax effect of deductible temporary differences					
Carried forward tax loss	–	–	–	319,538	319,538
Loans to customers	–	109,676	109,676	4,987,305	5,096,981
Other liabilities	–	134,670	134,670	683,531	818,201
Property and equipment	–	8,147	8,147	302,605	310,752
Intangible assets	–	–	–	43,554	43,554
Amounts due from credit institutions	–	173,429	173,429	(110,716)	62,713
Deferred tax assets, gross	**–**	**425,922**	**425,922**	**6,225,817**	**6,651,739**
Unrecognized tax loss	–	–	–	(319,538)	(319,538)
Deferred tax asset	**–**	**425,922**	**425,922**	**5,906,279**	**6,332,201**

(thousands of Uzbek soums)

11. Credit loss expense

The table below shows the ECL expense for financial instruments recognized in the statement of profit or loss for the year ended December 31, 2021:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	197,665	-	-	**197,665**
Amounts due from credit institutions	6	(751,247)	-	-	**(751,247)**
Loans to customers measured at amortized cost	7	18,626,674	40,077	5,450	**18,672,201**
Undrawn loan commitments	15	645,885	-	-	**645,885**
Total credit loss expense		**18,718,977**	**40,077**	**5,450**	**18,764,504**

The table below shows the ECL expense for financial instruments recognized in the statement of profit or loss for the period from August 22, 2020 (date of formation) to December 31, 2020:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	7,395	-	-	**7,395**
Amounts due from credit institutions	6	859,752	-	-	**859,752**
Loans to customers measured at amortized cost	7	548,382	-	-	**548,382**
Undrawn loan commitments	15	3,238	-	-	**3,238**
Total credit loss expense		**1,418,767**	-	-	**1,418,767**

12. Other assets and liabilities

Other assets include the following items:

	2021	*2020*
Prepayments	34,229,228	8,103,563
Low value and short life assets at warehouse	3,518,692	-
Other non-financial assets	136,662	16,453
Other assets	**37,884,582**	**8,120,016**

Other liabilities include the following items:

	2021	*2020*
Other financial liabilities		
Settlements for the purchase of goods and services	3,610,869	471,699
Payable to employees	2,069,284	205,457
Other financial liabilities	**5,680,153**	**677,156**
Allowance for contingent credit related commitments	649,123	3,238
Total other financial liabilities	**6,329,276**	**680,394**
Other non-financial liabilities		
Taxes payable, other than income tax	1,509,414	26,342
Other non-financial liabilities	103,740	23,670
Total other non-financial liabilities	**1,613,154**	**50,012**
Other liabilities	**7,942,430**	**730,406**

13. Amounts due to credit institutions

As of December 31, 2021, amounts due to credit institutions amounted to 61,000,000 thousand sums (2020: 0 thousand sums).

(thousands of Uzbek soums)

14. Amounts due to customers

The amounts due to customers include the following:

	2021	2020
Term deposits	771,484,144	–
Current accounts	93,044,902	4,825,170
Amounts due to customers	**864,529,046**	**4,825,170**

As of December 31, 2021, amounts due to customers in the amount of 337,482,158 thousand sums (39.0%) were due to the ten largest customers (2020: 4,170,730 thousand sums (88.8%). Of these, customer accounts in the amount of 100,000 thousand sums (11.6%) and 91,472 thousand sums (10.6%) represented the funds of the two largest customers, "Ammophos-Maxam" JSC and JV "Kharidtekhnologiyalari" LLC, respectively (2020: 0 thousand sums).

Term deposits include deposits of individuals in the amount of 364,549,005 thousand sums (2020: 0 thousand sums). In accordance with the Civil Code of the Republic of Uzbekistan, the Bank is obliged to issue the amount of such a deposit at the first request of the depositor. In cases when a term deposit is returned to the depositor at his request before the expiration of the term, interest on the deposit is paid in the amount corresponding to the amount of interest paid by the bank on demand deposits, unless the agreement provides for a different amount of interest.

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

	2021	2020
Individuals	399,389,303	3,783,034
State and budget organizations	249,000,739	–
Private organizations	199,673,887	1,042,136
Non-governmental non-profit organizations	16,465,117	–
Amounts due to customers	**864,529,046**	**4,825,170**

An analysis of customer accounts by economic sector follows:

	2021	2020
Individuals	399,389,303	3,783,034
Production	117,253,439	–
Transport and communications	114,558,421	639,287
Trade	93,904,216	18,530
Construction	55,525,038	–
State organizations	48,800,000	–
Insurance	24,038,457	87,074
Central bank activities	3,800,000	–
Research and education	3,623,012	–
Agriculture	1,101,319	–
Consulting services	972,259	286,285
Financing	373,855	10,960
Healthcare	53,759	–
Metallurgy	26,078	–
Other	1,109,890	–
Amounts due to customers	**864,529,046**	**4,825,170**

15. Equity

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

	Number of shares Ordinary	Face value (in Uzbek sums) Ordinary	Total
As of August 22, 2020	–	–	–
Share capital increase	100,000,000	1,000	100,000,000
As of December 31, 2020	**100,000,000**	**1,000**	**100,000,000**
Share capital increase	85,000,000	1,000	85,000,000
As of December 31, 2021	**185,000,000**	**1,000**	**185,000,000**

(thousands of Uzbek soums)

15. Equity (continued)

The total number of ordinary shares declared is 185,000,000 (2020: 100,000,000). The nominal value of each share is 1,000 sums.

The share capital of the Bank was formed from the contributions of shareholders in Uzbek sums, while the shareholders are entitled to receive dividends.

16. Commitments and contingencies

Operating environment

Uzbekistan continues economic reforms and the development of legal, tax and administrative infrastructure that would meet the requirements of a market economy. The stability of the Uzbek economy in the future will largely depend on the progress of these reforms, as well as on the effectiveness of the measures taken by the government in the sphere of the economy, financial and monetary policy.

Legal

In the normal course of business, the Bank is subject to lawsuits and claims. Management believes that the potential liabilities, if any, arising from such actions or claims will not have a material adverse effect on the Bank's financial position or performance in the future.

Taxation

A number of provisions of the current Uzbek tax, currency and customs legislation are formulated insufficiently clearly and unambiguously, which often leads to their different interpretation (which, in particular, can be applied to legal relations in the past), selective and inconsistent application, as well as frequent and infrequent in some cases, unpredictable changes. The interpretation of this legislation by the Bank's management as applied to the operations and activities of the Bank may be challenged by the relevant authorities. Tax returns and other legal obligations (for example, customs and foreign exchange issues) are subject to review and assessment by a number of agencies that are legally entitled to impose significant administrative penalties (including fines and penalties). This situation creates a greater likelihood of tax risks in the Republic of Uzbekistan than, for example, in other countries with more developed taxation systems. The Bank's management believes that the Bank generally complies with all provisions of the tax legislation that affect its activities, however, the relevant tax authorities may take a different position with respect to controversial issues.

As of December 31, 2021, the Bank's management believes that its interpretation of the applicable laws is reasonable and that the Bank's position on tax, currency and customs matters will be supported.

Commitments and contingencies

As of December 31, the Bank's commitments and contingencies included the following:

	2021	*2020*
Credit related commitments		
Undrawn loan commitments	30,541,338	175,917
Commitments and contingencies	**30,541,338**	**175,917**
ECL allowances for loan commitments	(649,123)	(3,238)

All credit related commitment balances are categorized under Stage 1. The tables below provide an analysis of changes in ECL allowances for 2021 and for the period from August 22, 2020 (date of formation) to December 31, 2020:

Loan commitments	*2021*	*For the period from August 22, 2020 (date of formation) to December 31, 2020*
ECL allowance as of January 1 / August 22	**3,238**	**–**
New exposures	645,885	3,238
As of December 31	**649,123**	**3,238**

(thousands of Uzbek soums)

17. Net interest income

Net interest income includes the following items:

	2021	*For the period from August 22, 2020 (date of formation) to December 31, 2020*
Financial assets at amortized cost		
Loans to customers	86,380,435	397,493
Amounts due from credit institutions	6,536,101	3,072,520
Total Interest revenue	**92,916,536**	**3,470,013**
Amounts due to customers	(46,871,874)	-
Amounts due to credit institutions	(7,692,204)	-
Interest expenses	**(54,564,078)**	**-**
Net interest income	**38,352,458**	**3,470,013**

18. Net fee and commission income

Net fee and commission income includes the following items:

	2021	*For the period from August 22, 2020 (date of formation) to December 31, 2020*
Settlement transactions	27,668,378	1,368,361
Other	419,853	197
Fee and commission income	**28,088,231**	**1,368,558**
Processing operations	(1,620,848)	-
Settlement transactions	(1,574,517)	(278,488)
Other	(176,001)	(1,617)
Fee and commission expense	**(3,371,366)**	**(280,105)**
Net fee and commission income	**24,716,865**	**1,088,453**

(thousands of Uzbek soums)

19. Personnel and other operating expenses

Personnel and other operating expenses comprise the following items:

	2021	*For the period from August 22, 2020 (date of formation) to December 31, 2020*
Salary and bonuses	33,447,848	2,889,029
Social security contributions	8,300,070	528,508
Personnel expenses	**41,747,918**	**3,417,537**
Marketing and advertising	6,998,509	432,982
Legal and advisory services	2,980,847	584,945
Office tools	2,477,182	267,369
Technical support	2,436,279	–
Membership fee	1,928,653	100,059
Operating taxes	1,632,776	18,912
Communication services	1,557,048	41,771
Repair and maintenance	1,269,222	117,479
Licenses	1,198,164	–
Maintenance and rental of premises	1,035,304	25,084
Security services	780,847	–
Representation expenses	590,808	38,767
Utilities	390,070	99,490
Fare	275,665	3,671
Travel and related expenses	242,127	7,916
Penalties	81,413	–
Insurance	39,588	1,323
Other	1,060,504	78,638
Other operating expenses	**26,975,006**	**1,818,406**

20. Risk management

Introduction

The Bank's activities are inherently risky. The Bank manages risks through an ongoing process of identification, assessment and monitoring, as well as through the establishment of risk limits and other internal control measures. The risk management process is critical to maintaining the Bank's continuing profitability, and each individual employee of the Bank is responsible for the risks associated with his or her duties. The Bank is exposed to credit risk, liquidity risk and market risk, which in turn is subdivided into trading risk and non-trading risk. The Bank is also exposed to operational risks.

The independent risk control process does not address business risks such as changes in the environment, technology or industry. Such risks are controlled by the Bank during the strategic planning process.

Risk management structure

The Supervisory Board has overall responsibility for identifying and controlling risks, but there are also separate independent bodies that are responsible for managing and controlling risks.

Supervisory Board

The Supervisory Board is responsible for the overall approach to risk management, for approving the risk management strategy and principles.

Management Board

The Management Board's responsibility is to oversee the Bank's risk management process.

(thousands of Uzbek soums)

20. Risk management (continued)

Introduction (continued)

Risk Committee

The risk management unit is responsible for the implementation and implementation of procedures related to risk management in order to ensure an independent process of monitoring the existence and functioning of the adequacy of the risk management system in the bank, analyzing the risks of improving and strengthening the risk management system.

Management of risks

The risk management unit is responsible for implementing and maintaining procedures related to risk management in order to ensure an independent control process.

Bank Treasury

The Bank's Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. The Treasury is also primarily responsible for the Bank's liquidity and financing risk. Development of proposals for optimizing the structure of the bank's assets and liabilities, ensuring the optimal return on assets in combination with their liquidity and attractiveness for depositors and users of the bank's resources.

Internal audit

The Bank's risk management processes are annually audited by the Internal Audit Department, which checks both the sufficiency of the procedures and the Bank's compliance with these procedures. The Internal Audit Department discusses the results of the audits conducted with management and presents its findings and recommendations to the Audit Committee.

Risk assessment and risk communication systems

The Bank's risks are measured using a method that reflects both the expected loss that is likely to occur in the normal course of business and unexpected losses, which are an estimate of the largest actual losses based on statistical models. The models use probabilities derived from past experience and adjusted to reflect the economic conditions. The Bank also runs "worst case scenarios" that would arise in the event of events that are considered unlikely to occur, in fact occur.

Risk monitoring and control is mainly based on the limits set by the Bank. Such limits reflect the business strategy and market conditions in which the Bank operates, as well as the level of risk the Bank is willing to accept, with particular attention to specific industries. In addition, the Bank monitors and evaluates its overall risk bearing capacity in relation to its aggregate exposure to all types of risks and transactions.

Information received from all types of activities is studied and processed for the purpose of analysis, control and early detection of risks. The specified information is submitted with explanations to the Management Board, the Risk Committee and the heads of each of the divisions. The report contains information on the total amount of credit risk, forecast credit ratios, exceptions to the established risk limits, risk-adjusted value, liquidity ratios and changes in the level of risk. Information is provided on monthly basis on risks by industry, customer and geographic region. On a quarterly basis, senior management determines whether an allowance for expected credit losses is required. The Supervisory Board receives a detailed risk report on a quarterly basis, which contains all the information necessary to assess the Bank's risks and make appropriate decisions.

A variety of risk reports are prepared for all levels of the Bank and distributed to ensure that all departments of the Bank have access to extensive, relevant and up-to-date information.

A brief meeting of the Management Board and other employees of the Bank is held daily to discuss the maintenance of established limits, analyze the value for the risk of the investment, liquidity, and changes in the level of risk.

Risk mitigation

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

Excessive risk concentrations

Concentrations of risk arise when a number of counterparties carry out similar activities, or their activities are located in the same geographical area, or the counterparties have similar economic characteristics, and as a result of changes in economic, political and other conditions have a similar effect on the ability of these counterparties to fulfill contractual obligations. Risk concentrations reflect the relative sensitivity of the Bank's results of operations to changes in conditions that affect a particular industry or geographic region.

(thousands of Uzbek soums)

20. Risk management (continued)

Introduction (continued)

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

Credit risk

Credit risk is the risk that the Bank will incur losses because its customers or counterparties fail to meet their contractual obligations. The Bank manages credit risk by setting the maximum amount of risk that the Bank is ready to accept for individual counterparties, geographic or sectoral concentrations of risk, as well as by monitoring compliance with established risk limits.

The Bank has developed a credit review process to ensure early detection of possible changes in the creditworthiness of counterparties, including periodic review of collateral. Counterparty limits are determined using a credit risk classification system that assigns a credit rating to each counterparty. The ratings are reviewed regularly. The credit quality review procedure allows the Bank to assess the potential losses on the risks to which it is exposed and take the necessary measures.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to estimate expected cash shortfalls, which are discounted using the effective interest rate or its approximation. The cash shortfall is the difference between the cash flows due to the entity under the contract and the cash flows that the entity expects to receive. The mechanics of calculating ECL are described below, and the main elements are as follows:

Probability of default (PD)	*Probability of default* is an estimate of the probability of a default occurring over a given time period. Default can only occur at a point in time during the period under review if the asset has not been derecognized and it is still part of the portfolio.
Exposure at default (EAD)	*Exposure at default* is an estimate of the amount at risk of default at some future date, taking into account expected changes in that amount after the reporting date, including contractual or otherwise repayments of principal and interest, expected repayments of loans issued and interest accrued as a result of late payments.
Loss given default (LGD)	*Loss given default* is an estimate of the loss that would arise if a default were to occur at a particular point in time. This indicator is calculated based on the difference between the cash flows stipulated by the contract and those cash flows that the lender expects to receive, including as a result of the sale of collateral. Usually expressed as a percentage of EAD.

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

The Bank has developed a policy to assess at the end of each reporting period whether there has been a significant increase in the credit risk of a financial instrument since initial recognition by taking into account changes in the risk of a default occurring over the remaining life of the financial instrument. Based on the process described above, the Bank groups its loans into the following groups:

Stage 1:	On initial recognition of a loan, the Bank recognizes an allowance equal to 12-month ECLs. Stage 1 also includes loans and other credit lines that have decreased in credit risk to the extent that they have been transferred out of Stage 2.
Stage 2:	If the credit risk on a loan has increased significantly since initial recognition, the Bank recognizes an allowance equal to lifetime ECL. Stage 2 also includes loans and other credit lines that have decreased in credit risk to the extent that they have been transferred out of Stage 3.
Stage 3:	Loans that are credit-impaired. The Bank recognizes a valuation allowance at an amount equal to lifetime ECL.
POCI:	Purchased or originated credit-impaired (CLI) assets are financial assets that were credit-impaired at the time of initial recognition. On initial recognition of POCI, assets are measured at fair value and interest revenue is subsequently recognized using the credit-adjusted effective interest rate. An ECL allowance is recognized or derecognized only to the extent that there has been a subsequent change in lifetime expected credit losses.

(thousands of Uzbek soums)

20. Risk management (continued)

Credit risk (continued)

Definition of default and recovery

The Bank considers that a financial instrument has defaulted and therefore classifies it as Stage 3 (credit-impaired) for the purposes of calculating ECL whenever the borrower is more than 90 days past due on contractual payments. The Bank considers that a default has occurred in relation to funds in banks and takes immediate measures to eliminate it if, at the close of the business day, the necessary intraday payments specified in separate agreements have not been made.

As part of its qualitative assessment of whether a customer is in default, the Bank also considers a number of events that may indicate that payment is unlikely. These events include the following:

- The presence of a default rating;
- Forced restructuring over the last year;
- Introduction of a moratorium on satisfaction of creditors' claims;
- Decision-making on the implementation of financial rehabilitation and/or bankruptcy prevention measures (reorganization);
- Revocation of the license to carry out operations.

In accordance with the Bank's policy, financial instruments are considered "cured" and, therefore, are transferred from Stage 3 when they no longer meet the default criteria. The decision as to whether a financial instrument should be classified in Stage 2 or Stage 1 if it "recovers" depends on whether there are signs of an increase in credit risk at the reporting date.

Treasury and interbank relations

The Bank's treasury and interbank relationships include relationships with counterparties such as financial services providers, banks, broker-dealers, exchanges and clearing houses. To assess such relationships, the Bank's credit risk department analyzes publicly available information, such as financial statements, and data from other external sources, such as external ratings, and assigns an appropriate probability of default value.

Commercial and small business lending

In the case of commercial lending due to the lack of internal statistics on defaults in the Bank, the reserve is estimated based on the probabilities of default obtained using the approach for low-default portfolios, as well as taking into account macroeconomic forecast information.

Customer credit

Consumer lending includes secured loans to individuals, credit cards and overdrafts. The provision for these products is estimated based on the default probabilities obtained by constructing migration matrices. Migration matrices are built in the context of products based on the historical data of the Bank's consumer loan portfolio. Segment credit risk assessment also takes into account macroeconomic forecasts.

The table below shows the average probability of default on loans to customers as of 31 December 2021 by class:

	Rating	*Car loans*	*Installment cards*	*Commercial loans*	*Consumer loans*
1	Standard rating	2.6%	5.7%	5.0%	8.3%
2		9.5%	16.3%	–	21.4%
3	Below standard rating	27.1%	43.8%	–	46.6%
4		62%	74.9%	–	73.9%
5	Impaired	100%	100%	–	100%

The table below shows the average probability of default on loans to customers as of 31 December 2020 by class:

	Rating	*Car loans*	*Installment cards*	*Commercial loans*	*Consumer loans*
1	Standard rating	4.0%	4.0%	8.0%	4.0%

(thousands of Uzbek soums)

20. Risk management (continued)

Credit risk (continued)

Exposure at default

Exposure at risk of default (EAD) is the gross carrying amount of financial instruments that are assessed for impairment. For lines of credit and credit cards, EAD includes the ability for a customer to increase debt as default approaches. In calculating EAD for Stage 1 loans, the Bank takes into account the probability of a default occurring within 12 months after the reporting date. For Stage 2, Stage 3 and POCI financial assets, the possibility of default occurring over the life of the instrument is taken into account.

Loss given default

In the case of commercial lending, the Loss given default (LGD) indicator is calculated taking into account the value of collateral for each instrument and is updated on each provisioning date. The LGD reflects the expected EAD compared to the amounts expected to be recovered or realized from the sale of the collateral held.

Significant increase in credit risk

The Bank constantly reviews all assets for which ECLs are calculated. To determine the amount of impairment allowance required for an instrument or portfolio of instruments, the Bank considers whether there has been a significant increase in credit risk on that instrument or portfolio of instruments since initial recognition. The Bank considers that the credit risk on a financial instrument has increased significantly since initial recognition when the instrument meets the relevant criteria:

For commercial and consumer lending

- Availability as of the reporting date of overdue debt to the Bank on principal and/or interest, as well as other payments stipulated by the agreement, for a period of 31 to 90 days;
- The presence of restructuring associated with the deterioration of the financial position of the counterparty (but not forced), for the year.

For treasury and interbank relations

- Downgrading of the borrower's external rating at the reporting date by 3 or more notches from the rating at the date of initial recognition of the financial instrument;
- Downgrading of the rating agency Moody's to "Caa1" and below.

Grouping of financial assets assessed on a group basis

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

Asset classes for which the Bank calculates ECL on an individual basis include the following:

- Loans to legal entities of Stage 2 and Stage 3 exceeding the specified threshold;
- Large and unique instruments in the small business lending portfolio.

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

- Small and standard assets within the small business lending portfolio;
- Consumer loans.

The Bank aggregates these financial assets into homogeneous groups depending on the internal and external characteristics of the loans, such as the maturity of payments, the type of product or the industry in which the borrower operates.

Forward-looking information and multiple economic scenarios

In its ECL calculation models, the Bank uses a wide range of forward-looking information as economic inputs, such as the dollar exchange rate and GDP.

The inputs and models used to calculate ECLs do not always reflect all the characteristics of the market at the date the financial statements are presented. To reflect this, qualitative adjustments or overlays are sometimes made as temporary adjustments if such differences are significant.

(thousands of Uzbek soums)

20. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets

The Bank manages the credit quality of financial assets using an internal rating system as described above. The table below provides an analysis of credit quality by asset class for loan-related items in the statement of financial position based on the Bank's credit rating system.

December 31, 2021	*Note*		*High rating*	*Standard rating*	*Below standard rating*	*Impaired*	*Total*
Cash and cash equivalents, excluding cash	5	Stage 1	–	268,734,877	–	–	**268,734,877**
Amounts due from credit institutions	6	Stage 1	–	5,871,281	–	–	**5,871,281**
Loans to customers at amortized cost:	7						
- Commercial loans		Stage 1	44,727,570	–	–	–	**44,727,570**
- Small business loans		Stage 1	7,056,707	–	–	–	**7,056,707**
- Consumer loans		Stage 1	503,234,527	38,798,442	704,651	–	**542,737,620**
		Stage 2	–	15,951,270	123,853	–	**16,075,123**
		Stage 3	–	–	–	5,654,426	**5,654,426**
Undrawn loan commitments	16	Stage 1	29,892,215	–	–	–	**29,892,215**
Total			**584,911,019**	**329,355,870**	**828,504**	**5,654,426**	**920,749,819**

December 31, 2020	*Note*		*High rating*	*Standard rating*	*Below standard rating*	*Impaired*	*Total*
Cash and cash equivalents, excluding cash	5	Stage 1	–	6,860,648	–	–	**6,860,648**
Amounts due from credit institutions	6	Stage 1	–	52,009,234	–	–	**52,009,234**
Loans to customers at amortized cost:	7			–	–	–	
- Commercial loans		Stage 1	10,124,192	–	–	–	**10,124,192**
- Consumer loans		Stage 1	13,115,245	–	–	–	**13,115,245**
Undrawn loan commitments	16	Stage 1	172,679	–	–	–	**172,679**
Total			**23,412,116**	**58,869,882**	–	–	**82,281,998**

For more information on the allowance for impairment of loans to customers, see Note 7.

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 not be able to meet its payment obligations as they fall due, under normal or unforeseen circumstances. To mitigate this risk, management has made available various sources of funding in addition to the existing minimum bank deposits. Management also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This process includes an estimate of expected cash flows and the availability of high quality collateral that can be used to obtain additional funding if necessary.

The Bank has placed a mandatory deposit with the Central Bank of the Republic of Uzbekistan, the amount of which depends on the level of attraction of customer deposits.

(thousands of Uzbek soums)

20. Risk management (continued)

Liquidity risk and funding management (continued)

Liquidity is assessed and managed by the Bank mainly on the basis of the ratio of net liquid assets and liabilities of the customer within the framework of the standards established by the Central Bank of the Republic of Uzbekistan. As of December 31, these ratios were:

	2021, %	*2020, %*
Liquidity coverage ratio (Highly liquid assets / net outflow in the next 30 days) (the requirement of the Central Bank of the Republic of Uzbekistan is not less than 100%)	188%	844%
Net stable financing rate (Available amount of stable financing / required amount of stable financing) (the requirement of the Central Bank of the Republic of Uzbekistan is not less than 100%)	135%	191%

Analysis of financial liabilities by terms remaining to maturity

The table below shows the Bank's financial liabilities as of December 31, by maturity, based on contractual undiscounted repayment obligations. Obligations that are redeemable on demand are treated as if the demand for redemption had been made on the earliest possible date. However, the Bank expects that many customers will not request repayment at the earliest date on which the Bank would be required to make the respective payment and, accordingly, the table does not reflect the expected cash flows calculated by the Bank based on historical demand information.

As of December 31, 2021	*Less than 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Total*
Financial liabilities				
Amounts due to credit institutions	2,870,000	56,606,667	10,791,667	**70,268,333**
Amounts due to customers	280,050,828	415,352,304	314,055,053	**1,009,458,185**
Other liabilities	7,942,429	–	–	**7,942,429**
Total undiscounted financial liabilities	**290,863,257**	**471,958,971**	**324,846,720**	**1,087,668,947**

As of December 31, 2020	*Less than 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Total*
Financial liabilities				
Amounts due to customers	4,825,170	–	–	**4,825,170**
Other liabilities	727,168	–	–	**727,168**
Total undiscounted financial liabilities	**5,552,338**	**–**	**–**	**5,552,338**

All commitments and contingencies of the Bank are deemed to be expiable due to the fact that, according to the contractual terms, they can be carried to the earliest period in which they can be demanded. The Bank expects that not all commitments and contingencies will need to be fulfilled before they expire.

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 value of financial instruments.

As of December 31, 2021, the Bank did not provide or receive loans with a floating interest rate.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions in foreign currency based on the restrictions of the Central Bank of the Republic of Uzbekistan. Positions are tracked daily.

(thousands of Uzbek soums)

20. Risk management (continued)

Market risk (continued)

The following table sets out the currencies in which the Bank has significant positions as of December 31 in monetary assets and liabilities. The analysis performed consists in calculating the impact of a possible change in exchange rates against the Uzbek sum on the statement of profit or loss (due to the presence of non-trading monetary assets and liabilities, the fair value of which is sensitive to changes in the exchange rate). The effect on equity is no different from the effect on the income statement. Negative amounts in the table reflect a potential net decrease in the statement of profit or loss or equity, while positive amounts reflect a potential net increase.

	2021		2020	
Currency	*Exchange rate change, in %*	*Impact on profit before tax*	*Exchange rate change, in %*	*Impact on profit before tax*
US dollar	19.9%	6,358,292	21.2%	243,800
US dollar	(19.9%)	(6,358,292)	(21.2%)	(243,800)

Operational risk

Operational risk is the risk arising from system failure, human error, fraud or external events. When controls fail, operational risks can damage reputation, have legal consequences, or result in financial loss. The Bank cannot assume that all operational risks have been eliminated, but with the help of a control system and by monitoring and appropriately responding to potential risks, the Bank can manage such risks. The control system provides for an effective segregation of duties, access rights, approval and reconciliation procedures, staff training, and evaluation procedures, including internal audit.

21. Fair value measurement

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments, depending on the valuation model:

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability, and the level in the fair value hierarchy.

	Fair value measurement using			
As of December 31, 2020	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	11,908,091	268,529,817	–	**280,437,908**
Amounts due from credit institutions	–	5,762,776	–	**5,762,776**
Loans to customers measured at amortized cost	–	–	555,526,459	**555,526,459**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	59,159,658	**59,159,658**
Amounts due to customers	–	–	868,061,909	**868,061,909**

	Fair value measurement using			
As of December 31, 2020	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	–	6,853,253	–	**6,853,253**
Amounts due from credit institutions	–	51,149,48	–	**51,149,482**
Loans to customers measured 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)

21. Fair value measurement (continued)

Fair value hierarchy (continued)

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

Below is a comparison of the carrying amount and fair value by class of the Bank's financial instruments that are not measured at fair value in the statement of financial position. The table does not include fair values for non-financial assets and non-financial liabilities.

	Book value 2021	*Fair value 2021*	*Unrecognized profit/(loss) 2021*	*Book value 2020*	*Fair value 2020*	*Unrecognized profit/(loss) 2020*
Financial assets						
Cash and cash equivalents	280,437,908	280,437,908	–	6,853,253	6,853,253	–
Amounts due from credit institutions	5,762,776	5,762,776	–	51,149,482	51,149,482	–
Loans to customers at amortized cost	597,030,863	555,526,459	41,504,404	22,691,055	22,147,818	543,237
Financial liabilities						
Amounts due to credit institutions	61,000,000	59,159,658	1,840,342	–	–	–
Amounts due to customers	864,529,046	868,061,909	(3,532,863)	4,825,170	4,825,170	–
Total unrecognized change in fair value			**49,869,964**			**543,237**

22. Maturity analysis of assets and liabilities

The table below shows assets and liabilities by their expected maturities. Information about the Bank's contractual undiscounted repayment obligations is disclosed in Note 20 "Risk Management".

	2021			*2020*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	280,437,908	–	**280,437,908**	6,853,253	–	**6,853,253**
Amounts due from credit institutions	5,762,776	–	**5,762,776**	51,149,482	–	**51,149,482**
Loans to customers	381,054,087	235,197,360	**616,251,446**	11,766,015	10,925,040	**22,691,055**
Property and equipment	–	129,910,234	**129,910,234**	–	11,900,302	**11,900,302**
Intangible assets	–	32,709,010	–	–	2,891,324	**2,891,324**
Deferred income tax assets	–	6,332,201	**6,332,201**	–	425,922	**425,922**
Other assets	37,884,582	–	**37,884,582**	8,120,016	–	**8,120,016**
Total	**705,139,353**	**404,148,805**	**1,109,288,158**	**77,888,766**	**26,142,588**	**104,031,354**
Amounts due to credit institutions	21,000,000	40,000,000	**61,000,000**			
Amounts due to customers	593,011,066	271,517,980	**864,529,046**	4,825,170	–	**4,825,170**
Current income tax liabilities	–	–	–	46,778	–	**46,778**
Provisions	136,843	496,178	**633,021**	814	2,424	**3,238**
Other liabilities	7,942,429	–	**7,942,429**	727,168	–	**727,168**
Total	**622,090,338**	**312,014,158**	**934,104,496**	**5,599,930**	**2,424**	**5,602,354**
Net position	**83,049,015**	**9,885,156**	**175,183,662**	**72,288,836**	**26,140,164**	**98,429,000**

23. 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 or exercise significant influence over the other party in the financial and operating decisions. When deciding whether the parties are related, the content of the relationship between the parties, and not just their legal form, is taken into account.

Related parties may enter into transactions that would not be entered into between unrelated parties. The prices and terms of such transactions may differ from the prices and terms of transactions between unrelated parties.

(thousands of Uzbek soums)

23. Related party disclosures (continued)

Transactions with non-government entities

Balances with related parties at the end of the reporting period are presented below:

	2021	For the period from August 22, 2020 (date of formation) to December 31, 2020
	Organizations under common control	Organizations under common control
Loans not repaid as of January 1 / August 22	**10,124,192**	**-**
Loans issued during the year	58,457,933	11,100,000
Accrued interest	219,753	124,192
Repayment of loans during the year	(54,335,717)	(1,100,000)
Loans not repaid as of December 31	**14,466,161**	**10,124,192**
Less: allowance for impairment	(422,631)	(323,744)
Loans not repaid as of 31 December, net of allowance	**14,043,530**	**9,800,448**
Deposits as of January 1 / August 22	**98,033**	**-**
Deposits received during the year	144,690,886	9,169,074
Deposits repaid during a year	137,876,180	9,071,041
Deposits as of December 31	**6,912,739**	**98,033**

The table below shows income and expenses from transactions with related parties:

	2021			*For the period from August 22, 2020 (date of formation) to December 31, 2020*		
	Organizations under common control	*Key management personnel*	*Members of the Supervisory Board*	*Organizations under common control*	*Key management personnel*	*Members of the Supervisory Board*
Interest income on loans calculated using effective rate	2,948,317	-	-	198,740	-	-
Credit loss expense on loans	(278,262)	-	-	(517,616)	-	-
Interest expense on deposits	(11,233)	(26,766)	(161,491)	-	-	-
Fee and commission income	1,145,533	-	-	99,370	-	-
Other operating expenses	-	-	-	(1,323)	-	-

Compensation to key management personnel, consisting of 20 people (2020: 20 people), includes the following items:

	2021	*For the period from August 22, 2020 (date of formation) to December 31, 2020*
Salaries and other short-term employee benefits	5,697,890	1,369,637
Social security contributions	655,307	160,205
Total remuneration to key management personnel	**6,353,197**	**1,529,842**

24. Capital adequacy

The Bank actively manages the level of capital adequacy in order to protect against the risks inherent in its activities. The Bank's capital adequacy is monitored using, among other methods, principles and standards established by the 1988 Basel Capital Accord and standards adopted by the Central Bank of the Republic of Uzbekistan in supervising the Bank.

(thousands of Uzbek soums)

24. Capital adequacy (continued)

During the past year, the Bank has been in full compliance with all external capital requirements.

The primary objective of capital management for the Bank is to ensure that the Bank complies with external capital requirements and maintains the high credit rating and capital adequacy ratios necessary to operate and maximize shareholder value.

The Bank manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or change the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue equity securities.

Capital adequacy ratio of the Central Bank of the Republic of Uzbekistan

According to the requirements of the Central Bank of the Republic of Uzbekistan, the capital adequacy ratio of banks must be maintained at a level above a certain minimum percentage of the amount of risk-weighted assets. As of December 31, 2021 and 2020 The Bank's capital adequacy ratio calculated in accordance with the above rules was:

	2021	*2020*
Tier 1 Capital	157,052,192	98,429,000
Tier 2 Capital	(23,022,272)	–
Total capital	**134,029,920**	**98,429,000**
Risk-weighted assets	**241,237,491**	**105,205,218**
Tier 1 capital adequacy ratio (minimum requirement: 10%)	65.1%	93.6%
Total capital adequacy ratio (minimum requirement: 13%)	55.6%	93.6%

25. Events after the reporting period

In February 2022, due to the conflict between the Russian Federation and Ukraine, numerous sanctions have been announced by majority of western countries against the Russian Federation. These sanctions are targeted to have a negative economic impact on the Russian Federation.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the stock and currency markets, and there are also fears of a significant devaluation of the Uzbek sum against the US dollar and the euro.

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

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