

JOINT-STOCK COMPANY
“ZIRAAT BANK UZBEKISTAN”

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2022

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Confirmation of the Management's responsibilities for preparation and approval of the financial statement as of 31 December 2022

The Management is responsible for preparation and fair presentation of the financial statements in all material aspects of the financial position of the Joint-Stock Company «ZIRAAT BANK UZBEKISTAN» (hereinafter referred to as the – “the Bank”) as of 31 December 2022, and also operating results of its activity, cash flows and changes in equity for the specified date, in accordance with International Financial Reporting Standards (hereinafter – “IFRS”).

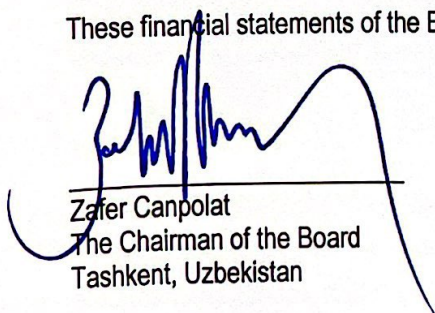
Under the preparation of the financial statements, the Management's responsibility includes:

- ⇒ selecting and applying appropriate accounting policies;
- ⇒ presentation of data, including information on accounting policy, in the form of providing timeliness, reliability, matching and clarity of such information;
- ⇒ observance of requirements of IFRS, also disclosure of additional information in event when implementation of the requirements of IFRS provided to be insufficient for understanding of the users of the financial statements with different transactions and also other events or conditions influence on financial position and financial results of the activity of the Bank;
- ⇒ valuation of ability of the Bank to continue in visible future.

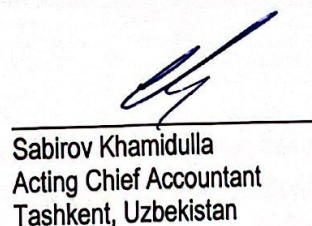
The Management is also responsible for:

- ⇒ designing, implementing and maintaining reliable internal control system and organization of risk management systems at the Bank;
- ⇒ maintenance the accounting in the form of which allows to disclose and explain transactions of the Bank, and also present any data with the enough precision of financial position of the Bank and provide with compliance its financial statements with the requirements of IFRS;
- ⇒ maintain its accounting system in accordance with the Uzbekistan accounting legislation and standards;
- ⇒ acceptance of all reasonable measures on providing safeguarding of assets of the Bank;
- ⇒ exposure and prevention of the facts of financial and other abuses.
- ⇒ the Bank's compliance with prudential standards as of the reporting date, in accordance with the requirements imposed by the Central Bank of the Republic of Uzbekistan.

These financial statements of the Bank as of 31 December 2022 were approved by the Management on 28 March 2023.


Zafer Canpolat
The Chairman of the Board
Tashkent, Uzbekistan




Sabirov Khamidulla
Acting Chief Accountant
Tashkent, Uzbekistan

Independent Auditor's Report

To the Shareholders and the Supervisory board of the Joint-Stock Company "ZIRAAT BANK UZBEKISTAN"

Auditor's opinion

We were engaged to audit the statement of the financial position of the Joint-Stock Company "ZIRAAT BANK UZBEKISTAN" (hereinafter referred to as the – "the Bank") consisting of financial position as of 31 December 2022 and relevant statements of profit and loss and comprehensive income, cash flows and changes in equity (hereinafter – "the financial statements") for the year ended on the specified date, and also notes to the financial statements including short summary of significant accounting policies and other explanatory notes,

In our opinion, the attached financial statements in all material respects give a true and fair presentation of the financial position of the Bank as of 31 December 2022, including its financial performance and cash flows for the period ended on the specified date in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

The audit was conducted in accordance with International standards on auditing (ISA). Our duties in accordance with these standards are described later in the section "The Auditor's Responsibility for the audit of the financial statements" of the report.

We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the "Code of ethics for professional accountants" of the International Ethics Standards Board for Accountants ("IESBA Code of ethics") and ethical requirements relating to our audit of the financial statements in Uzbekistan, we have fulfilled other ethical responsibilities in accordance with these requirements and IESBA Code of ethics. We have also fulfilled other duties in accordance with these professional ethics requirements.

Key audit matters

Key audit matters are matters that according to our professional judgement would be of most value for the audit of the financial statements for the current period. Such matters were considered in the context of our audit of the financial statements in general and in forming our opinion on the financial statements, and we do not express separate opinions on these matters.

Key audit matters

Audit procedures carried out

Provision for credit losses on loans to customers and credit related commitments

We have considered impairment of loans and advances to customers as a key audit issue in view of the materiality of balances on loans and advances to customers, and since IFRS 9 is a new and comprehensive financial reporting standard that requires significant judgment to determine the provision for expected credit losses (ECL).

Judgement is required to determine whether there has been a significant increase in credit risk since the date of initial recognition, either individually or on a collective basis, and to calculate expected credit losses. The assessment of an increase in credit risk is based on the relative change in credit ratings, length of arrears, and other objective and subjective factors. The choice of thresholds at which an increase in credit risk is recognized as significant, such as the amount of credit rating deterioration, is also subjective.

The calculation of expected credit losses involves estimation techniques that use significant unobservable inputs and factors, such as internal credit ratings, as well as complex statistical modeling and expert judgment. These methodologies are used to determine the probability of default based on available historical data and external information.

Estimating expected credit losses for individually significant financial assets subject to credit impairment requires an analysis of financial and non-financial information and extensive use of assumptions. Estimates of future cash flows are based on significant unobservable inputs such as current and projected financial performance of the borrower, collateral values, and probability estimates of possible scenarios. The use of different modeling techniques, assumptions and forecasts may result in significantly different estimates of the allowance for expected credit losses.

Notes 4, 8 and 25 to the financial statements provide details of the allowance for expected credit losses for loans to customers and credit related commitments.

Our audit focused on the following: evaluating the credit risk models and assumptions used to determine key provisioning parameters and expected credit losses for the portfolio; evaluating management's judgment in identifying significant increases in credit risk, individually and collectively, using quantitative and qualitative criteria; testing expected future cash flows, including cash flows originated by collateral, for material

Our audit procedures included assessing the methodology for calculating expected credit losses developed by the Bank under IFRS 9, Financial Instruments, for estimating allowances for impairment of loans to customers, as well as credit related commitments. We assessed the reasonableness of the credit risk factors and thresholds chosen by the Bank's management to determine a significant increase in credit risk on an individual and collective basis. We evaluated the consistency in the application of the criteria selected by management at the reporting date.

In testing the impairment calculated on a collective basis, we analyzed the underlying statistical models, key inputs and assumptions, and forward-looking information used in the calculation of expected credit losses. For the selected significant loans, we reviewed internal credit ratings, credit risk factors, and staging classifications. For our selected materially impaired corporate loans, we worked with valuation experts to analyze assumptions about future cash flows, including the value of collateral and the likelihood of possible scenarios.

We considered the results of the Bank's follow-up testing of models used for the purposes of IFRS 9.

Other information

The Bank's management is responsible for other information. Other information represents the information in the annual report, except the financial statements and audit report with our opinion. We suppose that the annual report will be provided to us after the date of this audit report.

Our opinion on the financial statements does not cover other information and we do not express any form of assurance on this information.

Due to the audit of the financial statements, the responsibilities of the auditors include reviewing other information specified above after providing the information. During the review, we consider other information on the subject of significant inconsistencies with data from financial statements or with the information obtained during our audit engagement, as well as other possible significant inconsistencies.

If based on review of annual report we conclude that the information contains significant inconsistencies, we shall inform about this fact to individual responsible for corporate governance.

Management's responsibility and those who are responsible for the corporate governance of the audited entity in relation to the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for maintaining internal control system that management considers necessary for preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements management is responsible for assessing the Bank's ability to continue its operations consistently, for the disclosure of appropriate information related to business consistency, and the use of the principle of consistency as the basis of accounting, except when the management intends to liquidate the organization to cease its activities or when it does not have any alternative other than liquidation or termination of its activities.

Those who are responsible for the corporate governance of the Bank are responsible for supervising and preparation of the financial statements of the audited entity.

Auditor's responsibility for the audit of the financial statements

Our responsibility is to obtain reasonable assurance that financial statements are free of material misstatements due to fraud or error, and to submit the auditor's report that includes our opinion. Reasonable assurance is a high degree of confidence, but is not a guarantee that an audit conducted in accordance with International standards on auditing (ISA) always detects existing material misstatement. Distortions might be the result of fraud or error and shall be considered material if on a reasonable basis there is a possibility to assume that individually or collectively, they could influence the economic decisions taken by users based on the financial statements.

In the framework of the audit in accordance with ISA, we apply professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:

- ⇒ we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; we develop and conduct audit procedures in response to those risks we obtain the audit evidence that is sufficient and appropriate to express our opinion. The risk of not detecting material misstatements as a result of unfair actions is higher than the risk of not detecting material misstatement as a result of error as unscrupulous actions that include collusion, forgery, deliberate omission, misrepresenting of information or actions that circumvent existing internal control system;
- ⇒ we gain an understanding of the internal control system relevant to the audit, with the aim to establish audit procedures that are appropriate in the certain circumstances, however not with the purpose of expressing an opinion on the efficiency of the internal control system of the Bank;
- ⇒ we assess the appropriate character of applied accounting policy and validity of accounting estimates and related disclosures determined by the management;
- ⇒ we make conclusions on the legitimacy of the management's assumptions about consistency of the activities and conclusion about whether there is a significant uncertainty in connection with events or conditions that may raise significant doubts about the ability of the Bank to continue its activities consistently based on obtained audit evidence. In the case, we conclude that there is significant uncertainty, we must draw attention to the relevant disclosures in the financial statements in our auditor's report or if such disclosure is inadequate, we shall modify our opinion. Our conclusions based on audit evidence obtained prior to the date of our audit opinion. However, future events or conditions may cause the Bank to lose the ability to continue their activities consistently;
- ⇒ we carry out general assessment of the financial statements, its structure and content, including disclosures and whether the financial statements provide the underlying transactions and events to ensure their fair presentation.

We carry out informational interaction with individuals responsible for corporate governance, inter alia, bring information about the planned scope and term of audit work and significant observations of the audit, including significant deficiencies in the system of internal control to their attention that were identify during our audit engagement.

We also provide individuals responsible for corporate governance, the statement that we have complied with all relevant ethical requirements regarding independence and we informed these individuals about all relationships and other matters that may affect the Auditor's independence and, where necessary, on appropriate precautionary measures.

One of those matters that we brought to the attention of individuals responsible for corporate governance, we identify matters that were most important for the audit of the financial statements for the current period and therefore they are key audit matter. We describe these matters in our audit opinion, except when public disclosure of these matters is prohibited by law or regulatory document, or when, in extremely rare cases, we conclude that information on any matter should not be provided in our report because it can reasonably be assumed that the negative consequences of disclosing such information exceed a significant social benefit from its message.

Report on the results of the inspection in accordance with the requirements of Articles 42 and 74 of the Law of the Republic of Uzbekistan №. 3PY-580 of 05 November 2019 "On Banks and Banking Activities".

The Bank's management shall be responsible for the Bank's compliance with the prudential norms established by the Central Bank of the Republic of Uzbekistan (hereinafter referred to as the - "Central Bank"), as well as for compliance of the Bank's internal control and risk management systems with the requirements set forth by the Central Bank.

In accordance with Article 74 of Law № 580 of 05 November 2019 "On Banks and Banking Activities", in connection with our audit of the financial statements, our responsibility is to ascertain whether, as of 31 December 2022 the Bank complies with the prudential ratios established by the Central Bank and whether the elements of internal control and organization of the Bank's risk management systems meet the Central Bank's requirements.

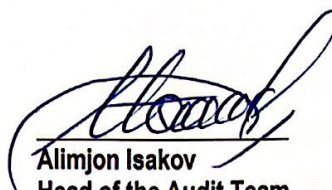
If, based on our work, we conclude that the Bank has not complied with the requirements set by the Central Bank to comply with prudential ratios and compliance with elements of internal control and organization of risk management systems, we are required to report this fact in our report. We have not identified any facts that should be reflected in our report.



Ravshan Asfandiyarov
General Director

Auditor's qualification certificate
No. 05048 dated 25 August 2012

Auditor's qualification certificate
to conduct audits of banks
No. 14/1 dated 27 December 2019



Alimjon Isakov
Head of the Audit Team

Auditor's qualification certificate
№ 04475 dated 05 December 2007

Auditor's qualification certificate
to conduct audits of banks
No. 14/4 dated 04 May 2018

Audit Company PKF MAK ALYANS LLC

28 March 2023

22, Aviasozlar Street, 1st Avenue, Tashkent, Uzbekistan

**Included in the Register of Audit Organizations of the Ministry of Finance
of the Republic of Uzbekistan № 17 dated 04 June 2021.**

**Certificate of the Central Bank of the Republic of Uzbekistan
for the right to conduct audits of banks № 14 dated 19 August 2011**

JOINT-STOCK COMPANY «ZIRAAT BANK UZBEKISTAN»

Statement of financial position


(in thousands of UZS)

Items	Note	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	5	806 029 181	336 445 206
Mandatory reserves on accounts with the CBU	6	30 097 142	23 270 415
Due from other banks	7	62 995 599	292 225 205
Loans and advances to customers:	8	1 112 932 354	874 380 270
Less: Provisions for possible losses	8	(38 324 859)	(23 850 197)
Net loans and advances to customers	8	1 074 607 495	850 530 073
Investment financial assets	9	31 058 488	41 828 738
Fixed assets (net book value)	10	37 506 163	22 655 956
Intangible assets (net book value)	10	14 295 413	1 892 544
Tax assets		5 566 074	4 119 443
Other assets	11	3 485 887	1 754 212
TOTAL ASSETS		<u>2 065 641 442</u>	<u>1 574 721 792</u>
LIABILITIES			
Customer accounts	12	1 314 503 443	991 519 062
Due to other banks	13	322 916 484	234 745 396
Other borrowed funds	14	8 240 652	2 890 043
Income tax liabilities		2 264 024	1 151 321
Other liabilities	15	17 868 497	10 993 287
Total liabilities		<u>1 665 793 100</u>	<u>1 241 299 109</u>
EQUITY			
Share capital	16	305 303 965	269 708 810
Reserve capital and funds	17	26 704 966	35 632 936
Retained earnings	18	67 839 411	28 080 937
Total equity		<u>399 848 342</u>	<u>333 422 683</u>
TOTAL LIABILITIES & EQUITY		<u>2 065 641 442</u>	<u>1 574 721 792</u>

Approved and signed on behalf of the Board on 28 March 2023.


Zafer Canpolat
The Chairman of the Board
Tashkent, Uzbekistan




Sabirov Khamidulla
Acting Chief Accountant
Tashkent, Uzbekistan

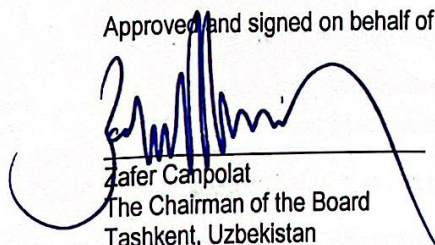
JOINT-STOCK COMPANY «ZIRAAT BANK UZBEKISTAN»

Statement of profit and loss and other comprehensive income

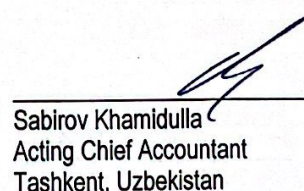
(in thousands of UZS)

Items	Note	2022	2021
Interest income calculated at the effective interest rate	19	172 340 053	118 035 861
Other	19	291 611	95 829
Interest expenses calculated at the effective interest rate	19	(66 655 331)	(37 718 082)
Net Interest income		105 976 333	80 413 608
Restoration / (Creation) of a provision for credit losses on debt financial assets		(2 866 806)	(11 016 771)
Net Interest income after change in provision for impairment of loans		103 109 527	69 396 837
Fee and commission income	20	24 232 308	20 823 625
Fee and commission expense	20	(7 068 891)	(3 979 552)
Net profit from dealing with foreign currency operations		23 496 079	10 597 708
Restoration / (Creation) of a provision for credit losses on credit-related obligations		(3 802 199)	(520 797)
Provision for other assets		(83 813)	(5 023 873)
Other non-interest income	21	1 850 356	1 274 499
Operating expenses and other non-interest expenses	22	(54 503 587)	(37 819 862)
Profit before tax		87 229 780	54 748 585
Expenses on income tax	23	(18 930 690)	(9 421 209)
Net profit for the year		68 299 090	45 327 376
Other comprehensive income for the year		-	-
Total comprehensive income for the year		68 299 090	45 327 376
Basic earnings per share (in soums)	24	280,84	218,10

Approved and signed on behalf of the Board on 28 March 2023.


Zafer Canpolat
The Chairman of the Board
Tashkent, Uzbekistan




Sabirov Khamidulla
Acting Chief Accountant
Tashkent, Uzbekistan

Statement of cash flows

(in thousands of UZS)				
Items	Note	2022	2021	
Cash flows from operating activities				
Interest received	19	171 261 434	118 131 690	
Interest paid	19	(58 314 822)	(37 718 082)	
Fees and commissions received	20	24 907 842	20 823 625	
Fees and commissions paid	20	(9 365 026)	(3 979 552)	
Net income received on foreign currency transactions		-	(10 597 708)	
Net non-interest income	21, 22	1 759 921	1 274 499	
Personnel costs paid	23	(26 531 456)	(19 315 774)	
Other operating expenses paid	23	(19 436 875)	(18 504 088)	
Income taxes paid		(19 349 025)	(8 636 844)	
Cash flows received from operating activities before changes in operating assets and liabilities		<u>64 931 993</u>	<u>41 477 766</u>	
Net (increase)/decrease in operating assets				
Mandatory reserves to CBU	6	(6 826 727)	(10 500 427)	
Due from other banks	7	229 229 606	(224 740 682)	
Loans and advances to customers	8	(222 844 881)	(253 358 056)	
Other assets	11	(1 731 675)	233 589	
Net increase/(decrease) in operating liabilities				
Customer deposits	12	322 984 381	389 732 524	
Due to other banks	13	88 171 088	45 559 610	
Other borrowed funds		5 350 609	2 890 043	
Other liabilities	15	6 875 210	3 505 478	
Net cash flows from operating activity		<u>486 139 604</u>	<u>(5 200 155)</u>	
Cash flows from investing activity				
Purchase of securities	9	(31 195 000)	(42 000 000)	
Sale of securities	9	42 000 000	10 000 000	
Purchase of fixed assets and intangible assets	10	(30 517 872)	(619 774)	
Disposal of fixed assets and intangible assets	10	90 417	-	
Net cash flows from investing activity		<u>(19 622 455)</u>	<u>(32 619 774)</u>	
Cash flows from financial activities				
Issue of shares	16	-	-	
Dividends paid		(1 873 431)	(8 972 858)	
Net cash flows from financing activity		<u>(1 873 431)</u>	<u>(8 972 858)</u>	
Effect of exchange rate changes on cash and cash equivalents		5 081 510	9 364 220	
Effect of expected credit losses on cash and cash equivalents		(141 253)	(101 026)	
Net increase/(decrease) in cash and cash equivalents		<u>469 583 975</u>	<u>(37 529 593)</u>	
Cash and cash equivalents at the beginning of the period	5	<u>336 445 206</u>	<u>373 974 799</u>	
Cash and cash equivalents at the end of the period	5	<u>806 029 181</u>	<u>336 445 206</u>	

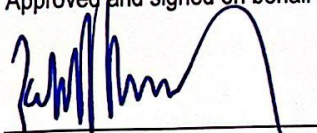
JOINT-STOCK COMPANY «ZIRAAT BANK UZBEKISTAN»

Statement of changes in equity


(in thousands of UZS)

Items	Share capital	Reserve capital and funds	Retained earnings	Total changes in equity
Balance as at 1 January 2021	<u>188 953 081</u>	<u>29 252 440</u>	<u>78 862 644</u>	<u>297 068 165</u>
Issue of shares	80 755 729	-	-	80 755 729
Dividends paid	-	-	(89 728 587)	(89 728 587)
Allocations to reserve capital	-	1 880 496	(1 880 496)	-
Provision for standard assets	-	4 500 000	(4 500 000)	-
Comprehensive income for the reporting period	-	-	45 327 376	45 327 376
Others	-	-	-	-
Balance as at 31 December 2021	<u>269 708 810</u>	<u>35 632 936</u>	<u>28 080 937</u>	<u>333 422 683</u>
Issue of shares	35 595 155	-	-	35 595 155
Dividends paid	-	-	(37 468 586)	(37 468 586)
Allocations to reserve capital	-	1 972 030	(1 972 030)	-
Provision for standard assets	-	(10 900 000)	10 900 000	-
Comprehensive income for the reporting period	-	-	68 299 090	68 299 090
Others	-	-	-	-
Balance as at 31 December 2022	<u>305 303 965</u>	<u>26 704 966</u>	<u>67 839 411</u>	<u>399 848 342</u>

Approved and signed on behalf of the Board on 28 March 2023.


 Zafer Canpolat
 The Chairman of the Board
 Tashkent, Uzbekistan




 Sabirov Khamidulla
 Acting Chief Accountant
 Tashkent, Uzbekistan

1. Principal activity

Current consolidated financial statement has been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2022 for Joint-Stock Company "ZIRAAT BANK UZBTRISTAN" (hereinafter as – "the Bank").

The Bank was established in 1993 in the form of closed joint stock company. On August 2014, on the basis of amendments to the Law of the Republic of Uzbekistan "On joint-stock companies and protection of shareholders' rights", the Bank was re-registered and was renamed as the Joint-Stock Company.

On 31 November 2017 T.S. ZIRAAT BANKASI A.S. (Turkey) as a result of the transaction on sale and purchase of shares of "UTBANK" JSC fully purchased 50% stake from JSCB "Agrobank" and became a full owner of the Uzbek-Turkish Bank. On 25 December 2017 the Central Bank of the Republic of Uzbekistan registered a new version of the Bank's Charter with a new company name to Joint-stock company "ZIRAAT BANK UZBEKISTAN". Shareholder of the Bank with 100% stake is T.S. ZIRAAT BANKASI A.S. (Turkey).

The Bank carries out its main activities on the basis of a banking license for banking operations including operations in foreign currency issued by the Central Bank of the Republic of Uzbekistan No.1, this license updated on 25 December 2021.

The Bank is a member of the Banks Association of the Republic of Uzbekistan, Republican currency exchange, Republican Stock Exchange "Tashkent" and the Fund of guarantee of deposits of citizen at banks.

The Bank participates in a system of providing defense of deposits at banks of Uzbekistan through Fund of guarantee of deposits of citizen at banks in line with Law of the Republic of Uzbekistan "Guarantees of protection of deposits of citizen at banks". The system of providing defense of deposits at banks of Uzbekistan guarantees reimbursement of deposits in case of recall the license for banking activity by the Central Bank of Uzbekistan, in full volume pursuant to the balance of deposits, to be reflected in interim liquidation balance of the bank at the expense of the Bank and the Fund. Guaranteed repayments by the Fund of the deposits of citizen do not spread in case of reorganization of bank.

Principal activity of the Bank is commercial and retail bank operations in the territory of the Republic of Uzbekistan and its beyond. These operations include operations with securities, foreign currency, attracting deposits and issuance of loans in Uzbek Sums, and in freely convertible currencies, rendering services to customers in realization of export and import operations.

The Bank's principal place of business is Tashkent and it has one branch there.

Legal and actual address of Head office of the Bank: 15 / A-B-C, Bunyodkor street, 100043, Chilonzor district, Tashkent, Uzbekistan.

The average number of employees amounted to 164 persons (in 2021, 123 persons respectively).

2. Operating environment of the Bank

The economy of the Republic of Uzbekistan has some peculiarities inherent to developing markets: among them low level of liquidity in the markets of debt and equity securities and the lack of convertibility of the national currency outside Uzbekistan. The banking sector in the Republic of Uzbekistan is specifically affected by political, legal, financial and regulatory transformations. Large state-owned banks of the Republic of Uzbekistan act as state representatives in the development of the country's economy. The government allocates funds from the national budget to various state agencies and other state and private company through banks.

In 2022, the Government of the Republic of Uzbekistan continued to implement socio-economic reforms and liberalize the market with an emphasis on attracting direct foreign investors. In this regard, the laws and regulations governing of conducting a business in the Republic of Uzbekistan began to change rapidly. The prospects for economic stability and the future direction of development of the Republic of Uzbekistan largely depend on the effectiveness of economic, financial and currency measures taken by the Government, as well as on the development of the legislative and regulatory framework and the political situation, which are beyond the control of the Bank.

During 2022, the Government of the Republic of Uzbekistan has carried out work on the further increase of level of capitalization of the domestic banking system, strengthen its liquidity and stability. In particular, the aggregate capital of commercial banks as of 1 January 2023 is amounted to 79.5 trillion soums (at the end of 2021 this amount was 70.9 trillion soums). Currently the total volume of deposits of commercial banks amounted to 216.7 trillion soums (at the end of 2021 this amount was 156.2 trillion soums). The total volume of credit investments amounted to 390.0 trillion soums (at the end of 2021 this amount was 326.4 trillion soums), as well as the total amount of assets increased and amounted to 556.7 trillion soums (at the end of 2021 this amount was 444.9 trillion soums).

The following key economic indicators of 2022 are observed in Uzbekistan:

- ⇒ Growth in gross domestic product (GDP) to 5.7 % (at the year-end 2021: 7.4%);
- ⇒ The refinancing rate of the Central Bank of the Republic of Uzbekistan is 15% (at the year-end 2021: 14%);
- ⇒ The rate of inflation no more than 12.3% (at the year-end 2021: 9.98%);
- ⇒ Official exchange rate on 31 December 2022: 1 US dollar = 11 225.46 UZS, 1 EURO = 11 961.85 UZS, (31 December 2021: 1 US dollar = 10 837.66 UZS, 1 EURO = 12 224.88 UZS);
- ⇒ Composite index of Republican stock exchange "Toshkent" on 31 December 2022: "TCI Composite" 1000.00points (31 December 2021: 1000.00 points).

The Bank's Management is currently monitoring developments in the current conditions and is taking the measures it deems necessary to support the sustainability and development of the Bank's business in the foreseeable future. However, it is difficult, at this stage, to determine the impact of further economic changes on the Bank's future operations and financial position.

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) reflect management's assessment of the impact of economic conditions in the Republic on the activities and financial position of the Bank. Future economic conditions may differ from management's assessment.

Impact of the COVID – 19 pandemic

Due to the rapid spread of the COVID-19 pandemic in early 2020, many governments, including the Government of Uzbekistan, have taken various measures to combat the outbreak, including travel restrictions, quarantine, closures of businesses and other establishments, and closure of certain regions. These measures have had an impact on the global supply chain, on the demand for goods and services, and on the degree of business activity in general. It is expected that the pandemic itself, as well as measures to minimize its impact, may have an impact on organizations in various sectors of the economy.

In 2020-2021, the Government and the Central Bank of the Republic of Uzbekistan adopted support measures to prevent significant deterioration in economic performance as a result of the COVID - 19 outbreak. These measures include, among other things, concessional loans for entities operating in affected industries and affected individuals, credit vacations and relaxation of certain regulatory restrictions to support the financial sector and its ability to provide resources and help customers avoid liquidity shortages as a result of measures to contain the spread of COVID - 19.

To support customers in the current economic conditions, the Bank offered to restructure existing loans and issued new ones under government support programs, as well as under various restructuring programs for customers not covered by government support programs, expanded the list of products and services provided through digital service channels. Management is taking all necessary measures to ensure the sustainability of the Bank's operations and to provide support to customers and employees, but the future effects of the current economic situation are difficult to predict and management's current expectations and estimates may differ from actual results.

The Bank's management believes that the continued impact of the COVID-19 pandemic, including the various strains, will not have a material adverse effect on the Bank's financial condition, but the Bank will continue to evaluate the impact of the COVID-19 pandemic and changes in micro and macroeconomic conditions on its operations, financial condition and results of operations.

3. Basis for presentation of Statements

The Bank maintains its accounting records in the currency of the Republic of Uzbekistan according to the requirements of the Uzbekistan banking legislation, rules and regulations in accounting and reporting. These financial statements have been prepared based on those accounting records and adjusted as necessary in order to be in accordance with IFRS in all material aspects, however, Uzbek accounting principles have some distinctions from similar principles of IFRS.

Every year, the IASB updates international financial Reporting Standards: it issues both new documents and additions to existing standards. For example, in 2020, multiple amendments to IFRS 3 "Definition of Business", IAS 1 and IAS 8 "Definition of Material" were issued. And in 2021, in addition to amendments to IAS 12 "Income Tax" and IAS 21 "The effects of changes in foreign exchange rates", they wanted to launch a new standard IFRS 17 "Insurance Contracts". But its launch was postponed until 2023. Lease concessions were also extended in connection with COVID-19. And changed a number of IFRS related to the reform of the LIBOR base interest rate. These updates will be relevant in 2022. What has changed in IFRS for 2021? Over the past year, a lot of new things have appeared in IFRS. Here are a few changes that are relevant in 2022:

Extended lease benefits - amendments to IFRS 16. In March 2021, an amendment to IFRS 16 was issued, which extended lease benefits to tenants for another year. Recall that for the first time this decision was introduced in June 2020 due to a sharp decline in attendance in shopping centers. The IASB allowed tenants not to assess whether a lease assignment related to COVID-19 was a modification of the lease agreement. The concessions could include both credit holidays and deferral of lease payments for a certain period.

According to the latest amendment, the tenant can apply concessions only to those rental benefits that are directly related to the COVID-19 pandemic. And only if three conditions are met:

- ⇒ Reduction of lease payments leads to a revision of the amount of compensation for rent in such a way that it remains the same or becomes less than the amount of compensation before the change;
- ⇒ The reduction applies only to rent payments that were due before June 30, 2022;
- ⇒ There are no significant changes in other terms of the lease agreement.

The application of this amendment for annual reporting periods began on April 01, 2021.

Reform of the LIBOR base interest rate. We have completed the second stage of the LIBOR project and immediately corrected 5 standards related to the reform of basic interest rates.

The standards of IFRS 9 "Financial Instruments" and IAS 39 "Financial Instruments: Recognition and Measurement" were supplemented with provisions on hedging. According to the amendment, the replacement of rates in existing financial instruments should be considered as a change in the floating interest rate. And changes to the hedging documentation can be made without terminating the hedging relationship.

Paragraphs 104-106 have been added to the IFRS 16, according to which the lessee must take into account the replacement of rates in existing contracts as a modification of the contract, with a re-assessment of the lease obligation.

In the IFRS 7 standard "Financial Instruments: Disclosure of Information", new requirements have appeared on how to disclose information about the management of the transition to RFR rates and the risks associated with them. As well as information about financial instruments that have not yet switched to RFR in breakdown by each significant LIBOR rate.

In IFRS 4 "Insurance Contracts", provisions have been added to change the basis for determining cash flows under contracts caused by the LIBOR reform. The amendment will affect insurers who apply a temporary exemption from the application of IFRS 9.

Reminder that LIBOR rates ceased to be published starting from 31 December 2021. They were replaced by risk-free rates (RFR) in contracts and terms of financial instruments.

The above changes are the key changes to IFRS in 2022, and no new standards are expected this year. However, from 1 January 2022, amendments to a number of IFRS is coming into force.

IFRS 3 "Business Combinations" is a new reference to the Conceptual Framework. In IFRS 3 "Business Combinations" was updated the reference to the Conceptual Framework of financial statements (now the reference is 2018 instead of 2001), without changing the accounting requirements for business associations. The new link allows you to determine what constitutes an asset or liability when combining a business. In addition, there is a new exception in IFRS 3 with respect to liabilities and contingent liabilities. An organization that applies IFRS 3 should refer to IAS 37 or IFRIC 21 "Fees" for certain types of obligations, and not to the Conceptual Framework of the 2018 Financial Statements. Without this exception, an entity would have to recognize certain liabilities in a business combination that it would not recognize under IAS 37. Also, the buyer is not required to recognize contingent assets defined under IAS 37 at the acquisition date.

Amendment to IAS 16 "Property, Plant and Equipment" - proceeds before intended use. According to IAS 16, the cost of an asset includes any costs of its delivery and preparation for operation, including the costs of verifying the proper functioning of the asset. The amendment to IAS 16 prohibits companies from deducting from the cost of fixed assets the amounts received from the sale of manufactured objects or products while the organization is preparing this asset for use. Instead, the company should recognize the income from such sales together with the costs in profit or loss. To assess the value of such assets, the organization must apply IAS 2 "Inventories", excluding depreciation, since the asset is not yet ready for intended use.

Amendments to IAS 37 - Onerous contracts and the cost of fulfilling a contract. According to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a contract is considered onerous if the unavoidable costs of fulfilling obligations exceed the expected economic benefits. The amendment determines what costs the company should include when assessing the unprofitability of the contract. Thus, the direct costs for the execution of the contract include: additional costs for the execution of such a contract (for example, direct costs for labor and materials); distribution of other costs directly related to the execution of contracts (for example, the distribution of depreciation charges on the object of fixed assets, which is used for the execution of the contract). Since, previously, some organizations included only additional costs in the contract execution costs, the application of the amendment will allow recognizing a large amount of reserves for onerous contracts.

Annual improvements to IFRS, cycle 2018-2020. Improvements include minor changes to IFRS 1 "First Time Adoption of International Financial Reporting Standards", amendments to IFRS 9 "Financial Instruments" and IAS 41 "Agriculture". As well as changes in illustrative examples to IFRS (IAS) 16 "Lease".

- The amendment to IFRS 9 states which payments should be included in the "10% test" for derecognition of financial liabilities. For example, the test will not include costs or payments in favor of third parties.

- The amendment to IFRS 1 concerns subsidiaries that apply IFRS for the first time. A subsidiary will be allowed to apply the exemption if it started applying IFRS later than the parent company. Organizations that apply this exemption will be able to

assess accumulated exchange differences by showing the amounts reflected by the parent organization and accumulated since the date of its transition to IFRS. This amendment also applies to associates and joint ventures that use the same exemption under IFRS 1.

- IAS 41 "Agriculture" removed the requirement to exclude cash flows for taxation by fair value measurement. It is expected that the amendment will help comply with the requirements for discounting after-tax cash flows.

- In illustrative example 13 to IFRS 16, the example of landlord payments that relate to improvements to leased property has been removed. Such an amendment will avoid disagreements in accounting for improvements to the leased property.

Uzbekistan will also switch to IFRS in 2021. According to the Decree of the President of the Republic of Uzbekistan dated February 24, 2020 No. PP - 4611 "On additional measures for the transition to International Financial Reporting Standards", large taxpayers are the first to organize accounting under IFRS: joint-stock companies, commercial banks, insurance organizations and legal entities. They will prepare financial statements in accordance with IFRS, starting from the results of 2021.

Accordingly, accountants and financial specialists who are somehow connected with these categories of enterprises need to learn how to work with IFRS reporting. And also, to understand the nuances of transformation and consolidation of financial statements according to international standards in order to be a valuable specialist at the enterprise.

Problems of transition to IFRS. The implementation of IFRS, like any other process, is closely related to difficulties and attendant troubles. The first problem faced by companies wishing to make the transition to IFRS is the psychological factor of specialists. Significant differences in concepts in terms of international and national standards lead to the need for psychological restructuring of employees. According to the requirements of the IFRS Committee, States that have decided to implement international standards do not have the right to comment or change the source text. In other words, countries that have agreed to adopt international financial reporting standards should oblige all enterprises, companies and organizations to work with the original text. If organizations cannot explain certain points, they should get answers to their questions independently or with the help of professional companies.

In the English version of IFRS (in the original) there are a lot of concepts that do not have an exact match and equivalent in many countries. And specialists working with international standards have to either use a new system of terms and concepts, or accept English-language versions of names into the vocabulary. In addition, there is no defined and regulated mechanism for obtaining clarifications in case of misunderstandings or ambiguities in the conditions of the company's functioning with IFRS. The cost of consulting foreign professionals is very high, translation and other explanations of international standards are accompanied by considerable costs.

Therefore, the main problem of implementing IFRS in practice is the discrepancy between international standards of psychology of specialists and current accounting practice.

The second problem is the transformation of financial statements into IFRS. Many economies of countries that have switched to IFRS are very different from Western ones. This consists in the absence of financial markets or their underdevelopment. And this, in turn, is accompanied by the impossibility of applying international accounting concepts. And some practical calculations become relative.

Ways to implement IFRS. The main solution in this case is the development of targeted programs and training courses for accounting specialists and other financial departments. Their professional development should be aimed at the preparation and independent analysis of financial statements, and not at the technical issues of accounting. The existing options for the transition to IFRS are:

- ⇒ adopt IFRS as they are;
- ⇒ adopt international standards with the possibility of their "limited modification";
- ⇒ develop national financial reporting standards, harmonizing them as much as possible with IFRS.

In 2020, the IASB issued a number of amendments affecting the standards of IFRS 3 "Definition of a business", IAS 1 and IAS 8 "Definition of Material", IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform", IFRS 16 "Covid-19 Related Rent Concessions". All these amendments will become mandatory, and will come into force on January 1, 2020.

Amendments to IFRS 3 "Definition of a Business". The IASB has adopted an amendment that changes the definition of a business and becomes mandatory from 1 January 2020. This was because the IASB decided that too many transactions fell under the definition of "Business combinations" in terms of IFRS 3 "Business Combinations".

The new IASB guidance changes the definition of a business, making it likely that more transactions will be accounted for as asset acquisitions. First of all, the new definition of business can have a significant impact on the real estate sector.

According to the amendment to IFRS 3, a business should include at least a contribution and a fundamentally significant process, which together can significantly contribute to the creation of returns. The new manual contains detailed guidance for this analysis, the so-called concentration test.

According to the concentration test procedure, companies determine whether virtually all of the fair value of the acquired assets is concentrated in one single asset (or in a group of similar assets). If this is the case, then the acquired assets do not represent a business. Generally, the fair value of the gross assets acquired can be determined based on the consideration transferred.

Amendments to IAS 1 and IAS 8: The definition of Materiality was changed in IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies", "Changes in Accounting Estimates and Errors", effective from 1 January 2020, and this new definition should be taken into account when deciding what information should be included in the financial statements. New definition of materiality:

"Information is material if it can reasonably be expected that its omission, misstatement or disguise will affect the decisions of the main users of financial statements on general-purpose, made on the basis of these financial statements that provide financial information about a particular reporting entity." The definition includes a new concept that the disguise of information can be of fundamental importance in determining something significant in the financial statements. The definition also focuses on "main users" instead of just "users".

Amendment to IAS 39, IFRS 7 and IFRS 9: Interest Rate Benchmark Reform. It provides amendments like:

to IAS 39 "Financial Instruments: Recognition and measurement". New items 102A - 102N and 108G have been added to it. Their organization should apply to all hedging relationships that are directly affected by the reform of basic interest rate;

to IFRS 7 "Financial Instruments: Disclosures". It added paragraph 24G " Uncertainty arising from the reform of the basic interest rate»;

to IFRS 9 "Financial Instruments". It includes a section that provides for temporary exceptions to the application of certain requirements in terms of hedge accounting. It is established that the term "base interest rate reform" means a market-wide reform of the base interest rate, including the replacement of the base interest rate with an alternative base rate, for example, a rate based on the recommendations set out in the report "Reforming basic base interest rates" issued by the Financial Stability Board in July 2014.

The Bank must apply the amendments to the base interest rate reform for annual periods beginning on or after 1 January 2020. The early application is allowed. If the Bank applies the amendments for an earlier period it shall disclose that fact.

The amendments include a practical simplification requiring that changes in the contract or changes in cash flows that are directly required by the IBOR reform, treated as **changes in a 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 takes place on an economically equivalent basis without changing the cost.

When applying the simplification, an entity must first identify and reflect changes in a financial instrument (contract) that are directly relevant to the IBOR reform by updating the **effective interest rate (EIR, Effective interest rate)** without adjusting the carrying amount.

The amendments to the standards include examples of the types of contract changes required by the reform to which the practical simplification applies:

- ⇒ Replacing the existing interest rate with an alternative base rate or implementing an IBOR reform by changing the method used to calculate the base interest rate.
- ⇒ Adding a fixed spread to compensate for the base difference between the existing and alternative base interest rate.
- ⇒ Revision of the period, dates, or change in the number of days between the coupon payment dates, in order to implement a reform of the base interest rate.
- ⇒ Adding a reserve provision to the contract of a financial asset or liability that allows for any of the changes described above.

In the context of the IBOR reform, reserve provisions ('fallback provisions') are provisions in the terms of contracts with IBOR rates that describe the procedure for determining and using the IBOR rate. In other words, these provisions are a practical guide for determining alternative base rates if the contractual base rate is not available.

Any other changes made at the same time, such as changes in the credit spread or maturity, should be evaluated as follows:

- ⇒ If they are significant, the financial instrument is derecognized.
- ⇒ If they are not significant, the updated EIR is used to recalculate the carrying amount of the financial instrument with the recognition of the gain or loss from the change in profit or loss.

Simplification of the practice is also required for companies applying IFRS 4 "Insurance Contracts", which use an exemption from IFRS 9 "Financial Instruments" (and therefore apply IAS 39 "Financial Instruments: Recognition and Measurement"), as well as for IFRS 16 "Leases", to make changes to leases required by the IBOR reform.

Amendment to IFRS 16 "Covid-19 Related Rent Concessions". It introduces a number of changes in terms of modifying the lease agreement, namely, the possibility of simplifying the practical nature of the lease assignment in connection with the spread of the new coronavirus infection COVID-19. In particular, as a practical simplification, the lessee may now decide not to analyze whether the lease assignment is a modification of the lease agreement. The lessee who makes such a decision must account for any change in lease payments resulting from the specified lease assignment, in the same way as this change would be accounted for under this standard if it were not a modification of the lease agreement.

The practical simplification applies only to those lease assignments that arise as a direct consequence of the COVID-19 pandemic, and only if all of the following conditions are met:

- ⇒ a change in lease payments results in a revised amount of the lease refund, with the amount of the refund remaining substantially the same or less than the amount of the lease refund at the time immediately preceding the occurrence of the change;
- ⇒ any reduction in lease payments applies only to payments that were due under the original contract no later than 30 June 2021;
- ⇒ there are no other significant changes to the terms of the lease agreement.

If the lessee applies the practical simplification, it must disclose that the practical simplification applies to all lease assignments that meet the above conditions, or, if the practical simplification does not apply to all such lease assignments, information about the nature of the contracts to which the practical simplification was applied and the amount recognized in profit or loss for the reporting period that reflects changes in lease payments due to the lease assignments, in respect of which the lessee has applied a simplification of a practical nature.

The Lessee must apply this amendment for annual periods beginning on or after 1 June 2020. The lessee must apply the amendment retrospectively, recognizing the cumulative effect of the initial application of the amendment as an adjustment to retained earnings (or other component of equity, if applicable) at the beginning of the annual reporting period in which the lessee first applies the amendment.

In the reporting period in which the lessee first applies the amendment "Covid-19 Related Rent Concessions", the lessee is not required to disclose the amount of the adjustment for the current and for each of the previous periods presented.

During the 2020, the IASB issued a number of narrowly focused amendments affecting IAS 37, IAS 16, and IFRS 9, as well as amendments to IFRS 1, IFRS 3, and IAS 41 as part of the annual IFRS improvements of 2018 – 2020 cycles. Subject to approval, all amendments will become mandatory for accounting periods beginning on or after January 01, 2022.

Amendment to IAS 37 "Estimated liabilities, contingent liabilities and contingent assets" Onerous Contracts - Cost of Fulfilling a Contract - IAS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting obligations exceed the economic benefits that are expected to be derived from its performance. So far, it has not been clear exactly what expenses can and should fall under this definition.

The amendments specify that the contract execution costs include:

- ⇒ Additional costs, such as raw materials, materials, and direct labor; and
- ⇒ Allocation of costs directly related to the performance of contracts, such as depreciation of fixed assets used in the performance of this contract.

Including the allocation of direct costs in the assessment of whether a contract is Onerous means a change in the accounting approach for some companies, which may lead to earlier recognition of reserves and/or an increase in reserves for onerous contracts. The transitional provisions require the Bank to apply amendments to contracts in effect at the beginning of the reporting period in which the amendments were adopted. Comparative periods do not need to be recalculated and the cumulative effect of the initial application of the amendment will be recognized in the financial statements as an adjustment to the initial balance of retained earnings.

The earlier application is permitted, but the Bank must disclose this fact in the notes to the financial statements.

Amendment to IAS 16 "Property, Plant and Equipment": Proceeds from the sale of products produced before the use of property, plant and equipment in accordance with management's intent. Products can be produced and subsequently sold using an item of property, plant and equipment before the item is brought to a location and condition suitable for its use in accordance with management's intentions. For example, in the process of testing production equipment, product samples can be produced and sold. Previously, paragraph IAS 16-17 (e) provided that any such proceeds from the sale of products should be deducted from the cost of verifying the proper functioning of the asset (item of property, plant and equipment). However, the revised standard will require that these receipts be recognized in profit or loss in accordance with current standards. In addition, the cost of products sold must be recognized in accordance with IAS 2 Inventory. Please note that the key condition is the production of products using fixed assets, not the sale of products.

Any such receipts and expenditures, as well as the income statement items in which they are included, should be disclosed in the financial statements, since such products are not considered to be produced in the normal course of the Bank's business. Changes in the approach will be applied retrospectively, but only to those items of property, plant and equipment that were brought to a location and condition suitable for their use in accordance with management's intentions, before or after the beginning of the earliest comparative period. Any transitional adjustments are applied to the initial balance of retained earnings for the earliest comparative period presented in the financial statements.

Amendment to IFRS 9 "Financial instruments": Accounting for compensation for modification of financial liabilities. It specifies that for the purposes of the so-called "10% test", which determines whether changes in financial obligations (as a result of contract modification) are significant, only compensation paid or received within the framework of the borrower-lender relationship is taken into account. The amendment also clarifies that if a contract modification results in the termination and replacement of the original financial liability, any expenses or compensation amounts are included in the calculation of profit or loss from the termination or replacement of the liability. On the other hand, if the modification does not terminate or replace the liability, it corrects the liability and should be amortised over the remaining term of the liability. The new approach will apply to financial liabilities that were modified or replaced at or after the beginning of the reporting period in which the amendment was first applied.

Other changes in IFRS standards.

This amendment was implemented as part of the annual improvement project to IFRS 2018 – 2020 cycles.

Amendments to IFRS 3 "Business combinations" – The amendments replace the old references to the new 2018 conceptual framework in IFRS 3. The formulation regarding estimated liabilities, contingent liabilities, contingent assets and mandatory payments has also been updated to avoid unintended consequences of this change.

Amendments to IFRS 1 "First - time adoption of International financial reporting standards" - Amendments to IFRS 1 simplify the application of IFRS 1 by a subsidiary that first applies IFRS later than its parent company. The amendment means that a subsidiary that first applied IFRS later than its parent company in accordance with IFRS paragraph 1 D 16 (a), of IFRS can estimate the amount of accumulated exchange differences that will be reflected in the parent company's consolidated financial statements based on the date of transition of the parent company to IFRS.

Amendments to IAS 41 "Agriculture" - Amendments to IAS 41 eliminate the requirement to exclude taxes from cash flows used in calculating the fair value of biological assets. This is because the fair value can be correctly calculated using after-tax cash flows, combined with the after-tax discount rate.

In the opinion of management, the application of the standards and interpretations listed above will not have a material impact on the Bank's financial statements during the period of their initial application. The Bank does not disclose information about new standards and clarifications that do not apply to the Bank's operations or that will not significantly affect the Bank's financial statements.

Estimates and assumptions

The preparation of the financial statements in accordance with IFRS supposes to use by the management estimates and assumptions that influence to presentation in the reports - assets and liabilities, income and expenses, disclosure of conditional assets and liabilities during next financial period. In a force of uncertainty, inherent in such estimates, the actual results would be recorded in a future periods can based on sums, which differ from such estimates.

Going concern principle

The management has prepared these financial statements based on going concern principle. This financial statement does not include any adjustments, which could be necessary in view of economic uncertainty.

Possible adjustments could be made to the financial statements when necessities of those become obvious and possible reliably evaluate their quantity meaning.

The Bank considers that cash funds from the current operating activity would be enough to cover current liabilities and for financing its current operating activity.

Initial recognition of financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the relevant financial instrument. The Bank reflects the acquisition and sale of financial assets and liabilities on standard terms by the settlement date. All financial assets are initially measured at fair value. The costs

directly related to the acquisition or issue are added to the initial cost, with the exception of financial assets that are revalued at fair value through profit or loss.

Fair value of financial instruments

If the fair value of financial assets and financial liabilities reflected in the statement of financial position cannot be determined based on prices in an active market, it is determined based on market prices for similar financial instruments or using various valuation models that include mathematical models. The initial data for such models are determined based on the observed market or judgment. The judgment is made taking into account factors such as the time value of money, the level of credit risk, the volatility of the instrument, the level of market risk, and other applicable factors.

Functional currency and presentation currency

These financial statements are presented in the Uzbekistan national currency the Uzbek Soums (UZS). Uzbek Soums is the Bank's functional currency and the reporting currency that reflects real economic essence of its main operations. The figures in the financial statements rounded to thousands.

Uzbek Soum is not convertible outside of Uzbekistan. The changes in policy of government regulation of Uzbek Soums may influence on financial position and performance of the Bank's activity.

Accounting for the effects of inflation

Until 31 December 2005, the economy of Uzbekistan has experienced relatively high levels of inflation and was considered hyperinflationary. Accordingly, The Bank applied IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items of the financial statements, including components of equity, were converted into units at 31 December 2005 by applying the relevant inflation indices to the original value, and in subsequent periods, the accounting basis on the basis of the restated cost.

As a result of release of Uzbekistan's economy from a state of hyperinflation and the termination of the preparation and submission of financial statements in accordance with IAS 29 "Financial reporting in hyperinflationary economies" 1 January 2006, the financial statements of the current period are expressed in monetary units at cost.

4. Significant Accounting policies

Statement of compliance

The Financial Statements have been prepared in accordance with International financial reporting standards (IFRS) on the basis of the accounting rules at the historical cost convention, with adjustment to the revaluation of available-for-sale of financial assets, fair value is recognized in the statement of comprehensive income. The principals of accounting policies used in the preparation of these financial statements are set out below. These principles have been applied consistently for all periods presented in the financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash balances and balances at the Bank's current accounts, as well as cash equivalents representing short-term, high-liquidity investments easily convertible to a known amount of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank deposits with initial maturity terms less than three months. Funds, in respect of which there are limitations on the period of more than three months at the time of award, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Mandatory reserves on accounts of the Central Bank of the Republic of Uzbekistan (CBU)

Mandatory reserves on accounts are funds deposited to the Central Bank of Uzbekistan and are not intended to Finance the Bank's daily operations. Therefore, they are excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks

Due from other banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and provided by the Bank to its counterparties other than:

- a) overnights;
- b) those, that the Bank intends to sell immediately or in the nearest term, which are classified as intended for trade, and those after initial recognition are determined as evaluated at fair value through profit or loss;
- c) those, which the Bank designates at initial recognition as available for sale;
- d) those, an owner of which cannot settle a material amount of initial investments for reasons other than reducing of his creditworthiness, and those which should be classified as available for sale.

Due from other banks are accounted for at amortized cost less provisions for impairment.

Recognition and valuation of financial instruments

Financial assets and financial liabilities are recorded in the Bank's statement of financial position when the Bank becomes a party to the contract for the relevant financial instrument. The Bank reflects regular purchases and sales of financial assets and liabilities using the accounting method at the settlement date. Financial instruments acquired in this way, which will be subsequently measured at fair value, are accounted for in the same way as purchased instruments from the date of the transaction until the settlement date.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly related to the acquisition or issue of financial assets and financial liabilities (other than those recorded at fair value through profit or loss) increase or decrease the fair value of financial assets or financial liabilities at initial recognition, respectively.

Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are charged directly to profit or loss. The accounting principles used for subsequent valuation of financial assets and financial liabilities are disclosed in the relevant accounting policies described below.

All financial assets are recognized and derecognized on the transaction date when the purchase or sale of a financial asset is made under a contract that requires delivery of the financial asset within the time frame set by the relevant market and is initially measured at fair value, plus transaction costs, except for those financial assets that are classified as measured at fair value through profit or loss.

All recognized financial assets that are held under IFRS 9 Financial instruments must be subsequently measured at amortised cost or fair value based on the entity's business model for managing financial assets and the contractual cash flow characteristics of financial assets. With this:

⇒ **Holding an asset to receive the contractual cash flows.** This business model assumes that financial assets are managed in order to realize cash flows by receiving payments of principal and interest over the life of the financial instrument. Under this business model, holding a financial asset to maturity is a priority, and early sale is not prohibited.

⇒ **Holding an asset to receive the contractual cash flows and sell financial assets.** This business model assumes that financial asset management is aimed at both obtaining contractual cash flows and selling financial assets. Under this business model, receiving cash from the sale of a financial asset is a priority, which is characterized by a higher frequency and volume of sales compared to the business model "Holding an asset to receive the contractual cash flows".

⇒ **Holding an asset for other purposes.** Within this business model the goal of managing financial assets can be:

- ❖ manage liquidity to meet the daily funding needs;
- ❖ management with the purpose of realization of cash flows through sale of financial assets;
- ❖ a portfolio, which is managed and evaluated based on fair value;
- ❖ a portfolio that meets the definition of intended for trading. Financial assets are considered held for trading if they were acquired primarily for the purpose of selling in the nearest time, generating short-term profits, or are derivative financial instruments (with the exception of a financial guarantee or derivative financial instruments that have been designated as a hedging instrument).

In accordance with IFRS 9, financial assets are classified as follows:

⇒ Balances on correspondent accounts, interbank loans or deposits, and REPO (Repurchase agreement) transactions are classified as assets measured at amortised cost, as they are managed under a business model that aims to generate contractual cash flows that include only principal and interest payments;

⇒ Bank loans are classified as assets that are measured at amortised cost and are held under a business model that aims to generate contractual cash flows that are solely payments to principal and interest on the outstanding portion of principal, and that include only payments to principal and interest;

⇒ Debt securities can be classified into any of the three classification categories based on the selected business model and therefore include only principal payments and interest;

⇒ Equity securities are generally classified as instruments measuring at fair value through profit or loss for the period;

⇒ Trading securities and derivative financial instruments are classified as financial assets measuring at fair value through profit or loss.

Financial assets or financial liabilities measured at fair value through profit or loss.

Financial assets measured at fair value through profit or loss include the following:

- ⇒ Assets for which contractual cash flows include not only principal payments and interest, or;
- ⇒ Assets held under the business model, except for assets held for the purpose of receiving contractual cash flows or for the purpose of receiving such flows and selling the asset;
- ⇒ Assets classified in a category measured as at fair value through profit or loss by applying the fair value option.

Financial liabilities are classified either as financial liabilities at fair value through profit or loss or as other financial liabilities.

A financial liability intended for trading is classified if:

- ⇒ accepted for the main purpose of repurchase in the near future;
- ⇒ it is part of a portfolio when initially accepted for accounting identified financial instruments that are managed by the Bank as a single portfolio that has a recent history of short-term purchases and resales, or
- ⇒ is a derivative instrument that is not classified and is not used as a hedging tool.

A financial liability that is a contingent consideration and can be paid by the buyer in the course of a business combination intended for trading may qualify as a financial liability measured at fair value through profit or loss at the time of accounting if:

- ⇒ applying this classification eliminates or significantly reduces an imbalance in the valuation or accounting of assets or liabilities that might otherwise occur;
- ⇒ a financial liability is part of a group of financial assets or financial liabilities or a group of financial assets and liabilities that are managed and measured at fair value in accordance with the Bank's documented risk management strategy or investment strategy, and information about such a group of financial liabilities is provided internally on this basis;
- ⇒ a financial liability is part of an instrument that contains one or more embedded derivatives, and IFRS 9 allows the instrument to be classified as a whole at fair value with its change recognized in the income statement.

Financial assets and financial liabilities measured at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gains or losses on financial assets or liabilities at fair value through profit or loss. Interest received or paid is accrued in interest income or expenses, respectively, in accordance with the terms of the contract, and dividends are recorded in other income when the right to receive payment is established.

Other financial liabilities (such as funds from other banks, customer accounts, debt securities issued, subordinated debt, and other borrowed funds) are initially recorded at fair value less transaction costs. Subsequently, financial liabilities are measured at amortised cost. Interest expense is calculated using the effective interest rate method.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount that reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Debt instruments at amortised cost or at fair value through other comprehensive income.

The Bank evaluates the classification and valuation of a financial asset based on the characteristics provided for in the cash flow agreement and on the Bank's business model used for asset management. In order to classify and measure assets at amortised cost or at fair value through other comprehensive income, the terms of the relevant agreement must provide for cash flows that include only principal payments and interest on the outstanding portion of the principal amount.

When checking the contractual cash flows for compliance with these requirements, the principal amount of the debt is considered as the fair value of the financial asset at its initial recognition.

The principal amount of the debt may change over the life of the financial asset. Interest includes reimbursement for the temporary cost of money, for credit risk in respect of principal remains outstanding for a certain period of time, and for other normal risks and costs associated with lending, as well as profit margin.

The cash flows provided in the agreement, which include only principal payments and interest, comply with the terms of the basic credit agreement. Contractual terms that result in risks or volatility of contractual cash flows do not cause the occurrence of contractual cash flows that include only principal payments and interest on the outstanding portion of the principal amount. A financial asset created or acquired can be a basic credit agreement, regardless of whether it is a loan in its legal form.

The business models used for managing financial assets were evaluated as of the date when IFRS 9 was first applied to classify a financial asset. The business model was applied retrospectively to all financial assets recognized on the Bank's balance sheet at the date of the first application of IFRS 9. The business model used by an organization is defined at the level that reflects the mechanism for managing financial assets grouped together to achieve a particular business goal. Since the Bank's business model does not depend on management's intentions for an individual instrument, the assessment is performed at a higher aggregation level rather than at the level of individual instruments.

At the initial recognition of a financial asset, the Bank determines whether the newly recognized financial assets are part of an existing business model or indicate the emergence of a new business model. The Bank reviews its business models in each reporting period in order to identify changes compared to the previous period. In the current reporting period, the Bank did not see any changes in its business models.

When derecognizing a debt instrument measured at fair value through other comprehensive income, the accumulated profit or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. When investments in equity that are classified at fair value through other comprehensive income are derecognized, on the other hand, the accumulated profit or loss previously recognized in other comprehensive income is not reclassified to profit or loss, but transferred to another item of equity. Debt instruments that are measured at amortised cost after initial recognition or at fair value through other comprehensive income are subject to impairment.

Derecognition of financial assets

To calculate the expected credit losses, the Bank evaluates loans on a collective and individual basis, depending on the overall characteristics of credit risk. Expected credit losses (ECL) are the present value of all expected cash shortages over the expected life of a financial instrument, i.e., a probability-weighted estimate of credit losses.

Expected credit losses on financial instruments are estimated in such a way as to reflect:

- ⇒ time value of money;
- ⇒ a weighted and unbiased probability sum determined by evaluating the range of possible results;
- ⇒ reasonable and confirmed information about past events, current conditions, and projected future economic conditions available at the reporting date without excessive cost or effort.

The measurement of expected credit losses is based on the following components:

- ⇒ distribution of credits by stage;
- ⇒ segmentation of credit portfolio;
- ⇒ calculation of probability of default for each stage in each segment;
- ⇒ expected level of losses in case of default;
- ⇒ an estimate of the amount that is expected to remain on the future default date.

The Bank analyzes the risk level for segment loans in the loan portfolio at least once a year and during the analysis of the loan portfolio identifies new segments or merges existing ones, or if necessary, creates new segments.

An assessment of the expected credit loss

For purchased or issued loans, expected credit losses are estimated based on the risk of default over one or two different periods, depending on whether the borrower's credit risk has significantly increased in the three-step model for estimating expected credit losses.

Step 1. "12-month expected credit losses" is a group of financial instruments for which no significant increase in credit risk has been registered since initial recognition, and reserves for this group are created in the amount of expected credit losses for 12 months, and interest income is calculated on the basis of book value.

Step 2. "Lifetime expected credit losses - non-impaired assets" is a group of financial instruments for which a significant increase in credit risk has been recorded since initial recognition, and for which reserves are equal to the amount of expected credit losses for the entire life of the instrument, and interest income is calculated based on the carrying amount of the financial asset.

Step 3. "Life-time expected credit losses - impaired assets" is a group of credit-impaired financial instruments for which provisions are equal to the amount of expected credit losses for the entire life of the instrument, and interest income is accrued on the basis of the carrying amount of the asset less the provision for impairment.

For unused credit liabilities, the expected credit losses are estimated in accordance with the approaches used to estimate the loan reserve, taking into account the loan conversion rate, which is based on statistical data if the borrower uses the loan.

Significant increase in credit risk

A significant increase in credit risk is assessed on a collective and individual basis. A significant increase in credit risk for individually significant loans is assessed based on the monitoring criteria listed below. The criteria used to determine a significant increase in credit risk are periodically monitored and analyzed by the responsible division of the Bank.

The Bank evaluates a financial instrument based on criteria for assessing a significant increase in credit risk when one or more of the following quantitative, qualitative, or auxiliary criteria have been met:

For collectively assessed loans:

- ⇒ loans for which the default on principal is between 31 and 90 days;
- ⇒ loans classified as "sub-Prime" according to the regulation on asset quality classification;
- ⇒ if there is no historical information about the number of overdue days on accrued interest, as well as loans for which there is an amount of overdue interest at the end of the reporting period;
- ⇒ loans for which reserves are more than 25% to 50% of the principal debt were created as of the reporting date of the loan portfolio in accordance with the Regulation on the procedure for classification of asset quality;
- ⇒ loans that have been restructured and have repaid 25% of the principal debt since the date of the restructuring.

For individually assessed loans:

- ⇒ violations of the terms of the agreement, or such as late payment from 31 to 90 days;
- ⇒ availability of the information in Bank about overdue debt in other credit entities for the main debt or interest of the Borrower from 31 to 90 days;
- ⇒ loans classified as "sub-Prime" according to the regulation on asset quality classification;
- ⇒ actual or expected significant change in the Borrower's operating results. The criterion is a decrease in the financial condition of the Borrower by one class, a decrease in revenue, an increase in operational risks, inefficiency of working capital, changes in the scale of commercial activity that lead to a significant change in the ability of the borrower to meet its debt obligations;
- ⇒ reduction of financial support from the state, parent institution or other affiliated organization;
- ⇒ a significant deterioration in the quality or condition of the collateral according to the latest monitoring data, which is expected to reduce the economic incentive for the Borrower to make payments according to agreed schedule, or otherwise will affect the probability of a default, or the collateral is a guarantee of third parties, significant financial difficulties of the guarantor;
- ⇒ existing or projected adverse changes in commercial, financial, or economic conditions, or actual or expected adverse changes in the regulatory, economic, or technological conditions of the borrower's business;
- ⇒ A borrower who has no indication of impairment or significant increase in credit risk at the reporting date, but who was classified as impaired credit at the previous date of calculating the expected credit loss.

Default or impaired credit assets

A financial asset is considered defaulted or impaired if it meets one or more of the following criteria:

For collectively assessed loans:

- ⇒ loans for which the principal payment is overdue for more than 90 days;
- ⇒ loans classified as "unsatisfactory", "doubtful", "hopeless" according to the regulation on the classification of asset quality;
- ⇒ loans that have been reviewed since initial recognition, except in cases where the Borrower's financial condition is stable and allows the Borrower to repay the debt to the Bank, or when the review and restructuring is decided by higher authorities;
- ⇒ loans for which there is a court decision or legal proceedings are being conducted;
- ⇒ loans for which the contract has expired, but the Borrower has not fully repaid the debt according to the payment schedule;
- ⇒ the presence of debt on off balance sheet accounts for the main debt and accrued interest in accordance with the Regulation on the classification of asset quality and the Regulation on non-accrual of interest;
- ⇒ loans for which reserves of 50% or more of the principal debt were created as of the reporting date of the loan portfolio in accordance with the Regulations on the classification of asset quality;

For individually assessed loans

- ⇒ violations of the terms of the agreement, or such as a payment delay of 90 or more days;
- ⇒ availability of the information in Bank about overdue debt in other credit entities for the main debt or interest of the Borrower for 90 and more days;
- ⇒ loans classified as "unsatisfactory", "doubtful", "hopeless" according to the regulation on the classification of asset quality;
- ⇒ the presence of significant financial difficulties of the Borrower. The criterion is to reduce the financial condition of the Borrower by two or more classes. The class of the Borrower's financial condition is based on calculations of economic indicators;
- ⇒ loans that have been reviewed since initial recognition, except in cases where the Borrower's financial condition is stable and allows the Borrower to repay the debt to the Bank, or when the review and restructuring is decided by higher authorities;
- ⇒ lack of communication with the Borrower, as well as the lack of information that allows you to determine the financial condition of the Borrower for the last 12 months;
- ⇒ suspension of interest accrual on loans due to the deterioration of the Borrower's financial condition;
- ⇒ information about the death of the individual;
- ⇒ applying to the court for recognition of the Borrower as a bankrupt or filing a claim by a third party for recognition of the Borrower as a bankrupt in accordance with the legislation of the Republic of Uzbekistan and loans for which there is a court decision or legal proceedings are being conducted;
- ⇒ disappearance of the active market for this financial asset.

Transaction costs are additional costs that are directly related to the acquisition, issue, or disposal of a financial instrument. Additional costs are costs that would not have been incurred if the transaction had not taken place. Transaction costs include payments and commissions paid to agents (including employees acting as sales agents), consultants, brokers, and dealers, mandatory payments to regulators and stock exchanges, and taxes and fees charged when transferring property. Transaction costs do not include premiums or discounts on debt obligations, financing costs, internal administrative expenses, or storage costs.

Derecognition of financial instruments. The Bank derecognizes financial assets when **(a)** the rights to cash flows from the assets have expired; **(b)** The Bank has transferred the rights to the cash flows from the assets or retained the right to the cash flows from the assets, but **(i)** assumed obligations to repay them to a third party without significant delay under a qualifying pass-through arrangement; while either transferring substantially all the risks and rewards of ownership of the assets, or **(ii)** neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have practical ability to sell the asset to an unrelated third party without imposing restrictions on the sale.

In case if The Bank has transferred or has not transferred its rights to receive cash proceeds from the asset, but has not retained substantially all of the risks and rewards of the asset and also has not transferred control of the asset, is an asset that further recognized to the extent of The Bank's continued participation in the asset. Continued participation in the asset that takes the form of a guarantee on the transferred asset, is measured at the lowest values of the following: **(a)** the initial book value of the asset and/or **(b)** the maximum amount of compensation which may be payable by The Bank.

If in case that continued participation takes the form of a sold or acquired option (including options settled in net amount or similar contracts) with respect to the transferred asset, the extent of The Bank's continued participation is determined in terms of the amount of the transferred asset that The Bank may buy back. This provision does not apply when the sold option "path" (including options settled in net amount or similar contracts) on an asset is measured at fair value. In this case, the extent of The Bank's continued participation is determined by the lowest of the two values: **(a)** the fair value of the transferred asset and/or **(b)** the strike price of the option.

Revised loans

In its normal course of business, the Bank seeks to restructure loans rather than withdraw collateral for non-payments. This may include extending payment terms and agreeing new credit terms. After the terms are renegotiated, any impairment is assessed using the original effective interest rate calculated before the terms were changed, and the loan is no longer considered overdue. However, the restructuring, although it is considered not as overdue, but as an indicator of a significant increase in credit risk and the loan is progressing to the second stage.

The Bank's management monitors loans with revised terms on an ongoing basis to ensure that all criteria and likelihood of future payments are met. Loans are still subject to collective and individual assessments on impairment calculated using the original effective interest rate on the loan.

Security received as a property for non-payments

In certain circumstances, assets are withdrawn as a collection for defaulted loans. Withdrawn assets are measured at the lower of their carrying amount and fair value less transaction costs.

Collateral repossessed for non-payment represents financial and non-financial assets acquired by The Bank in settlement of overdue loans. These assets are initially recognized at fair value when received and are included in fixed assets, other financial assets, investment property or inventories within other assets depending on their nature and intentions of The Bank in respect of recovery of these assets and are subsequently re-measured and accounted in accordance with accounting policies for these categories of assets. If the software is classified as inventories within other assets, the collateral repossessed for non-payment are recognized at the lower of the initially recognized at fair value and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Write-off of loans and advances

Loans and advances are written off against the allowance for impairment if they are considered as hopeless. Loans and advances are written off after the Bank's management has used all available means to obtain the amounts due to the Bank, and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are recorded as a set-off for impairment of financial assets in the income statement during the recovery period.

Credit related commitments

The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Financial guarantees and commitments to provide loans and borrowings are initially recognized at fair value, which is normally evidenced by the amount of fees received.

This amount is amortized by straight-line basis over the term of the commitment, except for commitments to provide loans, if there is a possibility that The Bank will enter into a specific credit agreement and will not plan the realization of the loan in a short period after its provision; such Commission income associated with the obligation to loans, are recorded as deferred revenue and included in the carrying value of loan at initial recognition. At the end of each reporting period the commitments are measured at the higher of **(i)** unamortized amount of initial recognition; and **(ii)** the best estimate of the expenditure required settling the obligation as at the end of the reporting period

Fixed assets and depreciation

Fixed assets are material assets including real estate, equipment and others which response to the following requirements:

- ⇒ using in activity of The Bank for sale of services or in administrative purposes;
- ⇒ assuming that they will be used more than a year.

Fixed assets with acquisition date after 1 January 2006 is accounted for at initial value less accumulated depreciation and provision for impairment (when necessary).

Fixed assets, acquired before 1 January 2006 are reflected at cost less accumulated depreciation and impairment, adjusted to the equivalent purchasing power of the currency of the Republic of Uzbekistan as of 1 January 2006.

For preparation of the consolidated financial statements in line with IFRS, revaluation of fixed assets of The Bank, made after 1 January 2006, was not accounted in the consolidated financial statements. In this regard, the increase of carrying value arising during revaluation of fixed assets were decreased and adjusted in line with accounts of reserves for revaluation in equity.

Gains or losses at premises and equipment disposal are designated on the basis of their carrying amount and are accounted for while calculating amounts of gain/loss the in statement of comprehensive income.

Construction in progress is accounted for at an initial value less provision for impairment. When construction is completed, assets are transferred to the respective category of premises and equipment or investment property and are recorded at carrying amount at the transference date. Construction in progress is not depreciated until it is put into operation.

Depreciation is calculated using the straight-line method, the residual value of an asset is nil with applying the following annual rate of depreciation:

- ⇒ Buildings and constructions 20 years;
- ⇒ Computer equipment 2,5 years;
- ⇒ Furniture and office equipment from 5 to 10 years;
- ⇒ Transport equipment 5 years;
- ⇒ Other fixed assets 5 years;
- ⇒ Intangible assets from 5 to 10 years.

Depreciation accrued from the date of put in use of fixed assets and actual quantity of days used. Depreciation is ceased if the asset is already of the age and in the condition expected at the end of its useful life. Depreciation of improvement of rented property accrues until the end of useful life of rented assets.

Cost of replacing major parts or components of fixed assets accounts in the statement of comprehensive income under operating expenses in the period of origin if they do not response the requirements of capitalization.

In case when fixed assets purchase from third parties and accounts at a residual value, depreciation rate is recalculated based on further useful life of the fixed assets.

Amortization accounted for in the statement of comprehensive income in the part of operating expenses and treat in that period when they accrued.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical form. Intangible assets acquired separately are initially valued at acquisition cost. The cost of intangible assets received in a scheme of cooperation present itself fair value at the date of acquisition. After initial recognition of intangible assets are reflected by cost of acquisition less accumulated amortization and accumulated deficit from impairment. Intangible assets have limited or undefined date of useful life.

Intangible assets with limited useful lives are amortized over the useful life and assessed for impairment whenever there is an indication of impairment of an intangible asset.

Intangible assets with unlimited useful lives amortized during the period and analysis in term of impairment either separately or at the level of items generated cash flows.

Useful life of intangible assets with unlimited useful lives is analyzed as to the presence of circumstances confirming the correctness of the current assessment of the given asset useful life. Otherwise, the useful life is prospectively changed from unlimited to limited.

Acquisition of license on software capitalizes on the basis of made expenses and implement of such software.

Expenses related to software use are reflected in expenses at the time of occurrence. Expenses directly related to the identifiable software controlled by the Bank that within one year will most probably generate economic gains for the Bank exceeding the related expenses are recognized as intangible assets.

Capitalized costs include expenses on software developers' team, including the proper portion of general business costs. Expenses leading to improvement or extension of software features compared to their initial specification are recognized as capital costs and added to software initial value. The costs associated with maintaining computer software are recognized as expenses as incurred.

Investment property

Investment property is the property not accommodated by the Bank, held in order to obtain rental income or property value growth or for both. Investment property is recognized at historical cost less accumulated depreciation and provision for impairment (where required). If there are signs of impairment of investment property, The Bank shall estimate the recoverable amount that is the higher of value exploitation and fair value less sales costs.

The carrying amount of investment property to the recoverable amount shall be recognized in the profit or loss for the year. The impairment loss recognized in prior years shall be recovered if there has been a subsequent change in estimates used to determine the asset's recoverable amount. Subsequent costs are capitalized only when there is a probability that The Bank will receive the associated future economic benefits and their cost can be reliably measured. All other costs for repairs and maintenance shall be expensed as incurred. If the owner of an investment property is it, this property is reclassified to "fixed assets". Earned rental income is recorded in profit or loss for the year within other operating income.

Lease

Leases that transfer to the lessee all significant risks and benefits arising from ownership are classified as Finance leases. All other leases are classified as operating leases.

When Bank is lessor: Amounts received from lessees under Finance leases are recorded in other assets in the amount of the Bank's net investment in leases. The Finance lease income is allocated to accounting periods so as to provide constant periodic rate of return on the net investment in the lease.

Income from operating leases is recognized evenly over the lease term. The initial direct costs associated with negotiating the terms of the operating lease agreement and its execution are included in the carrying amount of the leased asset and are charged to expenses on a straight-line basis over the lease term.

When Bank is lessee: Assets leased under Finance leases are initially recorded at the lower of the two values: **(a)** the fair value of the leased property at the beginning of the lease term and **(b)** the discounted value of the minimum lease payments. The corresponding obligations to the lessor are recorded in the statement of financial position as financial lease obligations.

The amount of lease is distributed between financial expenses and the reduction of lease obligations in such a way as to obtain a constant rate of interest on the balance of the obligation. Financial expenses are recognized in profit or loss if they are not directly attributable to qualifying assets. In the last case, they are capitalized in accordance with the Bank's general policy on loan costs. Lease payments under Finance leases that are contingent on future events are charged to expenses as incurred.

Payments under operating leases are charged to expenses on a straight-line basis over the lease term, unless a different method of allocating expenses does not correspond to the distribution of economic benefits from leased assets over time. Lease payments under operating leases arising from future events are charged to expenses as incurred.

Incentive payments received during the conclusion of operating leases are recognized as liabilities and reduce lease expenses evenly over the lease term, unless a different method of allocating expenses more closely matches the distribution of economic benefits from leased assets over time.

Due to other banks, customers and other borrowings

Due to other banks, customers and other borrowings at the beginning account at fair value less cost of operation. Afterwards loans account at amortized cost and accordingly the difference among net received means and amount of debts takes to financial result for the period of borrowing with use of effective interest rate.

Fair value of borrowings drawn at rates above market interest rates present itself the amount of main debts and future interest payments, with discounted market interest rates on analog borrowings. The difference between fair value and nominal value of borrowings at the moment of receive accounts in the statement of comprehensive income as an expense from borrowings at the rate above than market rate. Subsequently book value of borrowings is adjusted with depreciation of initial cost of borrowings and accounts in the statement for comprehensive income using method of effective profitability.

Reserves

Reserves recorded when the Bank has current liabilities in the result of current liabilities of previous years (legal or constructive obligation), in order to pay them off The Bank needs disposal of resources consisting economic benefits and the size of such liabilities can be estimated with sufficient level of precision.

Share capital and share premium

The Share Capital is measured at initial cost, if the contribution is in foreign currency then it is measured at the rate of the Central Bank on the date of payment of cash funds, while funds contributed before 1 January 2006, are reflected taking into account the inflation. Share premium represents the excess of capital contributions over the nominal value of the issued shares.

Dividends

Dividends of common shares account as decline of equity in the period when they declared. Dividends declared after reporting date consider as subsequent events according to IAS 10 "Events after the reporting period", and they disclose accordingly. Payments of dividends and other distributions of profit carry out on base of net profit of current year as reported prepared in line with acting legislation. Dividends are recognized after they are approved by the General meeting of shareholders / participants and are accounted for in the financial statements as profit distribution.

Pension liabilities

In accordance with legislation of Uzbekistan existing system of pension guaranteeing provide for calculation of employers current fee as a percentage from the current common payments to staff. Such expenses are recognized in the period when they occurred. While retiring all pension payments to be made by pension fund. The Bank does not have additional scheme of pension guaranteeing other than participating in state pension system of Uzbekistan. Further, The Bank has no privileges to give to staff after retiring or other significant advantages requiring accruals.

Income and expense recognition

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method.

Commissions integral to the effective interest rate include fees received or paid by the entity relating to the creation or acquisition of a financial asset or issue of a financial liability, (for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents).

Commitment fees received by The Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that The Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of timely settlement, they are written-off to present recoverable value and interest income is thereafter recorded on the basis of the interest rate used to future cash flows discounted in order to evaluate recoverable amount.

All other Commissions, other income and expense are recorded, usually on an accrual basis over the period of service depending on the stage of completion of the specific transaction, defined as the share of services actually rendered in the total volume of services to be provided.

Fee and Commission income from transactions with third parties, such as the acquisition of loans, shares and other securities or the purchase or sale of organizations obtained during the consummation of such transactions are recognized on completion of the transaction. Fee and Commission income from investment portfolio management and other management and advisory fees are recognized in accordance with the terms of contracts on rendering of services, as a rule, proportional to the time spent.

Commission income from the provision of services related to asset management are recorded in accordance with the terms of the contract on the date when The Bank obtains the right to receive such income and the amount of revenue can be determined. Income or expenses from the provision of services that are specified as long-term services are recognized each period in proportion to the volume of services provided. The same principle applies in respect of services related to property management, financial planning and custody services that are on a regular basis over a long period.

Income tax

The income tax charge (recovery) in the statement of comprehensive income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates enacted at the statement of financial position date. Taxes, other than on income, are recorded within operating expenses.

Deferred income taxation is provided using the balance sheet assets and liabilities method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred tax assets and liabilities are offset only within The Bank.

The deferred taxation arising on the fair value revaluation of financial assets available for sale is charged directly to the equity along with charging this revaluation to the equity increase/decrease. The corresponding amounts of the deferred tax are charged to the statement of comprehensive income when the financial assets are sold.

Deferred tax assets and liabilities are created in respect to these temporary differences connected with investments in subsidiaries and associates, except for cases when the moment temporary differences vanish may be controlled by The Bank and there's a probability those differences will not disappear in the foreseeable future.

Foreign currency revaluation

Financial statements are presented in the Uzbekistan national currency – the Uzbek Soum (UZS). Uzbek Soum is The Bank's functional and the reporting currency.

Transactions denominated in foreign currency are recorded at the Central Bank of Uzbekistan official exchange rate effective at the transaction date. Exchange rate differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of comprehensive income using the Central Bank of Uzbekistan official exchange rate effective at that date.

Monetary assets and liabilities denominated in foreign currency are translated into Uzbek Soums at the official exchange rate of the Central Bank of Uzbekistan at the balance sheet preparation date.

Exchange rate differences from debt securities and other monetary financial assets accounted for at fair value are recorded as gains and losses from foreign currency revaluation.

Exchange rate differences from non-monetary items, such as equity securities classified as financial assets and valued at fair value through profit or loss, are recorded as a part of income or expenses from revaluation at fair value.

Exchange rate differences from non-monetary financial assets available for sale are recorded within the equity capital through the revaluation reserve for financial assets available for sale.

As of 31 December 2022, the official exchange rate used for revaluation of the balances of foreign currency accounts amounted to 11 225.46 UZS to 1 US dollar (in 2021: 10 837.66 UZS to 1 US dollar) and 11 961.85 UZS to 1 Euro (in 2021: 12 224.88 UZS to 1 Euro).

Converting UZS into other currencies is limited and regulated by the currency legislation of the Republic of Uzbekistan. Currently, UZS is not free convertible currency outside the Republic of Uzbekistan.

Gold, silver and other precious metals are recorded in accordance with the purchase rates officially established by the Central Bank of the Republic of Uzbekistan.

Estimated liabilities

Estimated liabilities are recognized when The Bank has liabilities (legal or sequent from current business practice) appeared before the reporting date. In addition to this, there is high probability of that The Bank will need an outflow of economic resources to meet these liabilities and they can be reliably measured.

Salaries and related contributions

Wages, salaries, vacation allowances, bonuses and non-monetary benefits are accrued in the year in which they are incurred and the Bank makes social security contributions in accordance with the legislation of the Republic of Uzbekistan. These amounts are recorded and included in personnel costs.

Segment reporting

A segment is an identifiable component of The Bank that is engaged either in rendering products or services (business segment) or in rendering products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, financial result or assets are at least 10% of the total revenue, total financial result or total assets of all the segments are reported separately in the consolidated financial statements.

The Bank's counterparties being members of various financial and industrial groups have been included in specific geographical segments considering the relevant group head office location in order to recognize not legal but economic risk of counterparty. Segment information is to be reported separately only in case if securities issued by The Bank are freely traded at the Formal Market for Securities (FMS) (included at least by one trade organizer into first or second rate quotation list), or on own voluntary desire.

Earnings per share

Earnings per share are calculated by dividing profit or loss attributable to the equity holders of The Bank by the weighted average number of ordinary shares participate in circulation during the year. Preferred shares are not required to buy out the shareholders and are considered to be shares of participation

Offsetting

Financial assets and liabilities are offset and the net amount reflected in the statement of financial position only in cases where there is a statutory right to offset recognized amounts and an intention to either settle on a net basis, or to realize the asset and settle the liability. Income and expenses are not offset in the consolidated statement of comprehensive income, unless it required or permitted by the accounting standard or an appropriate interpretation, and are disclosed separately in The Bank's Accounting policies

Related party transactions

The Bank carries out related party transactions. Parties are considered to be related if one party has the ability to control the other party or is under joint control with the other party, is under joint control of the other party and third party, or can exercise significant influence over the other party in making financial or operational decisions.

5. Cash and cash equivalents

	31 December <u>2022</u>	31 December <u>2021</u>
Cash on hand	69 883 086	44 805 725
Funds in accounts with the Central Bank of the Republic of Uzbekistan (except mandatory reserve deposits)	341 885 694	104 558 099
Provision for impairment of funds on accounts with the Central Bank	(359 130)	(168 164)
Cash in correspondent accounts with other banks	255 640 381	137 636 793
Provision for impairment of funds on accounts with other banks	(67 312)	(263 141)
Deposits in other banks with maturities less than 90 days	139 316 684	50 000 000
Provision for impairment on deposits with other banks with a maturity of less than 90 days	(270 222)	(124 106)
Total cash and cash equivalents	<u>806 029 181</u>	<u>336 445 206</u>

Below table shows an analysis of cash and cash equivalents except for cash on hand by credit quality as at 31 December 2022:

Banks	Minimum credit risk	Low credit risk	Average credit risk	Total
Funds on accounts with the Central Bank of the Republic of Uzbekistan	-	341 885 694	-	341 885 694
Funds on correspondent accounts with other banks	224 497 505	23 236 400	7 906 476	255 640 381
Deposits with other banks with a maturity of less than 90 days	-	54 316 684	85 000 000	139 316 684
Estimated reserve for expected credit losses	(18 676)	(440 815)	(237 173)	(696 664)
Total cash and cash equivalents measured at amortized cost, excluding cash	<u>224 478 829</u>	<u>418 997 963</u>	<u>92 669 303</u>	<u>736 146 095</u>

Below table shows an analysis of cash and cash equivalents except for cash on hand by credit quality as at 31 December 2021:

Banks	Minimum credit risk	Low credit risk	Average credit risk	Total
Funds on accounts with the Central Bank of the Republic of Uzbekistan	-	104 558 099	-	104 558 099
Funds on correspondent accounts with other banks	30 220 284	7 495 679	99 920 830	137 636 793
Deposits with other banks with a maturity of less than 90 days	-	50 000 000	-	50 000 000
Estimated reserve for expected credit losses	(14 330)	(292 270)	(248 811)	(555 411)
Total cash and cash equivalents measured at amortized cost, excluding cash	<u>30 205 954</u>	<u>161 761 508</u>	<u>99 672 019</u>	<u>291 639 481</u>

The table below shows a reconciliation of the incoming balances of the provision for losses on current accounts with other banks accounted for at amortized cost, broken down by the relevant categories.

	ECL for 12 months	Total
Balance as of 31 December 2020	<u>(454 385)</u>	<u>(454 385)</u>
Provision for expected credit losses	(101 026)	(101 026)
Balance as of 31 December 2021	<u>(555 411)</u>	<u>(555 411)</u>
Provision for expected credit losses	(141 253)	(141 253)
Balance as of 31 December 2022	<u>(696 664)</u>	<u>(696 664)</u>

6. Mandatory reserves on the accounts of the Central Bank of the Republic of Uzbekistan

Mandatory reserve deposits with the Central Bank of the Republic of Uzbekistan (hereinafter referred to as the "Central Bank of Uzbekistan") provide interest-free deposits against asset impairment losses, and the Bank cannot use these funds in its activities. According to the legislation of the Republic of Uzbekistan, the Bank is obliged to deposit mandatory reserves in the Central Bank of the Republic of Uzbekistan on a permanent basis.

As of 31 December 2022, and 31 December 2021, the balance of mandatory reserves on accounts with the Central Bank of the Republic of Uzbekistan is accounted to 30 097 142 thousand UZS and 23 270 415 thousand UZS, respectively.

7. Due from other banks

	31 December <u>2022</u>	31 December <u>2021</u>
Term deposits with other banks placed for a period of more than 90 days	33 095 979	252 826 097
Provision for impairment of term deposits with other banks	(65 453)	(600 892)
Deposit Certificates of Agrobank	30 000 000	40 000 000
Provision for impairment on certificates of deposit	(34 927)	-
Total due from other banks	<u>62 995 599</u>	<u>292 225 205</u>

Below table shows an analysis of cash and cash equivalents except for cash on hand by credit quality as at 31 December 2022:

	Minimum credit risk	Low credit risk	Average credit risk	Total
Term deposits with other banks placed for a period of more than 90 days	-	13 095 979	20 000 000	33 095 979
Deposit Certificates of Agrobank	-	30 000 000	-	30 000 000
Estimated reserve for expected credit losses	-	(48 890)	(51 490)	(100 380)
Total funds in other banks measured at amortized cost	-	<u>43 047 089</u>	<u>19 948 510</u>	<u>62 995 599</u>

Below table shows an analysis of cash and cash equivalents except for cash on hand by credit quality as at 31 December 2021:

	Minimum credit risk	Low credit risk	Average credit risk	Total
Term deposits with other banks placed for a period of more than 90 days	-	148 373 253	104 452 844	252 826 097
Deposit Certificates of Agrobank	-	40 000 000	-	40 000 000
Estimated reserve for expected credit losses	-	(267 802)	(333 090)	(600 892)
Total funds in other banks measured at amortized cost	-	<u>188 105 451</u>	<u>104 119 754</u>	<u>292 225 205</u>

The table below shows a reconciliation of the incoming balances of the provision for losses on current accounts with other banks accounted for at amortized cost, broken down by the relevant categories.

	ECL for 12 months	Total
Balance as of 31 December 2020	<u>(138 537)</u>	<u>(138 537)</u>
Provision for expected credit losses	(462 355)	(462 355)
Balance as of 31 December 2021	<u>(600 892)</u>	<u>(600 892)</u>
Restoration of the reserve for expected credit losses	500 512	500 512
Balance as of 31 December 2022	<u>(100 380)</u>	<u>(100 380)</u>

8. Loans and advances to customers

Below table shows an analysis of the Bank's loan portfolio assessed at amortized cost:

	31 December <u>2022</u>	31 December <u>2021</u>
Loans to legal entities assessed at amortized cost	1 057 997 867	816 952 178
Loans to individuals and individual entrepreneurs assessed at amortized cost	48 092 180	34 039 957
Purchased accounts receivable - Factoring	-	15 044 603
Leasing (Finance lease)	6 842 307	8 343 532
Total loans and advances to customers assessed at amortized cost	<u><u>1 112 932 354</u></u>	<u><u>874 380 270</u></u>
Estimated reserve for expected credit losses	(38 324 859)	(23 850 197)
Net loans and advances to customers assessed at amortized cost	<u><u>1 074 607 495</u></u>	<u><u>850 530 073</u></u>

As of 31 December 2022, the Bank has no loan balance that exceeds 10 % of the Bank's equity.

As of 31 December 2021, the Bank had loan balance of 1 client that exceeded 10 % of the Bank's equity. The aggregate amount of this loan was 37 814 790 thousand UZS, or 4.32% of total loans to customers.

Below table shows the structure of loans of the Bank by industries:

	31 December 2022		31 December 2021	
	Amount	In %	Amount	In %
Industry	564 128 249	50,69%	434 298 887	51,06%
Commerce	342 084 301	30,73%	230 229 434	27,07%
Services	94 928 426	8,53%	107 409 637	12,63%
Individuals	48 092 180	4,32%	33 849 197	3,98%
Construction	36 189 148	3,25%	29 410 835	3,46%
Agriculture and food industry	24 415 839	2,20%	11 443 222	1,34%
Transport and communication	3 094 211	0,28%	3 888 861	0,46%
Total loans and advances to customers assessed at amortized cost	<u>1 112 932 354</u>	<u>100%</u>	<u>850 530 073</u>	<u>100%</u>

Below table shows the information about collateral for the loans:

Type of securing	31 December 2022	31 December 2021
Guarantees	606 927 099	438 063 952
Real Estate and Inventory	440 714 638	381 523 594
Equipment	32 721 412	21 121 908
Transport	12 307 392	12 294 036
Insurance policy	2 471 602	4 146 747
Deposits	2 452 247	515 546
Other securing	15 337 964	16 714 487
Total loans and advances to customers assessed at amortized cost	<u>1 112 932 354</u>	<u>874 380 270</u>

The tables below provide an analysis of the credit quality of loans and advances to customers assessed at amortized cost provided by the Bank as of 31 December 2022. At the same time, the analysis of the credit quality of loans and advances assessed at amortized cost, presented in the tables below, is based on the credit quality scale of borrowers developed by the Bank. A description of the terms 12-month expected credit losses, expected credit losses for the entire life of non-impaired and impaired assets can be found in the section "Assessment of expected credit loss" Note 4 "Basic principles of accounting policy" (page 28).

Loans and advances to customers assessed at amortized cost SPREADSHEET for 2022	Stage 1 12-month expected credit losses	Stage 2 Expected lifetime credit losses – non-impaired assets	Stage 3 Expected lifetime credit losses – impaired assets	Total
Loans and advances to customers assessed at amortized cost				
- Minimal credit risk	504 990 132	74 648 260	8 884 685	588 523 077
- Low credit risk	317 919 196	18 516 472	4 047 153	340 482 821
- Average credit risk	101 320 359	18 462 866	10 557 666	130 340 891
- High credit risk	15 377 771	3 767 590	24 837 334	43 982 695
- Default credits	-	-	9 602 870	9 602 870
Total loans and advances to customers assessed at amortized cost before deduction of reserves	<u>939 607 458</u>	<u>115 395 188</u>	<u>57 929 708</u>	<u>1 112 932 354</u>
Estimated reserve for expected credit losses	(6 506 999)	(1 379 666)	(30 438 194)	(38 324 859)
Total loans and advances to customers assessed at amortized cost, less of provision	<u>933 100 459</u>	<u>114 015 522</u>	<u>27 491 514</u>	<u>1 074 607 495</u>

Legal entities for 2022	Stage 1 12-month expected credit losses	Stage 2 Expected lifetime credit losses – non-impaired assets	Stage 3 Expected lifetime credit losses – impaired assets	Total
Loans to legal entities assessed at amortized cost				
- Minimal credit risk	486 400 286	73 621 776	8 617 589	568 639 651
- Low credit risk	296 503 508	17 044 612	3 897 443	317 445 563
- Average credit risk	98 341 019	18 173 858	10 358 338	126 873 215
- High credit risk	14 539 562	3 629 938	24 832 861	43 002 361
- Default credits	-	-	8 879 384	8 879 384
Total loans to legal entities assessed at amortized cost before deduction of reserves	<u>895 784 375</u>	<u>112 470 184</u>	<u>56 585 615</u>	<u>1 064 840 174</u>
Estimated reserve for expected credit losses	(6 310 200)	(1 312 723)	(30 120 804)	(37 743 727)
Total loans to legal entities assessed at amortized cost, less of provision	<u>889 474 175</u>	<u>111 157 461</u>	<u>26 464 811</u>	<u>1 027 096 447</u>
Individual for 2022	Stage 1 12-month expected credit losses	Stage 2 Expected lifetime credit losses – non-impaired assets	Stage 3 Expected lifetime credit losses – impaired assets	Total
Loans to individuals and individual entrepreneurs assessed at amortized cost				
- Minimal credit risk	18 589 846	1 026 484	267 096	19 883 426
- Low credit risk	21 415 688	1 471 860	149 710	23 037 258
- Average credit risk	2 979 340	289 008	199 328	3 467 676
- High credit risk	838 209	137 652	4 473	980 334
- Default credits	-	-	723 486	723 486
Total loans to individuals and individual entrepreneurs assessed at amortized cost before deduction of reserves	<u>43 823 083</u>	<u>2 925 004</u>	<u>1 344 093</u>	<u>48 092 180</u>
Estimated reserve for expected credit losses	(196 799)	(66 943)	(317 390)	(581 132)
Total loans to individuals and individual entrepreneurs assessed at amortized cost, less of provision	<u>43 626 284</u>	<u>2 858 061</u>	<u>1 026 703</u>	<u>47 511 048</u>

The tables below provide an analysis of the credit quality of loans and advances to customers measured at amortized cost provided by the Bank as of 31 December 2021. At the same time, the analysis of the credit quality of loans and advances assessed at amortized cost, presented in the tables below, is based on the credit quality scale of borrowers developed by the Bank.

Loans and advances to customers assessed at amortized cost SPREADSHEET for 2021	Stage 1 12-month expected credit losses	Stage 2 Expected lifetime credit losses – non-impaired assets	Stage 3 Expected lifetime credit losses – impaired assets	Total
Loans and advances to customers assessed at amortized cost				
- Minimal credit risk	139 627 357	47 008 324	7 261 997	193 897 678
- Low credit risk	422 183 528	154 145 431	16 044 755	592 373 714
- Average credit risk	14 647 275	38 732 415	533 698	53 913 388
- High credit risk	11 674 953	5 272 898	2 112 009	19 059 860
- Default credits	-	-	15 135 630	15 135 630
Total loans and advances to customers assessed at amortized cost before deduction of reserves	<u>588 133 113</u>	<u>245 159 068</u>	<u>41 088 089</u>	<u>874 380 270</u>
Estimated reserve for expected credit losses	(945 717)	(5 139 362)	(17 765 118)	(23 850 197)
Total loans and advances to customers assessed at amortized cost, less of provision	<u>587 187 396</u>	<u>240 019 706</u>	<u>23 322 971</u>	<u>850 530 073</u>

Legal entities for 2021	Stage 1 12-month expected credit losses	Stage 2 Expected lifetime credit losses – non-impaired assets	Stage 3 Expected lifetime credit losses – impaired assets	Total
Loans to legal entities assessed at amortized cost				
- Minimal credit risk	126 745 703	46 489 453	7 081 943	180 317 099
- Low credit risk	404 772 074	153 629 870	16 044 755	574 446 699
- Average credit risk	12 908 850	38 329 740	518 387	51 756 977
- High credit risk	11 647 993	5 126 811	2 112 009	18 886 813
- Default credits	-	-	14 932 725	14 932 725
Total loans to legal entities assessed at amortized cost before deduction of reserves	<u>556 074 620</u>	<u>243 575 874</u>	<u>40 689 819</u>	<u>840 340 313</u>
Estimated reserve for expected credit losses	(940 531)	(5 137 920)	(17 580 986)	(23 659 437)
Total loans to legal entities assessed at amortized cost, less of provision	<u>555 134 089</u>	<u>238 437 954</u>	<u>23 108 833</u>	<u>816 680 876</u>

Individuals for 2021	Stage 1 12-month expected credit losses	Stage 2 Expected lifetime credit losses – non-impaired assets	Stage 3 Expected lifetime credit losses – impaired assets	Total
Loans to individuals and individual entrepreneurs assessed at amortized cost				
- Minimal credit risk	12 881 654	518 871	180 054	13 580 579
- Low credit risk	17 411 454	515 561	-	17 927 015
- Average credit risk	1 738 425	402 675	15 311	2 156 411
- High credit risk	26 960	146 087	-	173 047
- Default credits	-	-	202 905	202 905
Total loans to individuals and individual entrepreneurs assessed at amortized cost before deduction of reserves	<u>32 058 493</u>	<u>1 583 194</u>	<u>398 270</u>	<u>34 039 957</u>
Estimated reserve for expected credit losses	(5 186)	(1 442)	(184 132)	(190 760)
Total loans to individuals and individual entrepreneurs assessed at amortized cost, less of provision	<u>32 053 307</u>	<u>1 581 752</u>	<u>214 138</u>	<u>33 849 197</u>

The tables below provide an analysis of the movement of the estimated reserve for expected credit losses on loans and advances from customers assessed at amortized cost as of 31 December 2022.

	Stage 1 12-month expected credit losses	Stage 2 Expected lifetime credit losses – non-impaired assets	Stage 3 Expected lifetime credit losses – impaired assets	Total
The balance of the provision for expected credit losses at the beginning of the period	<u>945 717</u>	<u>5 139 362</u>	<u>17 765 118</u>	<u>23 850 197</u>
Transfer to Stage 1	4 770 631	(4 770 467)	(164)	-
Transfer to Stage 2	(131 918)	1 239 746	(1 107 828)	-
Transfer to Stage 3	(96 296)	(4 798)	101 094	-
Net expense from creation/(restoration) of the reserve of expected credit losses	1 018 865	(224 177)	13 679 974	14 474 662
Other changes	-	-	-	-
The balance of the provision for expected credit losses at the end of the period	<u>6 506 999</u>	<u>1 379 666</u>	<u>30 438 194</u>	<u>38 324 859</u>

The tables below provide an analysis of the movement of the estimated reserve for expected credit losses on loans and advances from customers assessed at amortized cost as of 31 December 2021.

	Stage 1 12-month expected credit losses	Stage 2 Expected lifetime credit losses – non-impaired assets	Stage 3 Expected lifetime credit losses – impaired assets	Total
The balance of the provision for expected credit losses at the beginning of the period	<u>12 098 182</u>	<u>991 595</u>	<u>810 104</u>	<u>13 899 881</u>
Transfer to Stage 1	212 849	(61 982)	(150 867)	-
Transfer to Stage 2	(7 193 234)	7 193 234	-	-
Transfer to Stage 3	(84 278)	(247 659)	331 937	-
Net expense from creation/(restoration) of the reserve of expected credit losses	(4 087 802)	(2 735 826)	16 773 944	9 950 316
Other changes	-	-	-	-
The balance of the provision for expected credit losses at the end of the period	<u>945 717</u>	<u>5 139 362</u>	<u>17 765 118</u>	<u>23 850 197</u>

Below table represents an analysis of loans and advances to customers on credit quality, assessed for impairment on a collective and individual basis as at 31 December 2022:

Loans and advances to customers	Loans to legal entities	Loans to individuals	Total
Neither past due nor impaired	<u>997 263 518</u>	<u>48 007 210</u>	<u>1 045 270 728</u>
Individual impairment			
- delay of payment less than 30 days	17 380 157	80 401	17 460 558
- delay of payment from 31 to 90 days	10 478 076	-	10 478 076
- delay of payment from 91 to 180 days	14 639 082	-	14 639 082
- delay of payment more than 181 days	25 079 341	4 569	25 083 910
Total individually impairment loans	<u>1 064 840 174</u>	<u>48 092 180</u>	<u>1 112 932 354</u>
The provision for expected credit losses on a collective basis	(37 743 727)	(581 132)	(38 324 859)
Total loans and advances to customers less estimated allowance for expected credit losses	<u>1 027 096 447</u>	<u>47 511 048</u>	<u>1 074 607 495</u>

Below table represents an analysis of loans and advances to customers on credit quality, assessed for impairment on a collective and individual basis as at 31 December 2021:

Loans and advances to customers	Loans to legal entities	Loans to individuals	Total
Neither past due nor impaired	<u>788 713 522</u>	<u>33 607 295</u>	<u>822 320 817</u>
Individual impairment			
- delay of payment less than 30 days	4 158 856	63 409	4 222 265
- delay of payment from 31 to 90 days	45 969 551	353 942	46 323 493
- delay of payment from 91 to 180 days	1 498 384	15 311	1 513 695
- delay of payment more than 181 days	-	-	-
Total individually impairment loans	<u>840 340 313</u>	<u>34 039 957</u>	<u>874 380 270</u>
The provision for expected credit losses on a collective basis	(23 659 437)	(190 760)	(23 850 197)
Total loans and advances to customers less estimated allowance for expected credit losses	<u>816 680 876</u>	<u>33 849 197</u>	<u>850 530 073</u>

The Bank grants loans to legal entities of all industrial sectors and to individuals for various aims allowed by acting legislation. The policy of acceptance of loan decisions has determined in Loan policy. However, in any loan portfolio there is unavoidable risk of losses, which especially not marked out but can arise at any time and it influences in the future activity of the Bank. Provisions for impairment deduct from appropriate article of the assets. In line with legislation, the Bank can write off its loans at the expense of reserves based on decision of the Board, and in other cases by the decision of court.

The Bank used the methodology of creation of the provisions on portfolio under IFRS 9 "Financial instruments", and made provisions to cover impairment losses. The Bank's policy is to classify each loan as "neither past due nor impaired" until specific objective evidence of an impairment of the loan. In the process of analysis, we received representation or confirmation that the Bank assesses business models in accordance with the requirements of IFRS 9.

As a result, the application of this policy and methodology for estimating impairment portfolio the impairment losses may exceed the total gross amount of individually impaired loans. The primary factors that the Bank takes into account when considering the issue of impairment of the loan are its overdue status and the possibility of collateral, if any.

9. Investment financial assets

	31 December 2022	31 December <u>2021</u>
Securities that are measured at fair value through profit or loss on a mandatory basis	30 981 488	41 751 738
Securities classified as measured at fair value through other comprehensive income – equity instruments	77 000	77 000
Total investment financial assets	<u>31 058 488</u>	<u>41 828 738</u>

The table below shows investment securities that are necessarily measured at fair value through profit or loss.

Government bonds	-	20 819 446
Bonds of the Central Bank of the Republic of Uzbekistan	30 981 488	20 932 292
Total investment securities that are measured at fair value through profit or loss on a mandatory basis	<u>30 981 488</u>	<u>41 751 738</u>

The table below shows investment securities classified as measured at fair value through other comprehensive income – equity instruments.

Credit Bureau "Credit and Information Analytical Center"	77 000	77 000
Total investment securities classified as measured at fair value through other comprehensive income – equity instruments	<u>77 000</u>	<u>77 000</u>

10. Fixed and intangible assets

Below is information about cost of fixed and intangible assets as at 31 December 2022.

	Buildings, other constructions	Assets in the form of a right of use	Transport means	Office and computer equipments	Total fixed assets	Intangible assets	Total
Cost or valuation							
At 1 January 2022	12 526 134	6 311 113	1 070 216	13 354 523	33 261 986	3 143 445	36 405 431
Addition	1 094 717	2 527 816	-	16 002 978	19 625 511	13 420 177	33 045 688
Transition or Relocation	-	-	1 557 047	(1 557 047)	-	-	-
Disposal	-	-	-	(250 571)	(250 571)	(102 812)	(353 383)
At 31 December 2022	<u>13 620 851</u>	<u>8 838 929</u>	<u>2 627 263</u>	<u>27 549 883</u>	<u>52 636 926</u>	<u>16 460 810</u>	<u>69 097 736</u>
At 1 January 2022	(3 095 913)	(826 042)	(870 664)	(5 813 411)	(10 606 030)	(1 250 901)	(11 856 931)
Depreciation charges	(691 190)	(617 884)	(140 674)	(3 325 556)	(4 775 304)	(1 017 308)	(5 792 612)
Transition and Relocation	-	-	-	-	-	-	-
Disposal	-	-	-	250 571	250 571	102 812	353 383
At 31 December 2022	<u>(3 787 103)</u>	<u>(1 443 926)</u>	<u>(1 011 338)</u>	<u>(8 888 396)</u>	<u>(15 130 763)</u>	<u>(2 165 397)</u>	<u>(17 296 160)</u>
Net book value							
At 1 January 2021	<u>9 430 221</u>	<u>5 485 071</u>	<u>199 552</u>	<u>7 541 112</u>	<u>22 655 956</u>	<u>1 892 544</u>	<u>24 548 500</u>
At 31 December 2022	<u>9 833 748</u>	<u>7 395 003</u>	<u>1 615 925</u>	<u>18 661 487</u>	<u>37 506 163</u>	<u>14 295 413</u>	<u>51 801 576</u>

Below is information about cost of fixed and intangible assets as at 31 December 2021.

	Buildings, other constructions	Assets in the form of a right of use	Transport means	Office and computer equipments	Total fixed assets	Intangible assets	Total
Cost or valuation							
At 1 January 2021	12 286 088	4 720 555	921 369	11 124 387	29 052 399	2 523 671	31 576 070
Addition	240 046	1 590 558	148 847	2 544 767	4 524 218	619 774	5 143 992
Transition or Relocation	-	-	-	-	-	-	-
Disposal	-	-	-	(314 631)	(314 631)	-	(314 631)
At 31 December 2021	<u>12 526 134</u>	<u>6 311 113</u>	<u>1 070 216</u>	<u>13 354 523</u>	<u>33 261 986</u>	<u>3 143 445</u>	<u>36 405 431</u>
At 1 January 2021							
At 1 January 2021	(2 496 732)	(314 704)	(855 822)	(3 821 866)	(7 489 124)	(762 179)	(8 251 303)
Depreciation charges	(599 181)	(511 338)	(14 842)	(2 306 176)	(3 431 537)	(488 722)	(3 920 259)
Transition and Relocation	-	-	-	-	-	-	-
Disposal	-	-	-	314 631	314 631	-	314 631
At 31 December 2021	<u>(3 095 913)</u>	<u>(826 042)</u>	<u>(870 664)</u>	<u>(5 813 411)</u>	<u>(10 606 030)</u>	<u>(1 250 901)</u>	<u>(11 856 931)</u>
Net book value							
At 1 January 2021	<u>9 789 356</u>	<u>4 405 851</u>	<u>65 547</u>	<u>7 302 521</u>	<u>21 563 275</u>	<u>1 761 492</u>	<u>23 324 767</u>
At 31 December 2021	<u>9 430 221</u>	<u>5 485 071</u>	<u>199 552</u>	<u>7 541 112</u>	<u>22 655 956</u>	<u>1 892 544</u>	<u>24 548 500</u>

Other private property of the Bank

	31 December 2022	31 December 2021
Property obtained for non-payment	-	4 590 018
Provision for possible losses on property acquired for non-payments	-	(4 590 018)
Total other private property of the Bank	<u>-</u>	<u>-</u>

Property obtained for non-payment and intended for further sale, consists of the mortgaged property received by the Bank on account of loans and advances. The Bank intends to sell this property within 12 months.

11. Other assets

	31 December <u>2022</u>	31 December <u>2021</u>
Commission income receivable	125 696	110 969
Provision for impairment of commission income receivable	(108 686)	(87 331)
Incomplete payments on bank cards	908 153	745 225
Provision for impairment on bank card settlements	-	(37 261)
Settlements on money transfer systems	-	281 780
Provision for impairment of cash transfers	-	(394)
Total other financial assets	<u>925 163</u>	<u>1 012 988</u>
Invoices to be received for goods and services	1 902 301	-
Prepayments for services	573 599	386 726
Other deferred expenses	37 245	291 164
Settlement of taxes other than income tax	31 609	28 618
Settlements with employees	24 158	26 681
Other non-financial assets	8 725	8 483
Provision for impairment of other assets	(16 913)	(448)
Total other non-financial assets	<u>2 560 724</u>	<u>741 224</u>
Total other assets	<u><u>3 485 887</u></u>	<u><u>1 754 212</u></u>

12. Customer accounts

Legal entities:

- Current and settlement accounts	499 673 044	458 567 390
- Deposit accounts	131 486 306	39 279 840

Individuals and individual entrepreneurs:

- Current accounts and accounts on demand	80 771 915	51 563 490
- Deposit accounts	602 572 178	442 108 342

Total customer accounts	<u><u>1 314 503 443</u></u>	<u><u>991 519 062</u></u>
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13. Due to other banks

	31 December 2022	31 December <u>2021</u>
Term deposits of other banks	147 653 722	179 165 629
Due to other banks on interbank payments	14 681 279	35 834 880
Long-term loans payable to other banks	160 581 483	19 744 887
Total due to other banks	<u>322 916 484</u>	<u>234 745 396</u>

As at 31 December 2022 the Bank has balances with three banks with cash balances in excess of 10% of the Bank's equity. The amount of this liability is amounted to 173 325 956 thousand UZS, or 53.7% of total term deposits of credit institutions (in 2021: three banks had 205 724 606 thousand UZS, or 87.6%, respectively).

14. Other borrowed funds

Short-term loans payable to the Government	8 240 652	2 890 043
Total other financial liabilities	<u>8 240 652</u>	<u>2 890 043</u>

Other borrowed funds estimated at amortized cost consists of a loan from the Export Promotion Agency under the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan, the loan balance amounted to 733 333.34 US dollars, the equivalent of 8 232 004 thousand UZS, and accrued interest payable of 770.38 US dollars, the equivalent of 8 648 thousand UZS.

15. Other liabilities

Arrears for goods and services	8 853 138	6 267 833
Settlements with employees	2 249 957	1 576 923
Settlements on money transfer systems	-	54 188
Total other financial liabilities	<u>11 103 095</u>	<u>7 898 944</u>
Provision for credit losses on credit-related liabilities and provision for other liabilities	3 662 528	1 560 235
Taxes payable, except for income tax	2 148 398	1 271 051
Deferred commission income	954 476	263 057
Total other non-financial liabilities	<u>6 765 402</u>	<u>3 094 343</u>
Total other liabilities	<u>17 868 497</u>	<u>10 993 287</u>

16. Share capital

	31 December <u>2022</u>	31 December <u>2021</u>
Authorized Share Capital	305 303 965	269 708 810
Issued Share Capital	269 708 810	188 953 081
Increase during the report period	35 595 155	80 755 729
Decrease during the report period	-	-
Total Share Capital	<u><u>305 303 965</u></u>	<u><u>269 708 810</u></u>

Issued authorized capital of the Bank as at 31 December 2022 is amounted to 305 303 965 thousand UZS (in 2021 this amount was 269 708 810 thousand UZS respectively). The nominal value of one share of the Bank is 1 170 UZS.

17. Reserve capital

Reserve capital of the Bank as at 31 December 2022 is amounted to 26 704 966 thousand soums, and this amount consists of the Reserve fund of common purpose.

Reserve fund of general purpose created for: cover bank's losses because of its activity; increase share capital. Reserve fund of common purpose forms based on the profit of current year remaining at the disposal of the Bank after taxes and other mandatory payments.

The norms of contributions to reserve fund is determined by the General Shareholders' Meeting.

18. Retained earnings

The Bank keeps accounting records in line with bank legislation requirements of the Republic of Uzbekistan. These financial statements are prepared on basis of those accounting records with adjustments, which is necessary ensure its compliance with all material aspects of IFRS.

According to IFRS retained earnings of the Bank for the reporting period amounted to 67 839 411 thousand UZS.

Only accumulated retained earnings of the Bank prepared in accordance with accounting standards of the Republic of Uzbekistan, since the Bank keeps records according to these rules can be distributed as dividends. In accordance with the legislation of the Republic of Uzbekistan retained earnings is the profit for the current year and previous years remaining in the Bank after paying dividends, taxes and contributions to various funds.

The amount of the Bank's retained earnings according to financial statements prepared in line with accounting rules of the Republic of Uzbekistan, as of 31 December 2022 is amounted to 77 323 629 thousand UZS and net profit for 2022 is amounted to 75 171 284 thousand UZS.

19. Interest income and expenses

	31 December <u>2022</u>	31 December <u>2021</u>
Interest income calculated at the effective interest rate		
- loans and advances to customers	128 004 019	95 371 365
- due to other banks	39 785 099	13 841 067
- securities for sale and purchase	4 550 935	8 823 429
Total interest income calculated at the effective interest rate	<u><u>172 340 053</u></u>	<u><u>118 035 861</u></u>
Other interest income		
- loans and advances to customers	291 611	95 829
Interest expenses calculated at the effective interest rate		
- at the expense of customers	(54 381 516)	(28 748 214)
- due to other banks	(10 385 193)	(7 151 862)
- on lease obligations	(1 008 626)	(770 744)
- other borrowed funds	(879 996)	(1 047 262)
Total interest expenses calculated at the effective interest rate	<u><u>(66 655 331)</u></u>	<u><u>(37 718 082)</u></u>
Net interest income	<u><u>105 976 333</u></u>	<u><u>80 413 608</u></u>

20. Fee and commission income and expenses

Fee and commission income		
- settlement operations	9 841 529	7 406 764
- currency transactions and remittances	9 666 135	7 207 975
- on operations with plastic cards	2 374 730	1 671 941
- on documentary transactions and credit obligations	1 020 239	2 019 896
- on cash transactions	869 050	1 724 591
- for currency conversion and exchange	446 649	778 889
- others	13 976	13 569
Total fee and commission income	<u><u>24 232 308</u></u>	<u><u>20 823 625</u></u>
Fee and commission expenses		
- settlement operations	(3 068 821)	(1 785 996)
- for currency conversion and exchange	(944 002)	(141 951)
- on operations with plastic cards	(584 453)	(1 791 357)
- encashment services	(218 828)	(119 915)
- the services on operations with securities	(28 999)	(27 530)
- others	(2 223 788)	(112 803)
Total fee and commission expenses	<u><u>(7 068 891)</u></u>	<u><u>(3 979 552)</u></u>
Net fee and commission income	<u><u>17 163 417</u></u>	<u><u>16 844 073</u></u>

21. Other non-interest income

	31 December <u>2022</u>	31 December <u>2021</u>
Income from rent of fixed assets	986 087	821 426
Income in the form of dividend	463 345	156 045
Income from sale or disposition of the bank's property	90 417	65 898
Other non-interest income	310 507	231 130
Total other non-interest income	<u>1 850 356</u>	<u>1 274 499</u>

22. Operating expenses and other non-interest expenses

Salaries and bonuses to employees	(22 399 655)	(15 664 689)
Single social payment	(2 827 934)	(2 059 729)
Other employee benefits	(1 976 901)	(1 568 088)
Depreciation of fixed assets	(5 792 611)	(3 920 259)
Membership fees	(5 429 906)	(3 653 935)
Security costs	(2 774 222)	(2 047 691)
Software maintenance	(2 426 461)	(2 309 995)
Repair and maintenance costs	(2 362 373)	(1 971 979)
Taxes (other than income taxes) and licenses	(2 010 706)	(1 297 877)
Payment for professional services	(1 870 448)	(356 950)
Trip and transport expenses	(1 225 712)	(425 925)
Office supplies expenses	(889 474)	(685 440)
Representation expenses	(673 430)	(464 009)
Communication costs	(589 910)	(522 351)
Utility costs	(328 664)	(282 071)
Advertising expenses	(267 894)	(172 371)
Rental expenses	(221 589)	(53 094)
Fees and penalties	(100 000)	(20 000)
Insurance costs	(46 005)	(27 930)
Charity and sponsorship expenses	(25 000)	(136 377)
Other expenses	(264 692)	(179 102)
Total operating expenses	<u>(54 503 587)</u>	<u>(37 819 862)</u>

23. Income tax

Income tax amount as at 31 December 2022 is amounted to 18 930 690 thousand UZS (at the end of 2021 respectively: 9 421 209 thousand UZS). Current income tax rate which is applicable to the income of the Bank for 2022 is 20% (in 2021 respectively: 20%).

The Bank calculates income tax for current period on basis of tax accounting in line with tax legislation requirements of the Republic Uzbekistan, which may differ from IFRS.

Therefore, some types of expenses are not count for tax purposes, the Bank has certain temporarily differences between current value of assets and liabilities, in purpose of, preparation of the financial statements and taxation.

In accordance with tax legislation of the Republic of Uzbekistan, the Bank pays other tax and contributions from its current activity.

Deferred taxes reflect the net tax effect of temporary differences between the book value of assets and liabilities for financial reporting purposes and the amount determined for tax purposes.

Temporary differences as at 31 December 2022 and 31 December 2021 are mainly related to different methods of accounting for income and expenses, as well as to the accounting value of certain assets.

The following information is about the tax effect of temporary differences:

	<u>2022</u>	<u>2021</u>
Deferred taxes assets/ (liabilities) at the beginning of the year	4 119 443	4 753 131
Change in deferred income tax recognised in profit	1 446 631	(633 688)
Change in deferred income tax recognised in retained earnings	-	-
Deferred taxes assets/ (liabilities) at the end of the year	<u>5 566 074</u>	<u>4 119 443</u>

24. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss belonging to owners of ordinary shares by the weighted average number of ordinary shares outstanding during the year.

The Bank has no ordinary shares potentially dilutive earnings per share. Therefore, the diluted earnings per share are equal to basic earnings per share. Earnings per share are calculated as follows:

	<u>2022</u>	<u>2021</u>
Net profit for the year (in thousands of UZS)	68 299 090	45 327 376
The use of profit (in thousands of UZS)	-	-
The weighted average number of ordinary shares outstanding during the year (in pieces)	243 196 688	207 830 910
Basic and diluted earnings per ordinary share (in UZS per share)	280,84	218,10

25. Risk management

The primary objective of the financial risk management is to establish risk limits, and then ensure that exposure to risks stays within these limits. The evaluation of accepted risks underlies the optimum capital sharing with an allowance for risk, pricing of operations, evaluation of results of the activities. The operational and legal risk management is intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

The financial risk management within the Bank is carried out in respect of the following financial risks: a) Credit risk; b) Liquidity risk; c) Geographic risk d) Market risk; e) Interest rate risk; f) Currency risk.

The priority is to retain assets and capital to the maximum extent on the basis of minimization of risk exposure which can result in unexpected losses. All risks, which can have a negative effect on reaching the aims set by the Bank, are recognized and evaluated on a regular basis. Such approach to evaluation refers to all risks assumed by the Bank in the course of its activities.

Credit risk - The Bank takes on exposure to credit risk, which is the risk that a counterparty will fail to repay the liability in full when due. The Bank controls the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers or Banks of borrowers and geographical and industry segments. Such risks are monitored on a revolving basis within the Bank and are subject to an annual or more frequent review. Credit risk limits on items, borrowers and industry segments are approved by the Board of Directors. The level of credit risk in relation to one borrower, including banks and brokers, is additionally fixed by limits covering balance and off-balance risks, and by intra-day limits on amounts of delivery risk in case of trading instruments such as forward foreign exchange contracts. The actual upholding of limits on the amount of risk accepted is monitored on a daily basis.

Credit risk management structure:

- ⇒ A decision on loan granting and lending terms is taken by Finance and credit committee;
- ⇒ Decisions taken by the Credit Committee are mandatory for all services of the Bank. All lending terms approved by the Credit Committee of the Bank are entered into a loan agreement, closed between the Bank and a customer;
- ⇒ The Credit Committee also approves lending limits for borrowers;
- ⇒ Subjects of crediting are, legal entities, individuals, entrepreneurs, individual unincorporated entrepreneurs;
- ⇒ The Bank provides short-term, long-term, "overdraft" loans to borrowers of different forms of ownership. As at the reporting date, the maximum crediting term for legal entities and individual unincorporated entrepreneurs does not exceed three years;
- ⇒ Objects of crediting can include capital investments, acquisition of premises and equipment, vehicles and machines, development/extension of production, implementation of new technologies, purchase of raw materials and materials, cover of gap in payment turnover, purchase of real estate;
- ⇒ Lending limit per borrower of the Bank is defined with regard to maximum allowable rates, borrower's credit history, amount of average monthly turnover and balances on average borrower's bank accounts per month, level of loan's collaterals, according to borrower's significance as the Bank's customer, borrower's financial condition, prospects of development and other information about borrower.
- ⇒ Maximum risk level of secured loan per borrower or a group of interconnected borrowers is set at no more than 25% of the capital of the 1st level;
- ⇒ Maximum risk level of unsecured loan per borrower or group of interconnected borrowers may not exceed 5 % of the capital of the 1st level;
- ⇒ Maximum allowable size of credit risk for all large loans should not exceed 5-times of the Bank's equity (capital) of the 1st level;
- ⇒ Maximum allowable size of credit risk per insider and persons related to it should not exceed 25% of equity (capital) of the 1st level;
- ⇒ The maximum amount of risks for all persons associated with the bank should not exceed 50% of equity (capital) of the 1st level;
- ⇒ Maximum allowable size of investment in securities per issuer should not exceed 15% of equity of the 1st level.
- ⇒ Maximum allowable size of investment in authorized capital and other securities of all issuers should not exceed 50% of equity of the 1st level.
- ⇒ Maximum allowable size of investment in securities for buying and selling should not exceed 25% of the equity of the 1st level.

Credit risk management

Credit risk management is aimed at minimizing the Bank's losses as a result of non-fulfillment of his/her obligations by the borrower and maximizing the Bank's profitability with regard to credit risk.

The objectives of credit risk management are as follows:

- ⇒ Analysis and evaluation of credit risks;
- ⇒ Calculation of risk sizes;
- ⇒ Credit risk management;
- ⇒ Control over efficiency of credit risk management.

Loans are assessed on the basis of:

- ⇒ Borrower's financial position;
- ⇒ Quality of debt service by the borrower;
- ⇒ Collateral.

When credit risk is managed, limit restrictions are set for operations on lending and conducting lending activities:

- ⇒ Lending to legal entities and individuals;
- ⇒ Interbank lending and foreign exchange operations in interbank market;
- ⇒ Investments in securities.

When providing lending to legal entities and individuals, the Credit Committee the Bank takes a decision on the feasibility of lending and on the maximum loan (depending on a loan amount) size. The decision is taken on the basis of the Corporate Credit department and Retail Credit department expert opinion on the feasibility of lending, information on the availability of cash resources and other information.

Lending limits for corporate customers are set on the basis of analyzing their ownership structure, business reputation, credit history, financial position, financial outlook, industry situation etc. Lending limits for bank counterparties are established on the basis of analyzing their financial position, banking rating among other banks, capital structure, banking operations concentration, credit history, and business reputation. The size of a loan provided to an individual is limited by his/her paying capacity, which is calculated for each customer on an individual basis by means of applying reducing coefficients to his/her income, and also by taking into account his/her debt related to loans received earlier. The size of a loan also depends on the collateral provided.

The Bank applies the formalized internal methodology based on the calculation of integral point reflecting financial position and creditworthiness of a borrower for the purpose of quantitative evaluation and monitoring of credit risk. Quantitative evaluation applied to credit risk is based on discounting future cash flows.

Financial position is evaluated on the basis of analysis of the first (which is prior to the date of loan disbursement) and the last financial statements of a borrower and other information received by the Bank. The Bank's Credit department analyzes loans by maturities and subsequently controls overdue balances.

When assessing loan portfolio, the Bank's Credit department evaluates risk concentration in loan portfolio. Concentration takes numerous forms and arises when a significant amount of loans has similar characteristics. The Bank considers diversification of loan portfolio by maturity, types of collateral, industries, geographic distribution.

For the purpose of credit risk, monitoring employees of credit departments prepare regular reports based on structured business analysis and the customer's financial position. All information on material risks in respect of customers with deteriorated creditworthiness is presented to the Credit committee and the Bank management bodies and analyzed by them.

Monitoring the quality of the loan portfolio

In accordance with the Bank's credit policy, the credit portfolio monitoring Department is responsible for monitoring:

- targeted use of credit funds;
- collateral that meets the requirements of the market;
- financial indicators of borrowers; and
- quality of the loan portfolio.

The internal audit service is responsible for monitoring the compliance of the loan portfolio with the requirements and rules of the Central Bank of the Republic of Uzbekistan, as well as the Bank's internal policies. The Bank's credit risk management processes are audited annually by the internal audit service, which verifies the adequacy of procedures and the proper classification of loans. The internal audit service discusses the results of all evaluations with Management and submits reports on its results with recommendations to the Bank's Board.

Provision for expected credit losses

The Bank establishes provision for expected credit losses, which reflects the Bank's evaluation of losses in respect of loan portfolio. Management assesses the adequacy of the provision for credit losses on a monthly basis and receives a full risk report intended to provide all necessary information to assess and conclude on the Bank's credit risks.

The Bank writes off the loan (as well as respective provision for its impairment) in the case if a loan is classified as uncollectible and when all the procedures to settle the loan are over. Such decision is taken after information is considered of significant changes in the borrower's financial position (such as inability to repay the loan), and in cases if proceeds from realized collateral are not enough to cover the debt amount.

The bad debt is written off at the expense of provision for possible loan losses on the basis of the resolution of the Supervisory Board of the Bank. Control over the borrower's financial and property condition is exercised during five years for the purpose of possible collection.

Liquidity loss risk – Liquidity risk is the risk of non-coincidence of claiming terms for the active operations and maturity terms for liabilities.

Liquidity assessment depends on:

- ⇒ Quantity of assets in the Bank and possible terms for their realization without material losses for the Bank;
- ⇒ Depending existing bank liabilities, their maturity dates and changing dynamics of liabilities quantity in the course of time.

The position is considered risky if liquid assets of the Bank and expected proceeds of financial resources are not enough to meet the Bank's obligations in the certain period of time.

The Bank's activities associated with liquidity management are coordinated by the Committee on management of assets and liabilities by controlling short-term, medium-term and long-term liquidity.

Current (instant) liquidity is balance between claims and liabilities of the Bank to be settled during the current day. Short-term, medium-term and long-term liquidity is balance between claims and liabilities of the Bank to be settled within the fixed periods of time.

Liquidity risk is regulated by controlling deficit/surplus of cash resources, distribution and redistribution of cash resources by instruments according to investment terms, level of their liquidity and profitability, including singling out of cash for lending, issue of own securities.

Liquidity analysis system is based on the method evaluating gap in time for the Bank's claims (assets) and obligations (liabilities), and for this purpose performances and coefficients of liquidity surplus (deficit).

Analysis of liquidity of the Bank follows the above factors, the analysis of their absolute values and their dynamics, and compared their values with the limit values set in the Bank.

Liquidity risk management involves the following procedures:

- ⇒ Forecast of payment flows by main currency types and definition of the proper volume of liquid assets;
- ⇒ Monitoring of liquidity coefficients and their forecast;
- ⇒ Maintaining of diversified channels of resources;
- ⇒ Planning of debt granting as to availability of free cash and maintaining of acceptable liquidity risk level;
- ⇒ Planning of actions to recover the proper liquidity level in unfavorable and crisis conditions;
- ⇒ Redistribution of assets by terms (provision of short-term, medium-term and long-term loans, carrying out of speculation and investment operations in the securities market, change in open foreign exchange position, transferred to the next day).

The Bank's liquidity management requires analyzing the level of liquid assets, appropriate to settle liabilities when they mature; access to various financing sources; availability of plans in the event, problems with financing occur and control over compliance of liquidity coefficients.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Uzbekistan. **These ratios include:**

Capital adequacy ratio: Norms according to Central Bank of Uzbekistan are set at 13% of the Bank's equity (capital) of the 1st level, the Bank comply with the requirement.

Capital adequacy ratio of 1st level: Norms according to Central Bank of Uzbekistan are set at 10% of the Bank's equity (capital) of the 1st level, the Bank comply with the requirement.

Joint-Stock Company "ZIRAAT BANK UZBTRISTAN"

Notes to the financial statements for the year ended 31 December 2022

(in thousands of UZS)

The table below presents book value of financial instruments by expected maturity as at 31 December 2022:

Assets	On demand and less than 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years	Over 2 years	Total
Cash and cash equivalents	690 707 968	115 321 213	-	-	-	806 029 181
Mandatory reserves on accounts with the CBU	30 097 142	-	-	-	-	30 097 142
Due from other banks	-	-	62 995 599	-	-	62 995 599
Net loans and advances	60 211 670	111 467 587	483 338 374	206 931 929	212 657 935	1 074 607 495
Investment financial assets	31 058 488	-	-	-	-	31 058 488
Fixed assets	-	-	-	-	37 506 163	37 506 163
Intangible assets	-	-	-	-	14 295 413	14 295 413
Tax assets	5 566 074	-	-	-	-	5 566 074
Other assets	3 485 887	-	-	-	-	3 485 887
Total assets	821 127 229	226 788 800	546 333 973	206 931 929	264 459 511	2 065 641 442
Liabilities						
Customer accounts	614 919 551	22 940 902	293 462 023	49 299 350	333 881 617	1 314 503 443
Due to other banks	108 539 528	102 215 979	106 240 729	3 172 834	2 747 414	322 916 484
Other borrowed funds	981 521	1 945 746	5 313 385	-	-	8 240 652
Tax liabilities	2 264 024	-	-	-	-	2 264 024
Other liabilities	17 868 497	-	-	-	-	17 868 497
Total liabilities	744 573 121	127 102 627	405 016 137	52 472 184	336 629 031	1 665 793 100
Difference between financial assets and liabilities	76 554 108	99 686 173	141 317 836	154 459 745	(72 169 520)	399 848 342
The difference between financial assets and liabilities with the cumulative total	76 554 108	176 240 281	317 558 117	472 017 862	399 848 342	-

Joint-Stock Company "ZIRAAT BANK UZBTRISTAN"

Notes to the financial statements for the year ended 31 December 2022

(in thousands of UZS)

The table below presents book value of financial instruments by expected maturity as at 31 December 2021:

Assets	On demand and less than 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years	Over 2 years	Total
Cash and cash equivalents	336 445 206	-	-	-	-	336 445 206
Mandatory reserves on accounts with the CBU	23 270 415	-	-	-	-	23 270 415
Due from other banks	75 237 185	216 988 020	-	-	-	292 225 205
Net loans and advances	43 414 005	67 539 286	354 249 838	199 132 178	186 194 766	850 530 073
Investment financial assets	41 828 738	-	-	-	-	41 828 738
Fixed assets	-	-	-	-	22 655 956	22 655 956
Intangible assets	-	-	-	-	1 892 544	1 892 544
Tax assets	4 119 443	-	-	-	-	4 119 443
Other assets	1 754 212	-	-	-	-	1 754 212
Total assets	526 069 204	284 527 306	354 249 838	199 132 178	210 743 266	1 574 721 792
Liabilities						
Customer accounts	556 385 155	171 894 212	108 019 077	23 892 127	131 328 491	991 519 062
Due to other banks	38 317 423	64 058 111	37 968 011	88 784 366	5 617 485	234 745 396
Other borrowed funds	722 511	1 445 021	722 511	-	-	2 890 043
Tax liabilities	1 151 321	-	-	-	-	1 151 321
Other liabilities	10 993 287	-	-	-	-	10 993 287
Total liabilities	607 569 697	237 397 344	146 709 599	112 676 493	136 945 976	1 241 299 109
Difference between financial assets and liabilities	(81 500 493)	47 129 962	207 540 239	86 455 685	73 797 290	333 422 683
The difference between financial assets and liabilities with the cumulative total	(81 500 493)	(34 370 531)	173 169 708	259 625 393	333 422 683	-

Liquidity requirements in respect of guarantees is significantly lower than the amount of the liabilities presented above in the analysis by maturity as the Bank ordinary does not expect that the funds under the agreement will be claimed by third parties. The total outstanding contractual amount of commitments to extend credit are included in the above table do not necessarily represent the amount of cash payment which will be required in the future, since many of these commitments may be unclaimed or abandoned before the end of their validity period.

Customer accounts are classified in the above analysis based on the period remaining to maturity. However, in accordance with the Civil Code of the Republic of Uzbekistan individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

In the opinion of management, the coincidence of maturity and maturity and interest rates of assets and liabilities is fundamental to the successful management of the Bank. Banks, as a rule, does not fully match the indicated positions as operations often of an uncertain term and of different nature. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Maturities of assets and liabilities and the ability to replace interest liabilities at an acceptable cost, as the onset of the repayment period are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The Bank's management believes that, despite the significant share of customer funds that have the "on demand" status, the diversification of such funds by the number and type of depositors, as well as the experience gained by the Bank over previous periods, indicate that these funds form a long-term and stable source of financing for the Bank's activities. Therefore, Management believes that a material mismatch in the maturities of assets and liabilities with maturities of up to 12 months or more does not pose a significant risk to The Bank's liquidity, as a very low proportion of funds in other banks, demand deposits and short-term deposits are expected to be withdrawn based on the Bank's past and current experience, which is in line with General banking practice in the banking sector of Uzbekistan

Geographic risk

The Bank maintains control over risks related with changes in norms of legislation and estimates its influence to the activity of the Bank. Such approach allows the Bank minimize possible losses from changes in investment climate in the Republic of Uzbekistan.

Assets and liabilities usually have been classified according to the country of the counterparty's location.

Cash, precious metals, premises, and equipment have been classified in accordance with the country of their physical location.

The geographic analysis of the Bank's assets and liabilities as at 31 December 2022 and 31 December 2021 is set out below:

Joint-Stock Company "ZIRAAT BANK UZBTRISTAN"

Notes to the financial statements for the year ended 31 December 2022

(in thousands of UZS)

Assets	Uzbekistan	OECD countries	Other countries	Total as at 31 December 2022
Cash and cash equivalents	579 609 468	224 586 606	1 833 107	806 029 181
Mandatory reserves on accounts with the CBU	30 097 142	-	-	30 097 142
Due from other banks	62 995 599	-	-	62 995 599
Net loans and advances	1 074 607 495	-	-	1 074 607 495
Investment financial assets	31 058 488	-	-	31 058 488
Fixed assets	37 506 163	-	-	37 506 163
Intangible assets	14 295 413	-	-	14 295 413
Tax assets	5 566 074	-	-	5 566 074
Other assets	3 485 887	-	-	3 485 887
Total assets	<u>1 839 221 729</u>	<u>224 586 606</u>	<u>1 833 107</u>	<u>2 065 641 442</u>
Liabilities				
Customer accounts	1 314 503 443	-	-	1 314 503 443
Due to other banks	33 728 919	222 266 776	66 920 789	322 916 484
Other borrowed funds	8 240 652	-	-	8 240 652
Tax liabilities	2 264 024	-	-	2 264 024
Other liabilities	17 868 497	-	-	17 868 497
Total liabilities	<u>1 376 605 535</u>	<u>222 266 776</u>	<u>66 920 789</u>	<u>1 665 793 100</u>
Net position	462 616 194	2 319 830	(65 087 682)	399 848 342

Joint-Stock Company "ZIRAAT BANK UZBTRISTAN"

Notes to the financial statements for the year ended 31 December 2022

(in thousands of UZS)

Assets	Uzbekistan	OECD countries	Other countries	Total as at 31 December 2021
Cash and cash equivalents	312 511 859	23 877 822	55 525	336 445 206
Mandatory reserves on accounts with the CBU	23 270 415	-	-	23 270 415
Due from other banks	292 225 205	-	-	292 225 205
Net loans and advances	850 530 073	-	-	850 530 073
Investment financial assets	41 828 738	-	-	41 828 738
Fixed assets	22 655 956	-	-	22 655 956
Intangible assets	1 892 544	-	-	1 892 544
Tax assets	4 119 443	-	-	4 119 443
Other assets	1 754 212	-	-	1 754 212
Total assets	<u>1 550 788 445</u>	<u>23 877 822</u>	<u>55 525</u>	<u>1 574 721 792</u>
Liabilities				
Customer accounts	991 519 062	-	-	991 519 062
Due to other banks	2 046 550	232 698 846	-	234 745 396
Other borrowed funds	2 890 043	-	-	2 890 043
Tax liabilities	1 151 321	-	-	1 151 321
Other liabilities	10 993 287	-	-	10 993 287
Total liabilities	<u>1 008 600 263</u>	<u>232 698 846</u>	<u>-</u>	<u>1 241 299 109</u>
Net position	542 188 182	(208 821 024)	55 525	333 422 683

Market risk

The Bank is exposed to market risk, which is risk of financial losses or decrease in assets value due to unfavorable change of market prices (exchange rates of foreign currencies, prices on precious metals, interest rates). The Bank sets limits in respect of risk assumed and controls compliance on a daily basis. No changes made in such risks and methods of estimations and management of these risks. However, the use of this approach does not allow preventing losses exceeding the established limits in the event of more significant market fluctuations.

Market risk is subdivided into:

- ⇒ Interest rate risk;
- ⇒ Currency risk.

For each type of market risk, the Bank is subject to at the reporting date sensitivity analysis is carried out reflecting the information of how changes of the respective risk variable, which could occur at the reporting date, would affect income or loss.

The Bank in compliance with the market risk management policy manages market risk. The main aim of market risk management is to optimize the risk/return ratio, to minimize losses when unfavorable events are realized and to decrease deviation value of actual financial result from the expected one.

Market risk management includes management of open foreign currency positions in respect of debt and equity securities, currencies and derivative financial instruments. For these purposes, the Bank's Committee of interest rate policy and limits sets limits for open positions, stop-loss limits and other limits.

The Bank assesses market risk in respect of components and on the aggregate basis defining market risk concentration, as well as diversification effect.

Interest rate risk

The Bank assumes risk associated with effects of market fluctuations of interest rates on its financial position and cash flows. Such fluctuations can increase the level of interest margin however, in the event of unexpected change in interest rates interest margin can decrease or result in losses. The purpose of interest rate risk management is to reduce the impact of interest rate fluctuations on net interest gain.

The management of the Bank approves the fixed interest rates on deposits and credits of individuals. Interest rates on deposits and loans granted to individuals typically depend on the maturity of the loan or deposit, amount and category of customer. In practice, interest rates are generally set for a short period. In addition, often review of the interest rate stipulated in the contracts, both assets and liabilities conducted based on mutual agreement in accordance with the current market situation.

The Bank monitors interest rates for its financial instruments. The following table provides interest rates for financial instruments at the reporting date:

	31 December 2022			31 December 2021		
	Uzbek Soums	US Dollars	EURO	Uzbek Soums	US Dollars	EURO
Assets						
Cash and cash equivalents	17,5-18%	-	4-4,25%	-	-	-
Due from other banks	17,5-19%	5,85%	-	14-16%	4-6%	-
Net loans and advances	4,5-32%	1-18%	4-12%	9-30%	1-12%	-
Investment financial assets	16,7%	-	-	14%	-	-
Liabilities						
Customer accounts	12-22%	4-12%	-	11-23%	2-7,5%	-
Due to other banks	-	2-6,65%	1-4,3%	-	1,75-6,75%	-
Other borrowed funds	-	2%	-	-	2%	-

Currency risk - The Bank is exposed to currency risk, which is risk of losses due to unfavorable change of exchange rates of foreign currencies in open positions.

The Bank sets limits in respect of the assumed risk level by currencies and in general, at the end of each business day and within one business day and exercises control over their observation on a daily basis.

The general analysis of the Bank's currency risk as at reporting period is disclosed in the table below:

	31 December 2022			31 December 2021		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
US Dollars	1 005 197 493	(1 026 022 176)	(20 824 683)	810 961 464	(821 789 688)	(10 828 224)
EURO	151 635 101	(150 188 843)	1 446 258	90 876 720	(87 903 716)	2 973 004
Others	2 659 951	(1 566 509)	1 093 442	624 327	(15 442)	608 885
Total	<u>1 159 492 545</u>	<u>(1 177 777 528)</u>	<u>(18 284 983)</u>	<u>902 462 511</u>	<u>(909 708 846)</u>	<u>(7 246 335)</u>

The Bank takes on exposure to effects of fluctuations in currency exchange rates on its financial position and cash flows. The Bank also measures its foreign currency risk analysis of its net foreign currency position denominated in the same currency, and analyzes the effect of a certain percentage gain or loss in the same currency in relation to Uzbek soum in the statement of profit and loss.

In accordance with the requirements of the Central Bank of the Republic of Uzbekistan "Maintain open currency positions, the Bank calculates its open position at the end of each working day for each individual currency. Open position in foreign currencies is a currency position, in accordance with which the Bank's monetary assets in foreign currency do not meet financial obligations in foreign currency.

Compliance with the limits of open currency positions is monitored by the Bank at the consolidated level as of the end of each working day. Banks independently set limits on open currency positions for their branches and notify them in written form or electronically. It is allowed to redistribute limits between branches within one working day.

In order to limit the currency risk of Banks associated with a possible change in the exchange rate of the national currency to foreign currencies, the decision of the Board of the Central Bank of the Republic of Uzbekistan establishes limits for Banks of open currency positions on:

each type of foreign currency;

the total value of open currency positions;

the total value of all short currency positions;

the total value of all long currency positions.

Exceeding the established limits of open currency positions cannot be transferred by the bank to the next working day. If the established limits of open currency positions are exceeded, the bank must make the necessary balancing transactions (for example, the sale of foreign currency) before the end of the current day in order to reduce open currency positions to the established limits.

The table below shows the change in the financial result as a result of possible fluctuations of exchange rates used at the end of the reporting period, with all other variables characteristics remain unchanged:

	31 December <u>2022</u>	31 December <u>2021</u>
Strengthening of US dollar by 3,58% (in 2021: 3,44%)	(745 524)	(372 491)
Weakening of US dollar by 3,58% (in 2021: 3,44%)	745 524	372 491
Strengthening of Euro by 3,58% (in 2021: 3,44%)	51 776	102 271
Weakening of Euro by 3,58% (in 2021: 3,44%)	(51 776)	(102 271)

26. Capital management

The Bank manages its capital in order to comply with the requirement of regulatory capital set by the Central Bank of the Republic of Uzbekistan and ensure the continued operation as a going concern, maximizing profit of the shareholder, by optimizing the ratio of borrowed funds and own capital.

Monitoring the implementation of the capital adequacy ratio set by the Central Bank of the Republic of Uzbekistan, is carried out through monthly reports that contain corresponding calculations that are verified and initialed by the Chairman of the Board and Chief accountant.

The Bank is also obliged to comply with the requirements for minimum capital level, including capital adequacy calculated on the basis of the requirements of the Basel capital accord, as defined in the International convergence of capital assessment and capital standards (adopted in July 1988, revised in November 2005).

The basic documents of the Basel Committee are:

Core principles for effective supervision (1997, revised in 2006).

Basel I (introduced in 1988), according to which the Bank's capital for regulatory purposes should be subdivided into two categories – the capital of the first level and second level, all the assets of the Bank for regulatory purposes are divided into 5 Banks depending on the degree of risk.

Basel II (adopted 26 June 2004). The approach of Basel II is based on three components: minimum capital requirements (the Basel I), the procedures of supervision and market discipline. Thus, existed since the adoption of the Basel I method for calculation of minimum capital adequacy, which has already proven its effectiveness, was supplemented by a system of supervision and interaction between banks and supervisors, as well as a wide disclosure system.

Basel III (adopted in December 2010), standards which is planned to be introduced from 2013 to 2018. The key changes of Basel III compared to Basel II, included in the calculation of capital of banks, in prudential capital requirements, prudential liquidity requirements. Basel III also introduces additional capital buffers: conservation buffer (capital buffer of 2.5% of risk value which is outside the period of stress must be supported by the Bank) and a countercyclical buffer.

The third part of the Basel accords was developed in response to deficiencies in financial regulation exposed by the financial crisis of late 2000. The main purpose of Basel III is to improve the quality of risk management in banking activity, which, in turn, should strengthen the stability of the financial system as a whole.

The transition to Basel III is scheduled for the period covering from 2012 to 2019.

On 31 December 2022, the capital adequacy ratio of the Bank calculated with an allowance for risk based on the methodology adopted in the international practice, in accordance with the provisions of the Basel accord issued in 1988, with subsequent amendments and additions amounted to 21.9% (in 2021: 18.1%).

Requirements of capital adequacy established by the regulations of the Central Bank of the Republic of Uzbekistan "On requirements to capital adequacy of commercial banks" registered by Ministry of Justice of the Republic of Uzbekistan No. 2693 dated 06 July 2015. Under this regulation, commercial banks must comply with the following requirements:

a) According to the Resolution of the President of the Republic of Uzbekistan dated from 12 September 2017 No. ПП-3270 "On measures for further development and improvement of the stability of the banking system of the Republic", all commercial banks by January 1, 2019 should ensure minimal size of the Authorized capital to 100 billion UZS (at the end of 2018 up to 100 billion UZS).

b) The minimum amount of Tier-1 capital of bank shall not be less than the minimum size of authorized capital (in 2018, respectively, not less than the minimum size of authorized capital). Thus, to determine the size of the Tier-1 capital of bank the equivalent in national currency of the minimum size of the authorized capital of the Bank is determined by the currency exchange rate established by the Central Bank of the Republic of Uzbekistan for the purpose of accounting, statistical and other reporting of currency transactions on the last day of the reporting month.

c) Tier-1 capital should be 75% or more of the regulatory capital (in 2018 respectively 75% and more from regulatory capital. In case of excess of tier- 2 capital above the tier-1 capital more than 1/3 part of tier-1, the excess amount in the calculation of capital will not be accepted.

According to the Order of the Board of Central Bank of Uzbekistan No. 14/3 dated from 13 June 2015, were approved new Provision on requirements to capital adequacy of commercial banks, under this regulation, commercial banks shall comply with the following requirements:

Since 1 September 2015 total amount of assets, weighted with the account of risk (total amount of asset risk), would be calculated as follows:

Total amount of assets risk = Amount of assets and off-balance sheet assets weighted by risk, and less deductions + Amount of operating risks + Amount of market risks;

Operating risks = 10 X (Average amount of gross income for last three years X 15%);

Market risks = 10 X (Total amount of foreign currency net positions X 10%);

Gross income = (interest income - interest expenses) + other income.

Relation of regulative capital to total assets, weighted by risk, should not be less than 13.0 %. Adequacy ratio of the regulative capital K1 is calculated as follows:

K1 = Market risk / Total amount of assets. From 1 January 2019, Minimal level of K1 would be settled as 13.0 %.

Since 1 January 2019, the banks should support the minimal level of K1 as 13.0 %, by conservation buffer of capital at the level of 3.0 % from weighted assets risks. Capital conservation buffer presents additional reserve at the level of 3.0 % from assets, weighted by risks. The aim of such reserves – it is guarantee of that the banks would be support reserve capital, which could be used for amortization of losses in the period of financial and economical stresses.

Adequacy ratio of Tier-1 capital is determined as K2 = Tier-1 capital /Total amount of assets risk. From 1 January 2019, minimal level of K2 equals to 10.0 %.

Since 1 January 2019, the banks should support the minimal level of K2 as 10.0 %, by conservation buffer of capital at the level of 3.0 % from weighted assets risks.

Below table presents calculation of the Bank's capital based on Basel Capital Accord:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Paid-in full shares	305 303 965	269 708 810
Reserve Capital	26 704 966	24 732 936
Retained earnings / (uncovered loss)	(459 679)	(17 246 440)
Intangible assets	(14 295 413)	(1 892 544)
Investment in the capital of unconsolidated business entity	(77 000)	(77 000)
Adjusted Tier- 1 capital	<u>317 176 839</u>	<u>275 225 762</u>
Profit for current year	68 299 090	45 327 377
Other capital instruments	3 156 450	10 900 000
Deductions for excess tier 2 capital over tier 1 capital	-	-
Adjusted total amount of capital, based on risk	<u>388 632 379</u>	<u>331 453 139</u>
Adjusted total assets, weighted by risk, of which:	<u>1 773 937 835</u>	<u>1 831 685 693</u>
- amount of assets and off-balance sheet assets weighted by risk	1 633 998 485	1 783 100 557
- operating risk	122 193 974	44 099 223
- market risk	17 745 376	4 485 913
Tier-1 capital adequacy ratio	17,9%	15,0%
Capital adequacy ratio	21,9%	18,1%

Normative is calculated in line with the rules formed by Basel Capital Accord using with the following risk estimates for assets less provision for impairment:

Description of position	Estimates
Cash and cash equivalents	0% - 100%
Due from CBU	0% - 20%
Due from other banks	20% - 100%
Loans and leases to customers	0% - 200%
Investment financial assets	0%
Fixed assets used in the banking activity	100%
Other assets	100%
Loan commitments for less than a year	100%

27. Contingent liabilities

Credit related commitments – The primary purpose of these instruments is to ensure that funds are available to customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to the third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer to make payments within conventional amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Loan commitments include the unused portion of amounts approved by management to provide loans in the form of loans, guarantees, or letters of credit. With respect to loan commitments, the Bank is potentially exposed to the risk of losses equal to the total amount of unused liabilities if the unused amounts were to be used. However, the likely amount of losses is less than the total amount of unused liabilities, since most of the loan commitments depend on customers' compliance with certain credit requirements. The Bank controls the remaining period until the repayment of credit-related obligations, as usually longer-term obligations have a higher level of credit risk than short-term obligations. The Bank reflects provisions for credit-related obligations if there is a high probability of losses arising from these obligations. Credit related commitments are:

	<u>31 December</u> <u>2022</u>	<u>31 December</u> <u>2021</u>
Guarantees issued	101 447 318	69 088 954
Letters of credit	2 214 873	99 629 600
Unused credit lines	684 460	931 441
Provision for credit losses	(3 662 528)	(1 560 235)
Total credit related commitments	<u>100 684 123</u>	<u>168 089 760</u>

The total amount owed on unused credit lines, letters of credit and guarantees in accordance with the agreements does not necessarily represent future monetary claims, since it is possible that these obligations will expire or be cancelled without providing the borrower with funds.

Tax legislation – The tax legislation of the Republic of Uzbekistan, effective at the end of the reporting period, allows for different interpretations when applied to the operations and activities of the Bank. In this regard, the tax positions determined by the management and the official documentation justifying the tax positions may be challenged by the tax authorities. Tax administration of the Republic of Uzbekistan gradually tightened, including increased risk of audits of transactions without a clear business purpose or made with the help of contractors that do not comply with the requirements of the tax legislation. Tax periods remain open for review by the relevant tax authorities for the payment of taxes during the three calendar years preceding the year in which the decision on the conduct of the audits was made.

Existing tax legislation in principal considers tax effects operations hence legal form and order of reflection in accounting according to national accounting rules and reporting. Accordingly, the Bank can structure its operations that using the possibilities presented by tax legislation with the aim of decreasing overall effective tax rates.

In opinion of the management of the Bank, restructuring tax income and expenses that decline a tax base will not bring to decrease of accruing additional tax liabilities. Accordingly, the management of the Bank does not form a reserve on potential tax liabilities in relation to these operations.

Legal proceedings – Occasionally in the course of the Bank's current activities legal claims may arise against the Bank. In accordance with the Bank's own measurements, as well as with recommendations made by internal and external professional consultants the Management of the Bank is of the opinion that in case of emerging claims against the Bank, no material losses will be incurred and accordingly no provision for legal proceedings has been made. Currently there are no current legal proceedings or filed a complaint, which could have a material adverse effect on results of operations or financial position of the Bank.

Economic situation – The markets of developing countries, including Uzbekistan, subject to economic, social, legal and legislative risks, different from risks of developed countries. As it was happened estimated or actual financial difficulties in developing countries, economy or increasing level of estimated investments risks in these countries may negatively influence on economy and investment climate of Uzbekistan. Laws and normative acts, regulating of business in Uzbekistan still subject to changes. Existence of possible different interpretations of tax, customs and foreign currency legislations and other legal and fiscal issues the economic entities are faced while doing the business in Uzbekistan. Future trends of development of Uzbekistan in many cases depend upon economic, tax and credit policy measurements of the government passing the law and normative acts.

28. Fair value of financial instruments

Fair value is a compensatory amount at transaction with an asset or liability between well-informed and willing parties on an arm's length basis, and is best evidenced by a quoted market price of the given financial instrument

The estimated fair value of financial instruments was calculated by the Bank based on the market information (if available) and appropriate valuation methods. However, to interpret market information for the purpose of fair value definition, professional judgment should be exercised. Despite the fact that the Uzbekistan is assigned with investment grade ratings, the country economy keeps manifesting certain characteristic features inherent in developing countries, while economic conditions restrict activities on financial markets. Market quotes may be obsolete or reflect sales at low prices, and due to that, not reflect the fair value of financial instruments. In determining the fair value of financial instruments, the management makes use of all available market information.

Financial instruments carried at fair value – The changes of fair value of financial assets and liabilities of which is reflected in the statement of comprehensive income are carried at the statement of financial position at their fair value. The fair value is based on quoted market prices. In some financial assets external independent market quota is absent, fair value of these financial assets was determined by the Bank on the basis of applying other methods of estimations. Cash and cash equivalents are accounted for at amortized cost, which is approximately equal to their current fair value.

Due from other banks - By the managements' estimate, the fair value of funds held with financial institutions did not differ significantly from their respective carrying value. It is explained by the existing practice of interest rates review in order to reflect market conditions. Accordingly, most funds are deposited at rates close to market interest rates.

Financial assets held to maturity - The fair value of financial assets held to maturity is calculated on the basis of quoted market prices. The Bank estimates fair value of other financial assets, including accounts receivable from trade and business operations, as being equal to the carrying value taking into account the short-term nature of the debt.

Loans and advance to customers - The fair value of instruments with floating interest rate is usually equal to their carrying value. When market conditions change significantly, the Bank may revise interest rates on customer loans and funds with other banks invested at a fixed interest rate. As a result, interest rates on loans issued before the reporting date do not significantly differ from current interest rates on credit market for new instruments, which assume similar credit risk and have similar maturities.

In the event of the Bank's rates on loans issued earlier being significantly different from current rates as at the reporting date in respect of similar instruments, an estimated fair value of such loans is determined. The estimate is based on discounted cash flows method employing current interest rates on the credit market for new instruments with similar credit risk and similar maturity. Discount rates used depend on currency, maturity and counterparty credit risk.

Liabilities carried at amortized cost - The fair value of such liabilities is based on quoted market prices (if available). The estimated fair value of fixed interest instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("liabilities repayable on demand") is estimated as the amount payable on demand discounted from the first date that the amount could be required to be paid.

The results of measuring fair value are analyzed and distributed by level of the fair value hierarchy as follows:

- (a) 1st Level includes assessment on quoted prices (uncorrected) in active markets for identical assets or liabilities,
- (b) 2nd Level includes results that are obtained using valuation techniques in which all the significant data source, directly or indirectly, are observable for the asset or liability (e.g., price),
- (c) evaluation of 3rd Levels, which are estimates that are not based on observable market data (i.e. based on non-observable input data).

The Management of the Bank uses professional judgment for distribution of financial instruments by category of fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, this estimate refers to the third Level. The significance of inputs used is estimated for the aggregate estimate of fair value.

The table below shows an analysis of the fair value by level of the fair value hierarchy and the carrying value of assets not measured at fair value on 31 December 2022:

	1 st Level	2 ^d Level	3 rd Level	Carrying amount
Cash and cash equivalents				
- Cash funds	69 883 086	-	-	69 883 086
- Cash funds in CBU (excluding obligatory reserve fund)	-	341 526 564	-	341 526 564
- Correspondent accounts in other Banks	-	255 573 069	-	255 573 069
- Deposits with other banks with maturity less than 90 days	-	139 046 462	-	139 046 462
Due from other banks				
- Obligatory reserve deposits with the Central Bank of Uzbekistan	-	30 097 142	-	30 097 142
- Receivables from other banks – deposits with maturity over three months	-	62 995 599	-	62 995 599
Loans and advances to customers				
- Loans to legal entities	-	-	1 027 096 447	1 027 096 447
- Loans to individuals and private entrepreneurs	-	-	47 511 048	47 511 048
Other financial assets				
- Commission income receivable	-	-	17 010	17 010
- Incomplete settlements on bank cards	-	-	908 153	908 153
Total	<u>69 883 086</u>	<u>829 238 836</u>	<u>1 075 532 658</u>	<u>1 974 654 580</u>

The table below shows an analysis of the fair value by level of the fair value hierarchy and the carrying value of assets not measured at fair value on 31 December 2021:

	1 st Level	2 ^d Level	3 rd Level	Carrying amount
Cash and cash equivalents				
- Cash funds	44 805 725	-	-	44 805 725
- Cash funds in CBU (excluding obligatory reserve fund)	-	104 389 935	-	104 389 935
- Correspondent accounts in other Banks	-	137 373 652	-	137 373 652
- Deposits with other banks with maturity less than 90 days	-	49 875 894	-	49 875 894
Due from other banks				
- Obligatory reserve deposits with the Central Bank of Uzbekistan	-	23 270 415	-	23 270 415
- Receivables from other banks – deposits with maturity over three months	-	292 225 205	-	292 225 205
Loans and advances to customers				
- Loans to legal entities	-	-	816 680 876	816 680 876
- Loans to individuals and private entrepreneurs	-	-	33 849 197	33 849 197
Other financial assets				
- Commission income receivable	-	-	23 638	23 638
- Incomplete settlements on bank cards	-	-	707 964	707 964
- Settlements by money transfer system	-	-	281 386	281 386
Total	<u>44 805 725</u>	<u>607 135 101</u>	<u>851 543 061</u>	<u>1 503 483 887</u>

The table below shows an analysis of the fair value by level of the fair value hierarchy and the carrying value of liabilities not measured at fair value on 31 December 2022:

	1 st Level	2 ^d Level	3 rd Level	Carrying amount
Customer accounts				
- Current and bank accounts of legal entities	-	499 673 044	-	499 673 044
- Deposit accounts of legal entities	-	-	131 486 306	131 486 306
- Current accounts and accounts on demand of individuals and private entrepreneurs	-	80 771 915	-	80 771 915
- Deposit accounts of individuals and private entrepreneurs	-	-	602 572 178	602 572 178
Due to other banks				
- Deposits of other banks	147 653 722	-	-	147 653 722
- Due to other banks on interbank payments	-	14 681 279	-	14 681 279
- Long-term loans payable to other banks	-	160 581 483	-	160 581 483
Other borrowed funds				
- Short-term loans payable to the government	-	-	8 240 652	8 240 652
Other financial liabilities				
- Arrears due for goods and services	-	-	8 853 138	8 853 138
- Settlements with employees	-	-	2 249 957	2 249 957
Total	<u>147 653 722</u>	<u>755 707 721</u>	<u>753 402 231</u>	<u>1 656 763 674</u>

The table below shows an analysis of the fair value by level of the fair value hierarchy and the carrying value of liabilities not measured at fair value on 31 December 2021:

	1 st Level	2 ^d Level	3 rd Level	Carrying amount
Customer accounts				
- Current and bank accounts of legal entities	-	458 567 390	-	458 567 390
- Deposit accounts of legal entities	-	-	39 279 840	39 279 840
- Current accounts and accounts on demand of individuals and private entrepreneurs	-	51 563 490	-	51 563 490
- Deposit accounts of individuals and private entrepreneurs	-	-	442 108 342	442 108 342
Due to other banks				
- Deposits of other banks	179 165 629	-	-	179 165 629
- Due to other banks on interbank payments	-	35 834 880	-	35 834 880
- Long-term loans payable to other banks	-	19 744 887	-	19 744 887
Other borrowed funds				
- Short-term loans payable to the government	-	-	2 890 043	2 890 042
Other financial liabilities				
- Arrears due for goods and services	-	-	6 267 833	6 267 833
- Settlements with employees	-	-	1 576 923	1 576 923
- Settlements on money transfer systems	-	-	54 188	54 188
Total	<u>179 165 629</u>	<u>565 710 647</u>	<u>492 177 169</u>	<u>1 237 053 445</u>

The estimated fair value of second Level and third Level of the fair value hierarchy was performed using the method of discounted cash flows. The fair value of instruments with a fixed interest rate that are not quoted in an active market is based on the method of discounted cash flows using current interest rates on the loan market for new instruments with similar credit risk and remaining maturity.

The Bank used assumptions about the marginal rate on borrowed capital and rates of prepayment of the counterparty for assets. Liabilities are discounted at the incremental rate on the Bank loan capital. Liabilities those are redeemable on demand, discounted, starting from the first day of a potential claim for repayment of the obligations by the Bank.

29. Related party transactions

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial and operational decisions, as defined by IFRS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. In opinion of the Management, related parties can count last beneficiary, main shareholders of the Bank, major management of the Bank.

The related party transactions operations included payments, loan arrangements, and attraction of deposits, guarantees and operations with foreign currency. In accordance with Bank policies, all of the party's operations realized with terms as other parties' transactions.

The table below shows the balances of transactions with related parties as at 31 December 2022:

	Key management personnel	Head company	Other related parties	Total
Cash and cash equivalents	-	460 413	726 462	1 186 875
Net loans and advances to customers	125 249	-	-	125 249
Customer accounts	1 309 272	-	-	1 309 272
Due to other banks	-	33 955 889	211 299 077	245 254 966

The table below shows items of income and expenses for related party transactions for 2022:

	Key management personnel	Head company	Other related parties	Total
Interest income calculated at the effective interest rate	17 669	326 005	-	343 674
Interest expense calculated at the effective interest rate	-	(2 050 447)	(8 302 015)	(10 352 462)
Administrative expenses	(4 106 431)	-	-	(4 106 431)
Amount of remuneration to members of the Supervisory Board	(549 700)	-	-	(549 700)

The table below shows the balances of transactions with related parties as at 31 December 2021:

	Key management personnel	Head company	Other related parties	Total
Cash and cash equivalents	-	556 915	-	556 915
Net loans and advances to customers	-	-	936 614	936 614
Due to other banks	-	179 165 982	-	179 165 982
Credit related commitments	-	1 058 795	-	1 058 795

The table below shows items of income and expenses for related party transactions for 2021:

	Key management personnel	Head company	Other related parties	Total
Interest income calculated at the effective interest rate	-	-	155 007	155 007
Interest expense calculated at the effective interest rate	-	(5 054 740)	-	(5 054 740)
Administrative expenses	-	-	(4 066 300)	(4 066 300)

30. Events after the reporting period

In the period between the reporting date and the date of signing of these financial statements, there were no events that had a significant impact on the financial condition of the Bank.