



**JOINT-STOCK COMPANY
«MORTGAGE REFINANCING COMPANY
OF UZBEKISTAN»**

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

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Independent Auditor's opinion

To shareholders and the Supervisory Board of
JSC «Mortgage Refinancing Company of Uzbekistan»

Opinion

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

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

Basis for opinion

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



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Other information

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

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

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

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

Responsibility of the Management and Those Charged with Corporate Governance for the Financial Statement

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

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

The management and those charged with governance are responsible for overseeing the preparation of the financial statement of the Company.

Auditor's responsibility for auditing financial statement

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

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

- identify and assess the risks of material misstatement of financial statement due to fraud or error; develop and conduct audit procedures in response to these risks; we obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of non-detection of material as a result of unfair acts is higher than the risk of not detecting a significant distortion as a result of an error, since unfair acts may include conspiracy, fraud, intentional omission, misrepresentation of information or actions bypassing the internal control system;
- get an understanding of the internal control system that is relevant to the audit, in order to develop audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system;
- assess the proper nature of the accounting policies applied and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by management;



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- make a conclusion about the legitimacy of management's use of the assumption of business continuity, and on the basis of the obtained audit evidence - the conclusion whether there is a significant uncertainty in connection with events or conditions that may raise significant doubts in the ability of the Company to continue its business continuously. If we conclude that there is significant uncertainty, we must draw attention to our disclosure in the financial statement, or, if such disclosure is inappropriate, modify our opinion. Our conclusions are based on the audit evidence received before the date of our audit report. However, future events or conditions may lead to the Company losing the ability to continue its business continuously;
- assess the presentation of the financial statement in general, its structure and content, including disclosure of information, as well as whether the financial statement presents the underlying operations and events in a manner that ensures their reliable representation;
- obtain sufficient appropriate audit evidence relating to the financial information of the organization or activities within the Company in order to express an opinion on the financial statement. We are responsible for the management, control and conduct of the Company's audit. We remain fully responsible for our audit opinion.

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

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

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

Shoodil Nosirov

Partner

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

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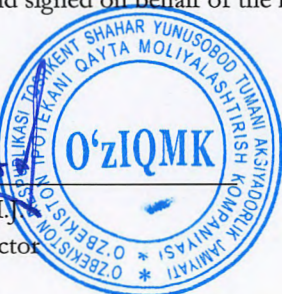
03 May 2021
Tashkent, Uzbekistan

Statement of financial position

	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	6	5 372 867	1 991 600
Due from other banks	7	95 387 198	-
Loans and advances	8	307 189 865	-
Deferred tax asset	17	77 315	-
Fixed assets	9	4 176 080	-
Other assets	10	5 235	-
Total assets		412 208 560	1 991 600
Liabilities			
Borrowings	11	306 825 306	-
Other liabilities	12	4 060 453	57 291
Total liabilities		310 885 759	57 291
Equity			
Share capital	13	100 000 000	2 000 000
Retained earnings (Unearned loss)	13	1 322 801	(65 691)
Total equity		101 322 801	1 934 309
Total liabilities and equity		412 208 560	1 991 600

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


 Farmanov M.J.
 General director



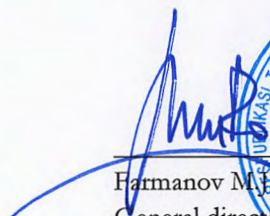


 Ikramov A.R.
 Financial director

03 May 2021

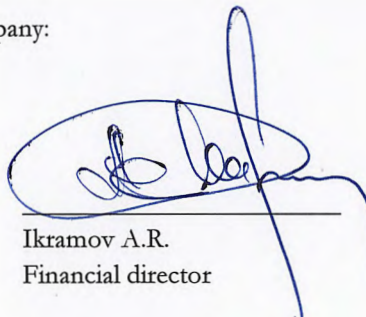
Statement of profit and loss and other comprehensive income

	Notes	For the year ended 31 December 2020	For the year ended 31 December 2019
Interest income	14	12 059 401	-
Interest expense	14	(7 724 422)	-
Net interest income		4 334 979	-
Provision for credit losses on debt financial assets	6, 7, 8	(409 345)	(8 400)
Net interest income after provision for credit losses		3 925 634	(8 400)
Other operating income	15	92	-
Administrative and other operating expenses	16	(2 302 316)	(57 291)
Income before tax		1 623 410	(65 691)
Income tax expense	17	(234 918)	-
Net income for the year		1 388 492	(65 691)
<i>Other comprehensive income</i>		-	-
Total comprehensive income for the year		1 388 492	(65 691)

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



 Farmanov M.Ye.
 General director

03 May 2021


 Ikramov A.R.
 Financial director

The notes on pages from 8 to 49 are an integral part of this financial statement.

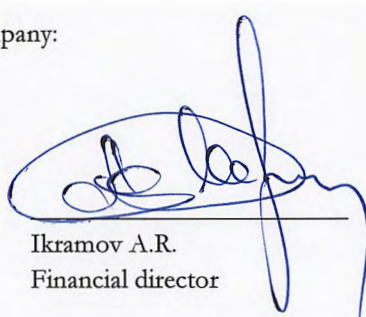
Statement of changes in equity

	Share capital	Retained earnings (Unearned loss)	Total equity
Balance as at 4 November 2019	-	-	-
Net loss for the year	-	(65 691)	(65 691)
Total comprehensive income for the year	-	(65 691)	(65 691)
Share capital formation	2 000 000	-	2 000 000
Balance as at 31 December 2019	2 000 000	(65 691)	1 934 309
Net income for the year	-	1 388 492	1 388 492
Total comprehensive income for the year	-	1 388 492	1 388 492
Share capital formation	98 000 000	-	98 000 000
Balance as at 31 December 2020	100 000 000	1 322 801	101 322 801

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




 Farmanov M.
 General director
 03 May 2021

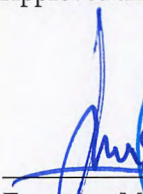



 Ikramov A.R.
 Financial director

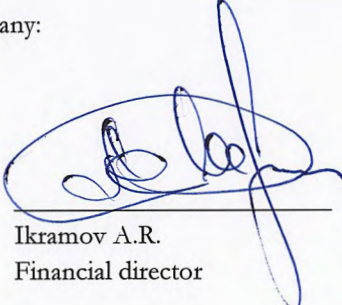
Statement of cash flows

	For the year ended 31 December 2020	For the year ended 31 December 2019
Cash flow from operating activities		
Interest received	7 727 254	-
Interest paid	(3 916 683)	-
Other operating income	92	-
Staff costs	(1 593 713)	-
Administrative and other operating expenses	(745 772)	-
Cash flow from operating activities before changes in operating assets and liabilities	1 471 178	-
Net (increase) / decrease in operating assets		
Due from other banks	(95 500 000)	-
Loans and advances	(303 140 000)	-
Other assets	(5 235)	-
Net increase / (decrease) in operating liabilities		
Other liabilities	129 220	-
Net cash flow from operating activities	(397 044 837)	-
Cash flow from investing activities		
Acquisition of fixed assets and intangible assets	(699 992)	-
Net cash flow from investing activities	(699 992)	-
Cash flow from financing activities		
Share capital formation	98 000 000	2 000 000
Borrowings received	303 140 357	-
Net cash flow from financing activities	401 140 357	2 000 000
The effect of changes in exchange rates on cash and cash equivalents	-	-
Net change in cash and cash equivalents	3 395 528	2 000 000
Cash and cash equivalents at the beginning of the reporting year	2 000 000	-
Cash and cash equivalents at the end of the reporting year	5 395 528	2 000 000

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

Farmanov M.
General director



Ikramov A.R.
Financial director

03 May 2021

Notes to the financial statement

1 Primary activity

Joint Stock Company "Mortgage Refinancing Company of Uzbekistan" (hereinafter referred to as the "Company") was established at 4 November 2019 as a Joint stock company in accordance with the Decree of the President of the Republic of Uzbekistan No. PD-5715 dated 13 May 2019 in Tashkent, Republic of Uzbekistan.

The Company is registered in the Republic of Uzbekistan to carry out activities on refinancing mortgage loans in accordance with the Decision of the Banking Control Committee of the Central Bank of the Republic of Uzbekistan (hereinafter - the "CBU") No. 224/1 dated 1 June 2020.

The Company is a commercial organization, the main purpose of which is the distribution of long-term resources by refinancing mortgage loans received from banks and other credit institutions; and also contribute for the stable development of the mortgage market in Uzbekistan.

As at 31 December 2020, the Company carries out its activities through the head office in Tashkent, Republic of Uzbekistan.

The legal address of the Head Office of the Company: 100000, Republic of Uzbekistan, Tashkent city, Amir Temur street, 107-B.

The total number of Company's personnel as at 31 December 2020 was 9 people (at 31 December 2019: 1 person).

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

	31 December 2020	31 December 2019
Shareholders	Share (%)	Share (%)
Ministry of Finance of the Republic of Uzbekistan	25	100
JSCIB "Ipoteka bank"	20	-
JSCB "Qishliq qurilish bank"	10	-
JSC "National bank of Uzbekistan"	10	-
JSCB "Uzsanoatqurilishbank"	8	-
JSC Xalq bank	7	-
JSCB "Agrobank"	5	-
JSCB "Asaka bank"	5	-
JSCB "Turon bank"	3	-
PJSCB "Orient Finance"	3	-
JSCB "Hamkorbank"	2	-
JSCB "Kapitalbank"	1	-
JSCB "Invest Finance bank"	1	-
Total shareholders	100	100

2 The economic environment in which the Company operates

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

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

In 2019, the Government carried out work to further strengthen liquidity and increase the stability of the country's financial and banking system. As a result, the total capital of commercial banks on 1 January 2021 reached 58.4 trillion. UZS (2020: 52.4 trillion UZS).

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

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

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

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

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

3 Principles of reporting

3.1 Applicable standards

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

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

3.2 Functional and presentation currency

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

All financial statements have been rounded to the nearest thousand.

3.3 Currency operations

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

Ara	US Dollar	EURO
31 December 2020	10 476,92	12 786,03
31 December 2019	9 507,56	10 624,70

4 Important assessment and professional judgement

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

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

Going concern

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

Classification of financial assets

An assessment of business models that apply to assets, and an assessment of whether the contractual terms of a financial asset are solely a payment of principal and interest on principal, is disclosed in Note 5.

Measurement of estimated reserve for expected credit losses

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

- Defining criteria for a significant increase in credit risk;
- Selection of suitable models and assumptions for measuring expected credit losses;
- Determining the number and relative weights of possible future scenarios for each type of product/market and the corresponding expected credit losses;
- Creation of groups of similar financial assets for estimating expected credit losses.

The number of factors is influencing to the estimation of reserves for credit losses on financial instruments. These factors are set out below:

- Remittances and the corresponding estimate of the provision for credit losses between stage 1 (12-months expected credit losses) and 2 (expected credit losses for the entire life span - unimpaired assets), or stage 3, due to the fact that the balances experienced a significant increase (or decrease) in credit risk within one Stage. Another reason is depreciation during the period with a consequent increase (or decrease) from expected credit losses for 12 months to expected credit losses for the entire life;
- Creation of additional estimated reserves for newly recognized or purchased financial instruments during the period, as well as their recovery in respect of financial instruments whose recognition has been discontinued during the period;

- The effect on the estimate of expected credit losses of changes in indicators of the probability of default, debt at the time of default and loss in case of default during the period resulting from regular updating of the initial data of the models;
- The effect on changes in claims on contractual interest on the estimate of expected credit losses, taking into account the effect of time since expected credit losses are estimated on the basis of the current present value;
- Financial assets that were de-recognized during the period and write off / restore of the estimated reserves relating to assets that were written off / restored during the period;
- Sale of subsidiaries and reclassification into assets for discontinued operations and assets held for sale;
- The impact of changes in exchange rates when recalculating assets denominated in foreign currency and other movements.

Information on input data, assumptions, valuation methods and judgments used in measuring expected credit losses is described in detail in Notes 5 and 22.

Definitions of terms related to the estimated expected credit losses are given in Note 22.

Fair value of financial instruments

The fair value of financial instruments for which there is no quotation in an active market is determined using various valuation techniques. If valuation techniques are used to determine the fair value (for example, models), they are approved and regularly reviewed by qualified staff independent of the department/unit using these techniques. All models are certified before they are used; models are also adjusted to reflect actual and comparative market prices. In the framework of the permissible model, only observable data are used, however, such areas as credit risk (both own and counterparty risk), variability and correlation require management to make estimates. Changes in the assumptions related to these factors may affect the fair value recorded in the financial statements. See Note 21.

5 Key principles of accounting policy

5.1 Standards that have been released but not effective yet

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

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

- The first phase (Phase 1) looked at issues affecting financial statements in the period prior to the replacement of existing benchmark interest rates with RFRs.
- The second phase (Phase 2) focused on issues arising from replacing existing base interest rates with RFRs.

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

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

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

4. Additional Disclosures. IFRS 7 Financial Instruments: Disclosures is supplemented by the following disclosure requirements:

- How the organization manages the RFR transition, its progress and the risks it faces in connection with the IBOR reform related to financial instruments.
- Quantitative information on financial instruments that have not yet switched to RFRs, broken down by each significant IBOR rate.
- If the IBOR reform resulted in changes in the organization's risk management strategy, a description of those changes is disclosed.

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

"Test 10 percent" in case of writing off financial liabilities. Amendments to IFRS 9 Financial Instruments. The changes clarify what costs are included in the valuation. These fees include only those paid or received between the borrower and the lender, including fees paid or received by the borrower or loan on behalf of another person. They apply for annual periods beginning on or after 1 January 2022.

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

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

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

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

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

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

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

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

5.2 Fair value measurement

Fair value is the price that would have been received when the asset was sold or paid when the liability was transferred in a normal transaction between market participants at the valuation date in the main market or, in the absence thereof, in the most profitable market to which the Company has access to specified date. The fair value of a liability reflects the risk of default.

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

In the absence of current quotations in an active market, the Company uses valuation methods that make the most of the observed baseline data and minimally use the unobservable baseline data. The selected valuation methods include all factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument upon initial recognition is usually the transaction price, that is, the fair value of the compensation paid or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is not confirmed by current quotes in an active market for a similar asset or liability and is not based on valuation methods that use only observable inputs, the financial instrument is initially measured at fair value adjusted to postpone the recognition of the difference between the transaction price and the fair value. After initial recognition, this difference is subject to amortization in profit or loss over the life of the instrument, but no later than the moment when the assessment is fully confirmed by observable inputs or when the operation has been completed.

If the transaction price in the inactive market differs from the fair value of current market transactions in the observable market for the same instrument or is based on the valuation technique, the initial parameters of which include only information from the observed markets, the Company immediately recognizes the difference between the transaction price and the fair value ("First day earnings") in profit or loss. In the case of using unobservable information, the difference between the transaction price and the value determined on the basis of the model is recognized in profit or loss only if the original data becomes observable or if the financial instrument is derecognized.

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

5.3 Effective interest rate (discount method)

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

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

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

Cash flows for financial assets and liabilities are discounted on the basis of future cash flows expected at the actual contract rate and the corresponding discount rate determined on the basis of the discount rate

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

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

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

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

5.4 Amortized cost of a financial instrument

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

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

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

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

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

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

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

5.5 Financial assets and liabilities

Classification of financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

Estimation of business model

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

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

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

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

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

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

In conducting the assessment, the Company takes into account:

- Conditional events that may change the timing or amount of cash flows;
- Conditions that have a leverage effect;
- Terms of early repayment and prolongation of the validity period;

- Conditions that limit the Company's claims to cash flows from certain assets (for example, non-recourse assets);
- Conditions that result in a change in compensation for the time value of money — for example, a revision of interest rates on a periodic basis.

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

Therefore, the Company considers these loans as variable rate loans at its core.

General principles for the initial valuation of financial instruments

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

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

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

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

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

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

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

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

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

Reclassification

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

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

De-recognition of financial instruments

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

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

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

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

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

Under the transfer of a financial asset means:

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

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

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

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

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

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

Impairment

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

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

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

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

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

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

Estimation of expected credit losses

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

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

Restructured financial assets

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

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

Credit impaired financial assets

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

Submission of a provision for expected credit losses

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

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

Cash and cash equivalents

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

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

Due from other banks

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

Loans and advances

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

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

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

Property, plant and equipment

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

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

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

Intangible assets

Intangible assets of the Company, other than goodwill, have a certain useful life and mainly include capitalized software, as well as intangible assets acquired as a result of business combinations (for example, customer base and trademark). Acquired and recognized intangible assets are capitalized based on the costs incurred to acquire and implement these assets. Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and any accumulated impairment loss. Intangible assets are amortized based on the straight-line method and are assessed for impairment if there are signs of impairment of these assets.

Amortization

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

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

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

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

Right-of-use assets and lease liabilities

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

Right-of-use assets are disclosed under "Property, plant and equipment and right-of-use assets" in the statement of financial position, lease liabilities are disclosed under "Other liabilities" in the statement of financial position. Financial costs are disclosed in the line "Interest expense calculated at the effective interest rate" in the income statement, amortization of right-of-use assets is disclosed in the line "Staff and administrative expenses" in the income statement.

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

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

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

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

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

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

Financial liabilities

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

Termination of financial liabilities

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

Financial liabilities classified as at fair value through profit or loss

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

Other borrowings

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

Loan commitments

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

Settlements with suppliers and other payables

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

Equity

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

Dividends

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

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

Earnings per share

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

Interest income and expenses calculated using the effective interest method

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

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

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

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

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

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

Fees and commission received and paid

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

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

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

Other interest income and expenses

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

Taxation

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

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

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

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

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

Netting

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

Employee remuneration and social security contributions

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

Segment information

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

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

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

- its assets comprise at least 10 percent of the total assets of all operating segments.
- its assets and liabilities represent at least 10 percent of total capital.

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

Foreign currency

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

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

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

6 Cash and cash equivalents

	31 December 2020	31 December 2019
Cash and cash equivalents measured at amortized cost	5 372 867	1 991 600
Total cash and cash equivalents	5 372 867	1 991 600

Cash and cash equivalents measured at amortized cost

	31 December 2020	31 December 2019
Current account balances in CBU	5 395 528	2 000 000
Provision for credit losses	(22 661)	(8 400)
Total cash and cash equivalents measured at amortized cost	5 372 867	1 991 600

As at 31 December 2020, the Company has cash balances on accounts only with CBU (2019: CBU).

The table below provides an analysis of the credit quality of cash and cash equivalents measured at amortized cost based on credit ratings as at 31 December 2020. A description of the Company's credit risk classification system is presented in Note 22. The carrying amount of cash and cash equivalents as at 31 December 2020 in the table below also represents the Company's maximum exposure to credit risk for these assets:

	Low credit risk	Total
Current account balances in CBU	5 395 528	5 395 528
Provision for credit losses	(22 661)	(22 661)
Total cash and cash equivalents measured at amortized cost, excluding cash on hand	5 372 867	5 372 867

The table below provides an analysis of the credit quality of cash and cash equivalents as at 31 December 2019:

	Low credit risk	Total
Current account balances in CBU	2 000 000	2 000 000
Provision for credit losses	(8 400)	(8 400)
Total cash and cash equivalents measured at amortized cost, excluding cash on hand	1 991 600	1 991 600

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

The table below provides a reconciliation of opening balances of provision for credit losses on cash and cash equivalents measured at amortized cost, disaggregated by category. An approach to measuring expected credit losses is disclosed in Note 22.

	ECL for 12 months	Total
Balance as at 1 January 2019	-	-
Provision for credit losses formation	8 400	8 400
Balance as at 31 December 2019	8 400	8 400
Provision for credit losses formation	14 261	14 261
Balance as at 31 December 2020	22 661	22 661

7 Due from other banks

	31 December 2020	31 December 2019
Due from other banks at amortized cost	95 387 198	-
Total due from other banks	95 387 198	-

Due from other banks at amortized cost

	31 December 2020	31 December 2019
Term deposits in other banks placed for a period exceeding 90 days	95 500 000	-
Provision for credit losses	(112 802)	-
Total due from other banks at amortized cost	95 387 198	-

The balance value of due from other banks as at 31 December 2020 also reflects the Company's maximum exposure to credit risk for these assets:

	Low credit risk	Total
Term deposits in other banks placed for a period exceeding 90 days	95 500 000	95 500 000
Provision for credit losses	(112 802)	(112 802)
Total due from other banks at amortized cost	95 387 198	95 387 198

The table below provides a reconciliation of opening balances of provision for credit losses on due from other banks measured at amortized cost, disaggregated by category. An approach to measuring expected credit losses is disclosed in Note 22.

	ECL for 12 months	Total
Balance as at 31 December 2019	-	-
Provision for credit losses formation	112 802	112 802
Balance as at 31 December 2020	112 802	112 802

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

8 Loans and advances

	31 December 2020	31 December 2019
Loans and advances, measured at amortized cost	307 189 865	-
Total loans and advances	307 189 865	-

Loans and advances, measured at amortized cost

Below is the concentration of loans by industry:

	31 December 2020	31 December 2019
Loans to banks	307 472 147	-
Provision for credit losses	(282 282)	-
Total loans and advances, measured at amortized cost	307 189 865	-

Below is the risk concentration structure of the loan portfolio to banks by industry as at 31 December 2020:

	Gross book value	Provision for credit losses	Book value
JSCIB "Ipoteka bank"	71 415 556	(148 280)	71 267 276
JSCB "Qishloq qurilish bank"	40 808 889	-	40 808 889
JSCB "Uzsanoatqurilishbank"	61 235 000	-	61 235 000
JSCB "Agrobank"	33 587 671	(85 325)	33 502 346
JSCB "Asaka bank"	20 121 096	(48 677)	20 072 419
JSCB "Hamkorbank"	50 142 466	-	50 142 466
JSCB "Turon bank"	30 161 470	-	30 161 470
Total loans and advances, measured at amortized cost	307 472 147	(282 282)	307 189 865

As at 31 December 2020, all loan balances of the Company exceed 10% of the Company's capital.

The tables below provide an analysis of the credit quality of loans measured at amortized cost provided by the Company as at 31 December 2020. Description of terms 12 month expected credit losses, lifetime expected credit losses in Note 22. The credit quality analyzes of loans presented in the tables below are based on the rating scale of international rating agencies.

	ECL for 12 months	Total
Low credit risk	277 310 677	277 310 677
Medium credit risk	30 161 470	30 161 470
Total gross book value loans and advances	307 472 147	307 472 147
Provision for credit losses	(282 282)	(282 282)
Total loans and advances	307 189 865	307 189 865

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

	ECL for 12 months	Total
Balance as at 31 December 2019	-	-
Net expense from the creation / (restoration) of the provision for credit losses within one stage	282 282	282 282
<i>- including new loans issued</i>	282 282	282 282
Balance as at 31 December 2020	282 282	282 282

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

As at 31 December 2020 there are no overdue loans and advances measured at amortized cost and no evidence of impairment.

9 Fixed assets

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

	Office and computer equipment	Assets in the form of user rights	Transportation	Total
Residual value as at 31 December 2019	-	-	-	-
<i>Initial cost</i>				
Balance as at 31 December 2019	-	-	-	-
Income	374 977	3 545 318	325 015	4 245 310
Balance as at 31 December 2020	374 977	3 545 318	325 015	4 245 310
<i>Accumulated depreciation</i>				
Balance as at 31 December 2019	-	-	-	-
Depreciation deductions	23 030	26 966	19 234	69 230
Balance as at 31 December 2020	23 030	26 966	19 234	69 230
Residual value as at 31 December 2020	351 947	3 518 352	305 781	4 176 080

As at 31 December 2019 there were no fixed assets.

10 Other assets

	31 December 2020	31 December 2019
Other non-financial assets		
Prepayment for services	5 235	-
Total other non-financial assets	5 235	-

11 Borrowings

	31 December 2020	31 December 2019
Borrowings measured at amortized cost	306 825 306	-
Total borrowings	306 825 306	-

Borrowings measured at amortized cost

	31 December 2020	31 December 2019
Borrowings from the Ministry of Finance of the Republic of Uzbekistan	306 825 306	-
Total borrowings measured at amortized cost	306 825 306	-

It was signed on-lending agreement of ADB resources between the Company and the Ministry of Finance of the Republic of Uzbekistan dated 8 May 2020 at UZS equivalent of the amount of 150 million US Dollars for the refinancing purpose of mortgage credit lending through commercial banks. The Project is expected to be completed by 31 January 2023. The loan is granted for 20 years, including a grace period of 5 years. The annual interest rate is 12%. The Company also pays commission of 0,15% per annum on non-used part of the loan.

As at 31 December 2020 the balance of principal of this borrowing was 303,140,357 thousand UZS and the balance of interest accrued was 3,684,949 thousand UZS.

12 Other liabilities

	31 December 2020	31 December 2019
Other financial liabilities		
Accounts payable	582	-
Accrued expenses for the payment of remuneration to staff	261 301	45 014
Total other financial liabilities	261 883	45 014
Other non-financial liabilities		
Taxes payable, excluding income tax	240 362	12 277
Lease liabilities	3 558 208	-
Total other non-financial liabilities	3 798 570	12 277

13 Share capital

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

	The number of shares, thousand pieces	Ordinary shares, thousand UZS	Total
1 January 2019	-	-	-
Issue of new shares	2 000 000	2 000 000	2 000 000
31 December 2019	2 000 000	2 000 000	2 000 000
Issue of new shares	98 000 000	98 000 000	98 000 000
31 December 2020	100 000 000	100 000 000	100 000 000

All ordinary shares have a nominal value of 1,000 UZS per share. Each share provides one vote.

14 Interest income and expense

	For the year ended 31 December 2020	For the year ended 31 December 2019
<i>Interest income calculated at the effective interest rate</i>		
Due from other banks	7 423 921	-
Loans and advances	4 635 480	-
Total interest income calculated at the effective interest rate	12 059 401	-
<i>Interest expense calculated at the effective interest rate</i>		
Borrowings	7 601 632	-
Lease liabilities	122 790	-
Total interest expense calculated at the effective interest rate	7 724 422	-
Net interest income	4 334 979	-

15 Other operating income

	For the year ended 31 December 2020	For the year ended 31 December 2019
Fine and penalties	92	-
Total other operating income	92	-

16 Administrative and other operating expenses

	For the year ended 31 December 2020	For the year ended 31 December 2019
Salary and bonuses	1 705 680	51 152
Single social payment	203 767	6 139
Staff costs	1 909 447	57 291
Professional services	105 975	-
Utilities	99 685	-
Depreciation	69 230	-
Maintenance software	58 841	-
Rent	24 699	-
Stationery	14 866	-
Communication	13 770	-
Representative expenses	5 274	-
Insurance	97	-
Other	432	-
Total other operating expenses	392 869	-
Total staff and other operating expenses	2 302 316	57 291

17 Income tax

Components of income tax expense

Income tax expense includes the following components:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Current income tax expense	312 233	-
Deferred taxation	(77 315)	-
Income tax expense for the year	234 918	-

Reconciliation of tax expenses and profit or loss multiplied by the applicable tax rate

The income tax rate applied to the majority of the Company's profit is the corporate income tax (15 percent).

Deferred tax analysis by type of temporary differences

Differences between IFRS and the tax legislation of the Republic of Uzbekistan lead to the emergence of temporary differences between the book value of assets and liabilities for the purpose of drawing up financial statements and for the purpose of calculating income tax.

The tax consequences of the movement of temporary differences for 2020 are detailed below:

	31 December 2020	Restored / (allocated) to profit and loss account	31 December 2019
Tax effects of temporary differences that reduce / (increase) the tax base			
Cash and cash equivalents	2 139	(2 139)	-
Due from other banks	16 920	(16 920)	-
Loans and advances	42 342	(42 342)	-
Fixed assets	6 744	(6 744)	-
Other assets	9 170	(9 170)	-
Net deferred tax (liability) / assets	77 315	(77 315)	-
Recognized deferred tax assets	77 315	(77 315)	-
Net deferred tax (liability) / assets	77 315	(77 315)	-

18 Earnings per share

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

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

	For the year ended 31 December 2020	For the year ended 31 December 2019
Income / (loss) for the year attributable to ordinary shareholders	1 388 492	(65 691)
Net income for the period attributable to shareholders (thousand UZS)	1 388 492	(65 691)
Weighted average number of ordinary shares outstanding during the period (pcs)	53 718 579	2 000 000
Basic and diluted earnings / (loss) per ordinary share (pcs / UZS)	25,85	(32,85)

19 Contingent financial liabilities

19.1 Legal issues

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

19.2 Tax legislation

Tax and customs legislation, as well as legislation in the sphere of currency regulation of the Republic of Uzbekistan, admit the possibility of different interpretations and are subject to frequent changes. Moreover, the regulations issued by various government bodies may contradict each other. Management's interpretation of the legislation applied to the operations and the relevant authorities may challenge activities of the Company. The Uzbek tax authorities may take a tougher stance in interpreting legislation and assessing accruals, and there is a possibility that operations and activities that have not been challenged in the past will be challenged. As a result, significant amounts of additional taxes, penalties and interest may be assessed. Tax periods remain open for review by the relevant tax authorities for tax payments for five calendar years. previous year for which the audit is carried out. In some cases, checks may cover longer periods.

The management of the Company believes that its interpretation of the relevant legislation is correct and that the Company's tax, currency and customs positions will be confirmed. Accordingly, at 31 December 2020 and at 31 December 2019, management did not form a reserve for potential tax liabilities. The Company estimates that there are no potential tax liabilities, with the exception of unlikely.

20 Related party transactions

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

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

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

	31 December 2020		31 December 2019	
	Shareholders	Other related parties	Shareholders	Other related parties
Assets				
Due from other banks	85 398 966	9 988 232	-	-
Loans and advances	307 189 865	-	-	-
Liabilities				
Borrowings	306 825 306	-	-	-

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

	For the year ended 31 December 2020		For the year ended 31 December 2019	
	Shareholders	Other related parties	Shareholders	Other related parties
Income and expenses				
Interest income	10 967 894	1 091 507	-	-
Interest expense	(7 601 632)	-	-	-
Administrative and other operating expenses	-	1 283 790	-	57 291
- Remuneration of key management personnel	-	1 283 790	-	57 291

21 Fair value

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

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

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

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

	Level 1	Level 2	Level 3	Book value
Financial assets measured at amortized cost				
Cash and cash equivalents	-	5 395 528	-	5 395 528
Current account balances in CBU	-	5 395 528	-	5 395 528
Due from other banks	-	95 500 000	-	95 500 000
Term deposits in other banks placed for a period of more than 90 days	-	95 500 000	-	95 500 000
Loans and advances	-	-	307 472 147	307 472 147
Loans to banks	-	-	307 472 147	307 472 147

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

	Level 1	Level 2	Level 3	Book value
Financial assets measured at amortized cost				
Cash and cash equivalents	-	2 000 000	-	2 000 000
Current account balances in CBU	-	2 000 000	-	2 000 000

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

	Level 1	Level 2	Level 3	Book value
Financial liabilities measured at amortized cost				
Borrowings	-	-	306 825 306	306 825 306
Borrowings from the Ministry of Finance of the Republic of Uzbekistan	-	-	306 825 306	306 825 306
Other financial liabilities	-	-	261 883	261 883

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

	Level 1	Level 2	Level 3	Book value
Financial liabilities measured at amortized cost				
Other financial liabilities	-	-	45 014	45 014

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

For assets, the Company used assumptions about the incremental rate on borrowed capital and the prepayment rates of the counterparty. Liabilities are discounted at the rate of raising additional borrowed funds of the Company. Obligations to be repaid upon request were discounted starting from the first day of the potential presentation of a request for repayment of the Company's obligations.

22 Risk Management

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

22.1 Credit risk

The Company assumes credit risk, namely the risk that the counterparty will not be able to fully repay the debt in due time. The Company controls credit risk by setting limits on one borrower or group of related borrowers, as well as by industry segment. The Company regularly monitors such risks; limits are reviewed annually.

Policy to reduce and limit risk. The Company manages, sets limits and controls the concentration of credit risk wherever it is established - in particular, in relation to individual counterparties and groups, and in relation to industries. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to fulfill obligations to repay interest and principal.

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

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

- right for mortgage claim;
- government securities;
- deposits.

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

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

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

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

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

- The presence of overdue debts to the Company for a period from 31 to 90 days (inclusive);
- Significant changes in the external and internal credit rating resulting from changes in credit risk compared with the moment of initial recognition;

- Deterioration of the internal rating to the level at which the Company decides to refuse to provide a loan;
- Identification of events that may affect solvency (revocation of a license, presence of claims, violation of credit documentation conditions, etc.).

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

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

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

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

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

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

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

Assessment methods and method of forming an allowance for credit losses. In order to estimate expected credit losses, two methods are distinguished: at the transaction level or at the counterparty level.

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

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

- The number of considered scenarios and their weights are determined on the basis of the methodology developed by the Company, taking into account the current, as well as reasonable forecast information, however, the number of considered scenarios cannot be less than two (including 100% loss scenario) and the probability of their implementation must be above zero.

- Estimation of expected losses in case of individual approach to reservation takes into account the time value of money, as well as reasonable information about past, current and forecast future economic conditions. The amount of the allowance for credit losses is determined as the difference between the gross book value of the debt financial asset before deducting the allowance for credit losses at the valuation date and its recoverable amount.

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

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

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

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

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

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

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

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

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

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

22.2 Geographical risk

The following is an analysis of the geographical concentration of the Company’s financial assets and liabilities as at 31 December 2020:

	Uzbekistan	Other countries	Total
Financial assets			
Cash and cash equivalents	5 372 867	-	5 372 867
Due from other banks	95 387 198	-	95 387 198
Loans and advances	307 189 865	-	307 189 865
Total financial assets	407 949 930	-	407 949 930
Financial liabilities			
Borrowings	-	306 825 306	306 825 306
Other financial liabilities	261 883	-	261 883
Total financial liabilities	261 883	306 825 306	307 087 189
Net financial assets / (liabilities)	407 688 047	(306 825 306)	100 862 741

The following is an analysis of the geographical concentration of the Company’s financial assets and liabilities as at 31 December 2019:

	Uzbekistan	Other countries	Total
Financial assets			
Cash and cash equivalents	1 991 600	-	1 991 600
Total financial assets	1 991 600	-	1 991 600
Financial liabilities			
Other financial liabilities	45 014	-	45 014
Total financial liabilities	45 014	-	45 014
Net financial assets / (liabilities)	1 946 586	-	1 946 586

Assets, liabilities and credit commitments are generally classified according to the country in which the counterparty is located. Cash and cash equivalents, due from other banks are classified according to the country of their physical location.

22.3 Currency risk

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

	Monetary financial assets	Monetary financial liabilities	Net balance position
2020			
UZS	407 949 930	306 834 942	101 114 988
USD	-	252 247	(252 247)
Total	407 949 930	307 087 189	100 862 741
2019			
UZS	1 991 600	45 014	1 946 586
Total	1 991 600	45 014	1 946 586

The Company assumes the risk associated with the effect of fluctuations in foreign exchange rates on its financial position and cash flows. The Company's Council sets limits on the level of accepted risk in the context of currencies and as a whole both at the end of each day and within one day and monitors their compliance on a daily basis. The Company's Financial manager measures its currency risk by analyzing its net foreign currency position denominated in the same currency, and also analyzes the effect of strengthening / weakening of the same currency in relation to the Uzbek Soum on the Company's profit and loss.

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

	31 December 2020	31 December 2019
Strengthening of the USD by 10%	(25 225)	-
Weakening of the USD by 10%	25 225	-

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

22.4 Liquidity risk

Liquidity risk is the risk that an organization will face difficulties in meeting its financial obligations. The Company is exposed to the risk of the daily need to use the available funds for settlement of overnight deposits, customer deposits, repayment of deposits, issuance of loans and borrowings, payments on guarantees and derivative financial instruments that are settled in cash. The Company does not accumulate cash in case it is necessary to fulfill all of the above obligations at one time, since, based on the accumulated experience, it is possible to predict with sufficient accuracy the level of funds necessary to fulfill these obligations. The Company's Financial manager manages liquidity risk

The Company tries to maintain a stable funding base, consisting mainly of funds from other banks, deposits of legal entities / deposits of individuals. The Company invests in diversified portfolios of liquid assets in order to be able to quickly and easily meet unforeseen liquidity requirements.

Liquidity management of the Company requires an analysis of the level of liquid assets necessary to settle liabilities upon maturity; providing access to various sources of financing; plans in case of problems with financing and monitoring compliance of liquidity ratios with legislative requirements. The Company calculates liquidity ratios on a monthly basis in accordance with the requirements of the CBU.

Information on financial assets and liabilities is received by the Financial manager ensures an adequate portfolio of short-term liquid assets, mainly consisting of short-term liquid trading securities, deposits with banks and other interbank instruments, to maintain an adequate level of liquidity for the Company as a whole.

Financial manager controls the daily liquidity position and regularly performs liquidity stress testing under various scenarios covering standard and more adverse market conditions.

The table below shows the distribution of obligations by contractual time remaining until maturity. The liabilities amount in the table represent the contractual cash flows, including the gross amount of the finance lease liabilities, as well as financial guarantees. These non-discounted cash flows differ from the amounts recorded in the statement of financial position as the amounts in the statement of financial position are based on discounted cash flows.

The table below shows the maturity analysis of non-derivative financial assets recorded at book value based on the contractual maturity dates, with the exception of assets that can be easily realized if there is a need for cash outflows related to financial liabilities. Such financial assets are included in the maturity analysis based on the expected disposal date. Impaired loans and borrowings are included in the table at book value less provision for impairment and based on expected cash inflow periods.

In cases where the amount to be paid is not fixed, the amount in the table is determined based on the conditions existing at the end of the reporting period. Currency payments are translated using the current exchange rate at the end of the reporting period.

Liquidity requirements in respect of guarantees and letters of credit are significantly lower than the sum of the corresponding liabilities presented in the maturity analysis above, as the Company usually does not expect funds from these liabilities to be claimed by third parties. The total amount of loan commitments included in the table above does not necessarily represent the amount of cash that will be required to be repaid in the future, since many of these commitments may be unclaimed or terminated before they expire.

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

	On demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	More than 2 years	Total
Financial assets						
Due from other banks	-	-	95 387 198	-	-	95 387 198
Loans and advances	2 249 985	-	-	-	304 939 880	307 189 865
Total interest accrued financial assets	2 249 985	-	95 387 198	-	304 939 880	402 577 063
Cash and cash equivalents	5 372 867	-	-	-	-	5 372 867
Total financial assets	7 622 852	-	95 387 198	-	304 939 880	407 949 930
Financial liabilities						
Borrowings	-	-	-	-	306 825 306	306 825 306
Total interest-bearing financial liabilities	-	-	-	-	306 825 306	306 825 306
Other financial liabilities	261 883	-	-	-	-	261 883
Total financial liabilities	261 883	-	-	-	306 825 306	307 087 189
The difference between financial assets and liabilities	7 360 969	-	95 387 198	-	(1 885 426)	100 862 741
The difference between interest accrued financial assets and interest-bearing financial liabilities	2 249 985	-	95 387 198	-	(1 885 426)	95 751 757
The difference between interest accrued financial assets and interest-bearing financial liabilities, cumulative	2 249 985	2 249 985	97 637 183	97 637 183	95 751 757	
The difference between interest accrued financial assets and interest-bearing financial liabilities, as a percentage of total assets, cumulative	0,55%	0,55%	23,93%	23,93%	23,47%	

The analysis of liquidity risk and interest rate risk as at 31 December 2019 is presented in the following table:

	On demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	More than 2 years	Total
Financial assets						
Cash and cash equivalents	1 991 600	-	-	-	-	1 991 600
Total financial assets	1 991 600	-	-	-	-	1 991 600
Financial liabilities						
Other financial liabilities	45 014	-	-	-	-	45 014
Total financial liabilities	45 014	-	-	-	-	45 014
The difference between financial assets and liabilities	1 946 586	-	-	-	-	1 946 586
The difference between interest accrued financial assets and interest-bearing financial liabilities	-	-	-	-	-	-
The difference between interest accrued financial assets and interest-bearing financial liabilities, cumulative	-	-	-	-	-	-
The difference between interest accrued financial assets and interest-bearing financial liabilities, as a percentage of total assets, cumulative	0,00%	0,00%	0,00%	0,00%	0,00%	

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

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