KAPITALBANK

Joint-Stock Commercial Bank “Kapitalbank”

Consolidated financial statements

For the year ended 31 December 2022 with independent auditor’s report

CONTENTS

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Independent auditor's report

To the Shareholders and Supervisory Board of Joint-Stock Commercial Bank Kapitalbank

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Joint-Stock Commercial Bank Kapitalbank (hereinafter, the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other matter

The consolidated financial statements of Joint-Stock Commercial Bank Kapitalbank for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 30 April 2022.

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Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on loans to customers	
Estimation of allowance for expected credit losses on loans to customers in accordance with IFRS 9 *Financial Instruments* is a key area of the Group's management judgement. Identification of factors of significant increase in credit risk since initial recognition of an asset, determination of probability of default and loss given at default rates require significant use of professional judgment, assumptions and analysis of various historical, current and forward-looking information. The use of different models and assumptions may significantly affect the amount of allowance for expected credit losses on loans to customers. Due to the substantial amount of loans to customers, which in aggregate equal to 58% of the Group's total assets as at 31 December 2022 and the significant use of professional judgment, estimation of allowance for expected credit losses was a key audit matter. Information on expected credit losses on loans to customers and the Group's management approach to estimation of allowance for expected credit losses is presented in *Note 4 Significant accounting judgements and estimates*, *Note 7 Loans to customers* and *Note 27 Risk management* to the consolidated financial statements.	Our audit procedures included analysis of the methodology for estimation of expected credit losses on loans to customers. We also performed analysis and testing of controls on identification of factors of significant increase in credit risk since initial recognition of an asset, including the period during which the debt is overdue and debt restricting related to deterioration in credit quality. We analyzed the judgements used by the Group's management in determining significant increase in credit risk and default criteria. As a part of our audit procedures we performed, on a sample basis, testing of input data and analysis of assumptions used by the Group in estimating the allowance for expected credit losses on loans to customers on a collective basis, which comprise statistical data on debt servicing and expected recoveries in the event of default. We also performed analysis of forward-looking information, used by the Group in its expected credit loss model. In respect of an individual assessment of allowance for expected credit losses we analyzed, on a sample basis, financial and non-financial information on borrowers, as well as the scenarios used by the Group in assessing the recoverable amount from repossession of collateral in the event of default. We have recalculated the allowance for expected credit losses and compared to the Group's amounts disclosed in the consolidated financial statements. We have analyzed the information on allowance for expected credit losses on loans to customers disclosed in the Notes to the consolidated financial statements.

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Responsibilities of management and Supervisory Board for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

Report on findings from procedures performed in accordance with the requirements of Law No. ZRU-580 dated 5 November 2019 On Banks and Banking Activity

Management is responsible for the Bank's compliance with prudential ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Central Bank of the Republic of Uzbekistan.

In accordance with Article 74 of Law No. ZRU-580 dated 5 November 2019 *On Banks and Banking Activity* (the "Law"), we have performed procedures to determine:

- whether as at 31 December 2022 the Bank complied with prudential ratios established by the Central Bank of the Republic of Uzbekistan;
- whether the elements of the Bank's internal control and organization of its risk management systems comply with the requirements established by the Central Bank of the Republic of Uzbekistan.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Central Bank of the Republic of Uzbekistan, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

Based on our procedures with respect to the Bank's compliance with the prudential ratios established by the Central Bank of the Republic of Uzbekistan, we found that the Bank's prudential ratios, as at 31 December 2022, were within the limits established by the Central Bank of the Republic of Uzbekistan.

We have not performed any procedures on the accounting records maintained by the Bank, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS.

Based on our procedures with respect to the compliance of the elements of the Bank's internal control and organization of its risk management systems with the requirements established by the Central Bank of the Republic of Uzbekistan, we found that:

- as at 31 December 2022, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks;
- the frequency of reports prepared by the Bank's internal audit function during 2022 was in compliance with the requirements of the Central Bank of the Republic of Uzbekistan. The reports were approved by the Supervisory Board and included observations made by the Bank's internal audit function in respect of internal control systems;
- as at 31 December 2022, the Bank established the Department of Information Security, and the information security policy was approved by the Bank's Supervisory Board. The Department of Information Security was subordinated to and reported directly to the Chairman of the Management Board;
- reports by the Bank's Department of Information Security to the Chairman of the Management Board during 2022 included assessment and analysis of information security risks and results of actions to manage such risks;
- the Bank's internal documentation, effective on 31 December 2022, establishing the procedures and methodologies for identifying and managing credit risk, market risk, liquidity risk, operational risk, country risk (hereinafter "significant risks"), and for stress-testing, was approved by the authorised management bodies of the Bank;
- as at 31 December 2022, the Bank maintained a system for reporting on the Bank's significant risks, and on the Bank's capital;
- the frequency of reports prepared by the Bank's Risk Management Department during 2022, which cover the Bank's significant risks management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's Risk Management Department as to its assessment of the Bank's significant risks and risk management system, and recommendations for improvement;
- as at 31 December 2022, the Supervisory Board of the Bank and its executive management bodies had responsibility for monitoring the Bank's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Bank's risk management procedures and their consistent application during 2022, the Supervisory Board of the Bank and its executive management bodies periodically discussed the reports prepared by the Risk Management Department, and considered the proposed corrective actions.

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Procedures with respect to elements of the Bank's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Law and as described above, comply with the requirements established by the Central Bank of the Republic of Uzbekistan.

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

Olga Khegay
Audit Partner

A. Azamov

Anvarkhon Azamov
Qualified Auditor

Auditor qualification certificate authorizing audit of banks #25 dated 29 March 2023 issued by the Central Bank of the Republic of Uzbekistan

FE "Ernst & Young" Audit Organization LLC

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

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHAR
MAS'ULIYATI CHEKLANGAN JAMIYAT SHAKLIDAGI AUDITORLIK TASHKILOTI
ERNST & YOUNG

Nataliya Kim
General Director

Auditor qualification certificate authorizing audit of banks #11/7 dated 5 November 2018 issued by the Central Bank of the Republic of Uzbekistan

Address: Tashkent, Uzbekistan
12 May 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(in millions of UZS)

	Note	31 December 2022	31 December 2021*	31 December 2020*
Assets				
Cash and cash equivalents	5	**6,310,028**	3,978,665	1,396,369
Amounts due from credit institutions	6	**1,726,032**	897,712	184,772
Loans to customers	7	**16,516,765**	8,051,816	4,679,974
Investment securities	8	**2,711,914**	1,430,590	187,345
Assets held for sale	9	**23,036**	41,258	4,328
Property and equipment and right-of-use assets	10	**846,330**	647,052	637,523
Intangible assets	11	**104,533**	106,856	76,346
Current income tax assets	12	**23,522**	10,082	11,069
Deferred income tax assets	12	**48,281**	18,104	12,598
Other assets	13	**286,153**	33,525	20,099
Total assets		**28,596,594**	15,215,660	7,210,423
Liabilities				
Amounts due to credit institutions	14	**224,437**	56,370	190,945
Derivative financial liabilities		**16,459**	–	–
Amounts due to customers	15	**25,055,556**	13,222,736	5,953,506
Other borrowed funds	16	**634,942**	504,292	307,391
Other liabilities	17	**211,153**	60,054	15,180
Total liabilities		**26,142,547**	13,843,452	6,467,022
Equity				
Share capital	18	**406,017**	374,680	172,570
Additional paid-in capital	18	**349,727**	272,220	57,312
Revaluation reserve for property and equipment	18	**81,001**	18,803	19,212
Retained earnings		**1,617,302**	706,505	494,307
Total equity		**2,454,047**	1,372,208	743,401
Total liabilities and equity		**28,596,594**	15,215,660	7,210,423

* *Certain amounts given in this column are not consistent with the consolidated financial statements as at 31 December 2021 and 31 December 2020 as they reflect the reclassifications made disclosed in Note 2.*

Approved and signed on behalf of the Group's Management:

Mayevskiy K.L.
Chairman of the Management Board of the Bank

Seal

Allayorova D.N.
Chief Accountant of the Bank

28 April 2023

The accompanying notes on pages 6 to 58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

(in millions of UZS)

	Note	*2022*	*2021*
Interest income calculated using the effective interest rate	19	**2,427,306**	1,112,984
Other interest income		**–**	1,083
Interest expense	19	**(1,076,274)**	(501,247)
Net interest income		**1,351,032**	612,820
Charge for expected credit losses	20	**(260,339)**	(89,151)
Net interest income after credit loss expense		**1,090,693**	523,669
Fee and commission income	21	**909,087**	403,765
Fee and commission expense	21	**(524,081)**	(147,853)
Net gains from foreign currencies	22	**588,634**	139,724
Net losses on initial recognition of financial assets measured at amortized cost		**(33,329)**	–
Other income		**17,284**	9,201
Personnel and other operating expenses	23	**(890,225)**	(466,943)
Other impairment and provisions		**188**	(22,736)
Profit before income tax expense		**1,158,251**	438,827
Income tax expense	12	**(214,585)**	(74,328)
Net profit for the year		**943,666**	364,499
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of buildings	18	**78,461**	–
Income tax relating to components of other comprehensive income	18	**(15,692)**	–
Other comprehensive income for the year, net of tax		**62,769**	–
Total comprehensive income for the year		**1,006,435**	364,499

Approved and signed on behalf of the Group's Management:

Mayevskiy K.L.
Chairman of the Management Board of the Bank

Seal

Allayorova D.N.
Chief Accountant of the Bank

28 April 2023

The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(in millions of UZS)

	Note	*Share capital*	*Additional paid-in capital*	*Revaluation reserve for property and equipment*	*Retained earnings*	*Total equity*
As at 1 January 2021		172,570	57,312	19,212	494,307	743,401
Profit for the year		–	–	–	364,499	364,499
Other comprehensive income for the year		–	–	–	–	–
Total comprehensive income for the year		–	–	–	364,499	364,499
Increase in share capital	18	202,110	214,908	–	–	417,018
Dividends declared to shareholders of the Bank	18	–	–	–	(152,710)	(152,710)
Depreciation of revaluation reserve for property and equipment		–	–	(409)	409	–
As at 31 December 2021		**374,680**	**272,220**	**18,803**	**706,505**	**1,372,208**
Profit for the year		**–**	**–**	**–**	**943,666**	**943,666**
Other comprehensive income for the year		**–**	**–**	**62,769**	**–**	**62,769**
Total comprehensive income for the year		**–**	**–**	**62,769**	**943,666**	**1,006,435**
Increase in share capital	18	**31,337**	**77,507**	**–**	**–**	**108,844**
Dividends declared to shareholders of the Bank	18	**–**	**–**	**–**	**(33,440)**	**(33,440)**
Depreciation of revaluation reserve for property and equipment		**–**	**–**	**(571)**	**571**	**–**
As at 31 December 2022		**406,017**	**349,727**	**81,001**	**1,617,302**	**2,454,047**

Approved and signed on behalf of the Group's Management:

Mayevskiy K.L.
Chairman of the Management Board of the Bank

Seal

Allayorova D.N
Chief Accountant of the Bank

28 April 2023

The accompanying notes on pages 6 to 58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(in millions of UZS)

	Note	*2022*	*2021**
Cash flows from operating activities			
Interest received		2,238,173	1,071,118
Interest paid		(1,103,542)	(505,347)
Fees and commissions received		909,017	398,612
Fees and commissions paid		(524,081)	(135,092)
Realised gains less losses from foreign currencies	22	680,584	150,049
Compensation of currency risk	22	23,651	–
Other income received		19,638	9,201
Personnel expenses paid		(420,610)	(237,531)
Other operating expenses paid		(291,028)	(143,214)
Cash flows from operating activities before changes in operating assets and liabilities		1,531,802	607,796
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(789,311)	(712,797)
Loans to customers		(8,518,226)	(3,441,766)
Assets held for sale		–	4,328
Other assets		(170,559)	(9,234)
Net increase/(decrease) in operating liabilities			
Amounts due credit institutions		175,464	(142,514)
Amounts due to customers		11,556,674	7,224,515
Other liabilities		(15,334)	18,068
Net cash flows from operating activities before income tax		3,770,510	3,548,396
Income tax paid		(273,894)	(80,201)
Net cash flow from operating activities		3,496,616	3,468,195
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(190,197)	(142,417)
Proceeds from sale of property and equipment		–	33,119
Purchase of investment securities		(2,671,408)	(1,430,264)
Proceeds from redemption of investment securities		1,456,589	183,000
Net cash flows used in investing activities		(1,405,016)	(1,356,562)

The accompanying notes on pages 6 to 58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(in millions of UZS)

	Note	*2022*	*2021**
Cash flows from financing activities			
Proceeds from other borrowed funds	30	**165,472**	194,738
Repayment of other borrowed funds	30	**(57,296)**	(3,177)
Lease payments		**(1,283)**	–
Proceeds from increase in share capital	18	**108,844**	417,018
Dividends paid to shareholders of the Bank	18	**(33,440)**	(152,710)
Net cash flow from financing activities		**182,297**	455,869
Effect of expected credit losses on cash and cash equivalents	20	**(3,323)**	176
Effect of exchange rates changes on cash and cash equivalents		**60,789**	14,618
Net increase in cash and cash equivalents		**2,331,363**	2,582,296
Cash and cash equivalents, beginning		**3,978,665**	1,396,369
Cash and cash equivalents, ending	**5**	**6,310,028**	3,978,665

* *Certain amounts given in this column are not consistent with the consolidated financial statements as at 31 December 2021 as they reflect the reclassifications made disclosed in Note 2.*

Approved and signed on behalf of the Group's Management:

Mayevskiy K.L.
Chairman of the Management Board of the Bank

Seal

Allayorova D.N.
Chief Accountant of the Bank

28 April 2023

The accompanying notes on pages 6 to 58 form an integral part of these consolidated financial statements.

(in millions of UZS)

1. Introduction

These consolidated financial statements of Joint-Stock Commercial Bank "Kapitalbank" (hereinafter, the "Bank") and its subsidiary (together, the "Group") have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") for the year ended 31 December 2022.

The Bank was established in the city of Tashkent, the Republic of Uzbekistan on 15 May 2000 in the form of a Private Open Joint-Stock Commercial Bank in accordance with the legislation of the Republic of Uzbekistan.

The Bank is registered in the Republic of Uzbekistan to carry out banking activities in accordance with the updated banking license No. 69 dated 25 December 2021, issued by the Central Bank of the Republic of Uzbekistan (hereinafter, the "CBU").

Principal activities

The main activity of the Bank is to carry out commercial banking operations, transactions with securities, foreign currency, provision of loans and guarantees. The Bank accepts deposits from the public and issues loans, makes payments on the territory of the Republic of Uzbekistan and abroad, and also provides other banking services to legal entities and individuals.

As at 31 December 2022, the Bank carries out banking activities through its Head Office and has 16 branches, 3 bank services centres, 60 bank services offices, as well as 24 mini-banks in the Republic of Uzbekistan (2021: 16 branches, 3 bank services centres, 7 bank services offices and 23 mini-banks).

The legal and actual address of the Bank's Head Office is: 7 Sayilgoh Street, 100047, Tashkent city, Republic of Uzbekistan.

The total number of the Bank's personnel as at 31 December 2022 was 2,495 employees (2021: 1,664 employees).

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

Share (%)	*31 December 2022*	*31 December 2021*
Legal entities		
Finance TCI LLC	67.87	–
Continent Insurance LLC	32.13	16.19
Telecominvest LLC (Russia)	–	18.54
Other shareholders	–	3.30
Total legal entities	100.00	38.03
Individuals		
Tursunov Oybek Batirovich	–	46.35
Abdusamadov Maxsud Abduvalievich	–	8.04
Abdusamadov Ravshan Abduvalievich	–	7.58
Total individuals	–	61.97
Total	100.00	100.00

The parent company of Finance TCI LLC is DJUZUM SPV LTD. The ultimate controlling beneficiary of DJUZUM SPV LTD is Djumaev Djasur Khurshidovich. The major shareholders of Continent Insurance LLC are Abdusamadov Maxsud Abduvalievich and Abdusamadov Ravshan Abduvalievich.

As at 31 December 2021, the Bank had no ultimate controlling party.

Subsidiary

As at 31 December 2022, the consolidated financial statements of the Group comprise the Bank and its subsidiary:

Name	*Country of incorporation*	*The Bank's share as at 31 December 2022, %*	*The Bank's share as at 31 December 2021, %*	*Business activity*
Uzum Bank JSC (formerly, Bank Apelsin JSC)	Uzbekistan	100	100	Banking

(in millions of UZS)

1. Introduction (continued)

Subsidiary (continued)

In 2021, the Bank established a subsidiary, Bank Apelsin JSC. On 1 November 2021, the subsidiary received a banking license from the CBU under No. 88 for carrying out banking activities. The authorized share capital of Bank Apelsin JSC equals UZS 100,000 million and, as at 31 December 2022, the authorized capital was fully formed. In 2022, the subsidiary was renamed to Uzum Bank JSC.

Operating environment

Impact of the COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak to be a pandemic. In recent months, the COVID-19 pandemic has shown considerable signs of easing as, on the whole, travel bans have been lifted, lockdowns ended and quarantine measures eased. Many governments have also ended or announced curtailment of measures to provide financial and non-financial assistance to affected entities. Nevertheless, COVID-19 may continue to affect companies and economies, and entities may still be dealing with lost revenue, disrupted supply chains and loss of jobs.

Geopolitical environment

As a result of the conflict between the Russian Federation and Ukraine many countries have imposed, and continue to impose, new sanctions on specified Russian entities and individuals. Sanctions have also been imposed on Republic of Belarus.

Volatility in stock and currency markets, restrictions to imports and exports, availability of local materials and services and access to local resources, will directly impact entities that have significant operations or exposures with the Russian Federation, Republic of Belarus or Ukraine. However, the consequence of the current situation may directly or indirectly impact entities other than those with direct interests in the involved in conflict countries.

In order to manage country risk, the Company controls transactions with counterparties within the limits set by the collegiate body of the Company, which are reviewed on a regular basis.

As at 31 December 2022, the concentration of amounts receivable from Russian counterparties represented by cash and cash equivalents and amounts due from credit institutions was UZS 257,855 million (as at 31 December 2021: UZS 31,062 million), including on the accounts of counterparties included in the sanctions lists of the United States, the European Union and the United Kingdom, in the amount of UZS 682 million (as at 31 December 2021: nil). In 2023, certain Russian counterparties were included in the US sanctions lists, with the claims represented by cash and cash equivalents and amounts due from credit institutions amounted to UZS 200,489 million as at 31 December 2022.

Inflation and current economic conditions

The impact of the macroeconomic and geopolitical environment has exacerbated inflationary pressures in almost all economies around the world. High and rising energy prices are having a negative impact on the cost of other goods and services, resulting in significant consumer-price increases in many countries. Prices for many goods remain high. In 2022, inflation in the Republic of Uzbekistan amounted to 12.3%, according to the CBU.

The Group continues to assess the effect of these events and changes in economic conditions on its operations. Current inflationary pressures, macroeconomic and geopolitical uncertainty, including the impacts of the conflict in Ukraine, and the residual impacts of the COVID-19 pandemic affect the assumptions and estimation uncertainty associated with the measurement of assets and liabilities.

2. Basis of preparation

General

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

The consolidated financial statements have been prepared in accordance with the historical cost accounting principle, except as noted in the "Summary of significant accounting policies" section. For example, derivative financial instruments and buildings were measured at fair value.

These consolidated financial statements are presented in millions of Uzbek soums (UZS), except for data per share or unless otherwise indicated.

(in millions of UZS)

2. Basis of preparation (continued)

General (continued)

Going concern

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

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future.

In order to maintain the required level of liquidity, the Group is able to attract additional funds in the interbank lending market. Diversification of liquidity sources helps to minimize the Group's dependence on one source and ensure complete fulfilment of its obligations. The Group's accumulated current liquidity reserves and the available sources of additional funds allow the Group to continue to operate continuously in the long term.

Reclassifications

The disclosures for 2021 and 2020 were amended to comply with the 2022 presentation as follows.

Consolidated statement of financial position as at 31 December 2021	As previously reported	Amount of reclassification	Adjusted amount
Investment financial assets	107	(107)	–
Other assets	33,418	107	33,525
Total assets	15,215,660	–	15,215,660
Amounts due to customers	13,562,256	(339,520)	13,222,736
Other borrowed funds	164,772	339,520	504,292
Total liabilities	13,843,452	–	13,843,452

Consolidated statement of financial position As at 31 December 2020	As previously reported	Amount of reclassification	Adjusted amount
Investment financial assets	70	(70)	–
Other assets	20,029	70	20,099
Total assets	7,210,423	–	7,210,423
Amounts due to customers	6,144,553	(191,047)	5,953,506
Other borrowed funds	116,344	191,047	307,391
Total liabilities	6,467,022	–	6,467,022

Consolidated statement of cash flows for the year ended 31 December 2021	As previously reported	Amount of reclassification	Adjusted amount
Amounts due to customers	7,372,049	(147,534)	7,224,515
Net cash flow from operating activities	3,615,729	(147,534)	3,468,195
Proceeds from other borrowed funds	47,204	147,534	194,738
Net cash flow from financing activities	308,335	147,534	455,869

(in millions of UZS)

2. Basis of preparation (continued)

Reclassifications (continued)

In 2022, the Group revised its approach to classifying funds of non-banking organizations raised for further financing of end borrowers. As a result, the Group reclassified amounts due to customers in the amount of UZS 339,520 million to other borrowed funds in the consolidated statement of financial position.

These reclassifications did not have any impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

3. Summary of significant accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 37 – Onerous Contracts - Costs of Fulfilling a Contract

An onerous contract is a contract in which the unavoidable costs of meeting the obligations (i.e., costs that the Group cannot avoid because it is bound by the contract) exceed the economic benefits expected to be received under it. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments did not have any impact on the Group's financial statements, as the Group did not have any onerous contracts subject to the amendments during the reporting period.

Amendments to IFRS 3 Reference to the Conceptual Framework

The amendments replace a reference to the previous version of the IFRS Conceptual Framework with a reference to the latest version issued in March 2018, without making significant changes to the requirements of the standard. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to determine whether a present obligation exists at the acquisition date by applying the criteria in IAS 37 or IFRIC 21, respectively, rather than applying the Conceptual Framework.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments did not have any impact on the Group's financial statements as the Group did not have any contingent assets, liabilities or contingent liabilities subject to the amendments during the reporting period.

Amendments to IAS 16 – Property, Plant and Equipment — Proceeds before Intended Use

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the Group's financial statements because the Group did not sell such items produced in the process of bringing property, plant, and equipment to a condition that has been suitable for use since the beginning of the earliest period recorded.

IFRS 1 First-time Adoption of International Financial Reporting Standards – a subsidiary adopting International Financial Reporting Standards for the first time

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS, if no adjustments have been made for the purposes of consolidation and reflection of the results of business combination, under which the parent acquired the specified subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. This amendment also applies to associates or joint ventures that elect to apply the provisions of paragraph D16(a) of IFRS 1.

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards – a subsidiary adopting International Financial Reporting Standards for the first time (continued)

These amendments had no impact on the Group's financial statements as the Group is not the first-time adopter of international financial reporting standards.

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. Similar amendments to IAS 39 *Financial Instruments: Recognition and Measurement* were not proposed.

These amendments had no impact on the Group's financial statements as there were no modifications of the Group's financial liabilities during the reporting period.

IAS 41 Agriculture – taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments did not have any impact on the Group's financial statements, as the Group did not have any assets within the scope of IAS 41 at the reporting date.

Basis of consolidation

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

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

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on such transactions are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. If necessary, the accounting policies of subsidiaries are changed to bring it into conformity with the accounting policies of the Group.

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

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

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Measurement of fair value

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

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

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

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI.
- FVPL.

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

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

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

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

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

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

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

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

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

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Debt instruments at FVOCI (continued)

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

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

Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

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

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2022.

Cash and cash equivalents

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

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position unless these are sold to third parties. In this case the purchase and sale transaction is recorded within gains less losses from trading securities in the consolidated statement of profit or loss and other comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, including forwards, swaps and options. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses on transactions with these instruments are recorded within net gains from foreign currencies in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

Borrowings

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

Leases

i. The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (that is, the date on which the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments, which will be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Leases (continued)

i. The Group as a lessee (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to short-term leases (i.e., contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option). The Group also applies the low value assets lease recognition exemption to contracts of lease of office equipment whose value is considered to be low (i.e., less than USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as lease expense on a straight-line basis over the lease term.

Offsetting of financial instruments

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

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

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

Restructuring of loans

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Write off

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

Financial liabilities

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

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

Taxes

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

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

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

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

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Taxes (continued)

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

Property and equipment

Property and equipment (except buildings) are carried at historical cost less day-to-day maintenance costs and accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amount of property and equipment (except buildings) is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus is reflected in the revaluation reserve of property, plant and equipment as part of other comprehensive income, excluding the amount of recovery of the previous decrease in the value of this asset, previously reflected in the profit or loss. In which case an increase in the asset is recognised in profit or loss. The decrease in value from revaluation is reflected in the profit or loss, except for the direct set-off of such decrease against the previous increase in value for the same asset reflected in the reserve for the revaluation of property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, the relevant amount included within revaluation reserve is transferred to retained earnings.

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

	Years
Buildings	33
Furniture and office equipment	7-12
Vehicles	5
Other	5-7

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

Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Assets held for sale

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

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Assets held for sale (continued)

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

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

Provisions

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

Retirement and other employee benefit obligations

The Group does not have any pension programs separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expenses are charged in the period the related salaries are earned. In addition, the Group pays no post-retirement significant benefits to employees.

Share capital

Share capital

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

Dividends

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

Segment reporting

The Bank’s segment reporting is based on the following operating segments: Individuals, Legal entities and Investment banking.

Contingencies

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

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses

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

Interest and similar revenue and expense

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

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

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

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest revenue” in the consolidated statement of profit or loss and other comprehensive income.

Fee and commission income

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

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

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

Commission income from providing transaction services

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

Foreign currency translation

The consolidated financial statements are presented in UZS, which is the Bank’s functional and presentation currency.

Transactions in foreign currencies are initially retranslated at the functional currency rate of exchange effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange effective at the reporting date. Gains and losses arising from translation of transactions in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income as “Net foreign exchange gain.” Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the transaction. Non-monetary items reflected at fair value in foreign currency are recalculated at the exchange rate in effect on the date of determination of fair value.

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

The difference between the contractual exchange rate for a transaction in foreign currency and the official rate of the CBU at the date of the transaction is included in gains less foreign exchange losses.

The table below shows the exchange rates of the UZS against the US dollar and Euro set by the CBU:

Date	*USD*	*Euro*
31 December 2022	11,225.46	11,961.85
31 December 2021	10,837.66	12,224.88

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

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

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

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

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

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: issuers of such loans – e.g., a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable. IFRS 17 is effective for reporting periods starting on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Group has completed its assessment of the implications of IFRS 17 and, considering the scope exceptions for certain banking products, such as credit cards, in IFRS 17, has concluded that it does not expect any material impact on its consolidated financial statements in 2023.

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

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

1. What is meant by a right to defer settlement;
2. That a right to defer must exist at the end of the reporting period;
3. That classification is unaffected by the likelihood that an entity will exercise its deferral right;
4. That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification;
5. Disclosures.

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 — Classification of Liabilities as Current and Non-current (continued)

These amendments are effective for annual reporting periods beginning on or after 1 January 2023 and are applied retrospectively. The Group is currently assessing the possible impact the amendments will have on current liabilities and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between a change in an accounting estimate and a change in an accounting policy and corrections of errors. It also explains how organizations use measurement methods and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted and must be disclosed.

These amendments are not expected to have a significant impact on the Group' consolidated financial statements.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

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

Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Because the amendments to IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of materiality to accounting policy information, there is no mandatory effective date for the amendments.

The Group is currently reviewing the disclosures in its accounting policies to ensure compliance with the amended requirements in the future.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the IASB issued amendments to IAS 12, which narrow the scope of the exception for recognition of deferred tax at initial recognition of assets and liabilities under IAS 12. The exception no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Group is currently assessing the impact of the amendments.

Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback Transaction

In September 2022, the IASB issued amendments to IFRS 16 *Lease Liability in a Sale and Leaseback Transaction*. The amendment to IFRS 16 defines the requirements for the subsequent measurement of assets and liabilities for sale and leaseback transactions, according to which the seller-lessee evaluates the leaseback liability in such a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains.

After the commencement date, the seller-lessee shall apply paragraphs 29-35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36-46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee should define "lease payments" or "revised lease payments" in such a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. Applying the requirements in this paragraph does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease as required by paragraph 46(a) of IFRS 16. The amendment does not contain specific measurement requirements for lease liabilities arising from a leaseback.

(in millions of UZS)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback Transaction (continued)

The initial measurement of a lease liability arising from a leaseback transaction may result in seller-lessee defining "lease payments" that differ from the general definition of lease payments in Appendix A to IFRS 16. The seller-lessee will need to develop and implement an accounting policy that allows it to obtain relevant and reliable information in accordance with IAS 8.

Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback Transaction

Amendments to IAS 16 are effective for annual periods beginning on or after 1 January 2024. Early adoption is permitted. The seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions after the date of initial application (e.g., the amendment does not apply to sale and leaseback transactions entered into prior to the date of application). The date of initial application is the beginning of the annual reporting period in which the entity first applies IFRS 16.

These amendments are not expected to have a significant impact on the Group' consolidated financial statements.

4. Significant accounting judgments and estimates

Estimation uncertainty

In applying the Group's accounting policies, management used its judgment and made estimates in determining the amounts recognized in the consolidated financial statements. There are the most significant uses of judgments and assessments below:

Expected credit losses on loans to customers

The measurement of expected credit losses on loans to customers across all categories of financial assets requires the application of judgment, in particular when determining ECL/impairment losses and assessing a significant increase in credit risk, it is necessary to assess the amount and timing of future cash flows and the value of collateral. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business failures can lead to liquidity problems for some organizations and consumers. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

1. The Group's criteria for assessing if there has been a significant increase in credit risk and so ECL for loans to customers should be measured on a LTECL basis and the qualitative assessment;
2. The segmentation of financial assets when their ECL is assessed on a collective basis;
3. Development of ECLs calculation models, including various formulas and selection of input data;
4. Determining the relationship between macroeconomic scenarios and economic data, and also the impact on the indicators of the probability of default (PD).
5. Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

The amount of the valuation allowance recognized in the consolidated statement of financial position as at 31 December 2022 amounted to UZS 490,488 million (31 December 2021: UZS 263,140 million). More details are provided in *Note 7.*

Revaluation of property and equipment

The Group accounts for its buildings at a revalued amount, while changes in fair value are recognized in other comprehensive income. The fair value is determined using a comparative approach (based on the cost of similar items offered on the market) for buildings located in Tashkent. For buildings located in other regions of the Republic of Uzbekistan, the fair value is determined using the income method (direct capitalization of income). This is due to a lack of comparable market information due to the nature of real estate.

(in millions of UZS)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Revaluation of property and equipment (continued)

The Group engaged an independent appraiser to determine the fair value of the buildings as at 31 December 2022.

The key assumptions used to determine the fair value of property and equipment and sensitivity analysis are detailed in *Note 26*.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2022	*31 December 2021*
Cash on hand	1,862,670	913,079
Current accounts with the CBU rated at BB-	4,041,894	2,419,856
Current accounts with other credit institutions:		
Rated from AA+ to AA	–	4,595
Rated from A+ to A-	41,759	42,903
Rated from BBB+ to BBB-	10,114	26,638
Rated from BB+ to BB-	45,426	4,043
Rated from B+ to B-	3,649	17,567
Not rated	257,855	–
Total current accounts with other credit institutions	358,803	95,746
Term deposits with credit institutions up to 90 days		
Rated from BB+ to BB-	50,000	550,000
Less: allowance for expected credit losses	(3,339)	(16)
Total cash and cash equivalents	6,310,028	3,978,665

As at 31 December 2022 and 31 December 2021 the Group has no counterparties, except for the CBU, with balances exceeding 10% of the Group's capital.

As at 31 December 2022, claims to Russian counterparties represented by cash and cash equivalents in the amount of UZS 257,173 million and UZS 682 million were assigned to Stage 2 and Stage 3, respectively, for ECL measurement purposes. As at 31 December 2021, all balances of cash and cash equivalents are allocated to Stage 1 for ECL measurement purpose.

An analysis of changes in the ECL allowances is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
At 1 January 2021	192	–	–	192
Changes in ECL	(176)	–	–	(176)
At 31 December 2021	16	–	–	16
Changes in ECL	81	2,683	559	3,323
At 31 December 2022	97	2,683	559	3,339

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2022	*31 December 2021*
Restricted cash	1,161,349	300,009
Mandatory reserve with the CBU	466,108	190,405
Term deposits for more than 90 days	101,079	408,022
Less: allowance for expected credit losses	(2,504)	(724)
Total due from credit institutions	1,726,032	897,712

(in millions of UZS)

6. Amounts due from credit institutions (continued)

Restricted cash is represented by amounts on correspondent accounts with foreign banks placed by the Group in respect of letters of credit, and a deposit provided as collateral by a member of the VISA International Service Association system.

The mandatory reserve in the CBU comprises an interest-free cash deposit, the amount of which depends on the amount of funds raised. The Group's ability to withdraw such deposit is limited by the legislation of the Republic of Uzbekistan As at 31 December 2022, the balance of the mandatory reserve in the CBU amounted to UZS 466,108 million (31 December 2021: UZS 190,405 million).

As at 31 December 2022 the Group has accounts and deposits with two banks (31 December 2021: two banks), except for the CBU, that exceed 10% of the Group's capital each. As at 31 December 2022 the total amount of the account balances with the above banks amounts to UZS 980,382 million (31 December 2021: UZS 790,859 million).

As at 31 December 2022 and 2021, all balances of amounts due from credit institutions are allocated to Stage 1 for ECL measurement purposes.

Below is an analysis of changes in allowances for ECL for the year ended 31 December:

	2022	*2021*
Balance as at 1 January	724	488
Changes in ECL	1,780	236
Balance as at 31 December	2,504	724

Analysis by credit quality of amounts due from credit institutions as at 31 December 2022 and 31 December 2021 is as follows:

	31 December 2022	*31 December 2021*
Mandatory reserve with the CBU	466,108	190,405
Rated from AA+ to AA-	261,658	37,942
Rated from A+ to A	899,691	637,442
Rated from BBB+ to BBB-	–	543
Rated from BB+ to BB-	89,854	–
Rated from B+ to B-	11,225	32,104
Less: allowance for expected credit losses	(2,504)	(724)
Total due from credit institutions	1,726,032	897,712

7. Loans to customers

Loans to customers comprise:

	31 December 2022	*31 December 2021*
Individuals	10,495,152	3,802,840
Corporate customers	3,792,307	2,280,466
Small and medium-sized entities	2,719,794	2,231,650
Total loans to customers	17,007,253	8,314,956
ECL allowance	(490,488)	(263,140)
Total loans to customers less ECL allowance	16,516,765	8,051,816

The Group uses the following classification of loans by classes:

- Loans to individuals - loans granted to individuals that include: car loans, mortgage loans, consumer loans and other;
- Loans to legal entities - loans granted to customers with an organizational and legal form of ownership of joint-stock companies and limited liability companies, as well as other types of ownership;
- Loans to small and medium–sized entities - loans and finance leases granted to small and medium-sized entities, including individual entrepreneurs.

(in millions of UZS)

7. Loans to customers (continued)

Allowance for expected credit losses of loans to customers measured at amortized cost

The analysis of movements in gross carrying amount of loans and relevant ECL on loans for the year ended 31 December 2022 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2022	7,707,744	300,679	306,533	8,314,956
New assets originated	15,733,885	–	–	15,733,885
Assets repaid	(6,724,092)	(109,797)	(328,858)	(7,162,747)
Transfers to Stage 1	840,669	(840,669)	–	–
Transfers to Stage 2	(1,386,419)	1,562,493	(176,074)	–
Transfers to Stage 3	(231,910)	(413,744)	645,654	–
Unwinding of discount	–	–	15,863	15,863
Write offs	–	–	(32,700)	(32,700)
Foreign exchange adjustments	125,030	6,808	6,158	137,996
As at 31 December 2022	16,064,907	505,770	436,576	17,007,253

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	91,973	22,091	149,076	263,140
New assets originated	199,934	–	–	199,934
Assets repaid	(99,841)	(11,586)	(139,643)	(251,070)
Transfers to Stage 1	61,694	(61,694)	–	–
Transfers to Stage 2	(25,959)	132,498	(106,539)	–
Transfers to Stage 3	(3,666)	(49,270)	52,936	–
Impact on period end ECL of exposures transferred between stages and changes to models and inputs used for measuring ECL during the period	35,819	30,588	226,463	292,870
Unwinding of discount (recognized in interest revenue)	–	–	15,863	15,863
Write offs	–	–	(32,700)	(32,700)
Foreign exchange adjustments	1,055	382	1,014	2,451
As at 31 December 2022	261,009	63,009	166,470	490,488

(in millions of UZS)

7. Loans to customers (continued)

Allowance for expected credit losses of loans to customers measured at amortized cost (continued)

Below is an analysis of changes in gross carrying amount and relevant ECLs in relation to consumer lending for the year ended 31 December 2021:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount					
As at 1 January 2021	4,383,118	275,692	180,834	11,526	4,851,170
New assets originated	6,309,006	–	–	–	6,309,006
Assets repaid	(1,798,321)	(115,478)	(111,276)	–	(2,025,075)
Transfers to Stage 1	128,532	(118,135)	(10,397)	–	–
Transfers to Stage 2	(292,667)	297,597	(4,930)	–	–
Transfers to Stage 3	(236,339)	(15,128)	251,467	–	–
Unwinding of discount	–	–	11,509	–	11,509
Write offs	–	–	–	(11,526)	(11,526)
Other changes	(785,584)	(23,869)	(10,675)	–	(820,128)
As at 31 December 2021	7,707,745	300,679	306,532	–	8,314,956

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	50,506	25,889	91,583	3,218	171,196
New assets originated	73,147	–	–	–	73,147
Assets repaid	(20,048)	(11,280)	(63,636)	–	(94,964)
Transfers to Stage 1	16,139	(10,421)	(5,718)	–	–
Transfers to Stage 2	(14,707)	17,894	(3,187)	–	–
Transfers to Stage 3	(46,754)	(2,216)	48,970	–	–
Impact on period end ECL of exposures transferred between stages and changes to models and inputs used for measuring ECL during the period	31,584	1,982	68,203	8,308	110,077
Unwinding of discount (recognized in interest revenue)	–	–	11,509	–	11,509
Write offs	–	–	–	(11,526)	(11,526)
Other changes	2,106	243	1,352	–	3,701
As at 31 December 2021	91,973	22,091	149,076	–	263,140

Modified and restructured loans

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss to the extent that an impairment loss has not already been recorded.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

1. For commercial lending, charges over real estate properties, vehicle, equipment and inventory;
2. For retail lending, charges over vehicle and residential properties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

(in millions of UZS)

7. Loans to customers (continued)

Collateral and other credit enhancements (continued)

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

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit-impaired assets (Stage 3) used by the Group in measuring ECL. However, the Stage 3 ECL can be higher than net exposure when the future value of collateral, measured using multiple economic scenarios, is expected to decline.

As at 31 December 2022	*Gross carrying amount of loans to customers*	*Value used in ECL calculation*	*Net exposure*
Credit-impaired loans			
Real estate	199,484	199,484	–
Vehicles	171,226	171,226	–
Equipment	28,601	28,601	–
Insurance policy	9,706	9,706	–
Warranty and guarantee	3,274	–	3,274
Other	24,285	–	24,285
Total	436,576	409,017	27,559

As at 31 December 2021	*Gross carrying amount of loans to customers*	*Value used in ECL calculation*	*Net exposure*
Credit-impaired loans			
Real estate	185,171	185,171	–
Vehicles	40,225	40,225	–
Insurance policy	47,756	47,756	–
Equipment	19,385	–	19,385
Warranty and guarantee	9,557	–	9,557
Other	4,438	553	3,885
Total	306,532	273,705	32,827

The tables above do not include overcollateralization.

In the absence of collateral or other credit enhancements, ECLs for loans to customers of Stage 3 as at 31 December 2022 and 2021 would be higher by:

	31 December 2022	*31 December 2021*
Corporate customers	177,024	84,778
Total	177,024	84,778

Concentration of loans to customers

As at 31 December 2022, the concentration of loans extended by the Group to the ten largest unrelated borrowers amounts to UZS 2,449,763 million or 14% of the total gross value of loans to customers (31 December 2021: UZS 559,680 million, 7% of the total gross value of loans to customers). Allowance for ECL on these loans is UZS 43,041 million. 31 December 2021: UZS 12,737 million).

As at 31 December 2022 and 31 December 2021, all loans to legal entities were issued to companies operating in the Republic of Uzbekistan.

(in millions of UZS)

7. Loans to customers (continued)

Concentration of loans to customers (continued)

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

	31 December 2022	*31 December 2021*
Individuals	10,495,152	3,802,840
Industrial manufacturing	2,793,595	1,665,774
Trade and services	2,527,733	1,883,549
Construction	376,172	283,414
Financial services	305,445	188,103
Transport and communications	246,250	184,392
Agriculture	61,245	183,046
Textile production	13,741	34,448
Other	187,920	89,390
Total loans to customers	17,007,253	8,314,956

8. Investment securities

The Group's debt securities are as follows:

	31 December 2022	*31 December 2021*
CBU bonds	1,545,976	1,084,383
Bonds of the Ministry of Finance of the Republic of Uzbekistan	1,168,998	341,500
Corporate bonds	6,000	6,000
Less: allowance for expected credit losses	(9,060)	(1,293)
Total investment securities measured at amortised cost	2,711,914	1,430,590

In 2022, the Group actively participated in auctions for the placement of government securities (bonds) held by the CBU in conjunction with the Ministry of Finance of the Republic of Uzbekistan on the Uzbek Republican Currency Exchange. The maturity of the CBU bonds is 1-6 months, the interest rates range from 16.7% to 21.2% per annum. The maturity of the bonds issued by the Ministry of Finance of the Republic of Uzbekistan is 6-10 years, the interest rates range from 17.2% to 19% per annum.

All balances of debt securities measured at amortized cost are allocated to Stage 1 for the purpose of measuring ECL. An analysis of ECL allowances in relation to debt securities at amortised cost is as follows:

	2022	*2021*
ECL at 1 January	(1,293)	(462)
Net change for the year	(7,767)	(831)
At 31 December	(9,060)	(1,293)

9. Assets held for sale

As at 31 December 2022 and 31 December 2021, assets held for sale are represented by buildings (seized collateral for loans to customers) acquired through the transfer of ownership to the Group by a court decision or by amicable agreement in repayment of claims on loans to customers. The Group plans to sell assets held for sale during 2023.

In 2022, the Group sold assets held for sale in the amount of UZS 63,134 million (2021: UZS 36,587 million).

In 2022, assets held for sale with a carrying amount of UZS 38,480 million were transferred to property and equipment (2021: UZS nil).

(in millions of UZS)

10. Property and equipment and right-of-use assets

The movements in property and equipment were as follows:

	Buildings	*Furniture and equip-ment*	*Vehicles*	*Other*	*Construc-tion in progress*	*Right-of-use assets*	*Total property, equip-ment and right-of-use assets*
Cost or revalued amount							
As at 31 December 2020	234,203	126,996	32,305	346,994	–	–	740,498
Additions	70,509	25,931	31	8	–	–	96,479
Disposal	(23,008)	(4,946)	(4,837)	(4,408)	–	–	(37,199)
As at 31 December 2021	281,704	147,981	27,499	342,594	–	–	799,778
Additions	22,470	32,741	6,220	68,328	46,313	7,434	183,506
Transfer from assets held for sale *(Note 9)*	38,480	–	–	–	–	–	38,480
Disposal	(69)	(1,886)	(628)	(6,818)	–	–	(9,401)
Write-off of accumulated depreciation after revaluation	(34,919)	–	–	–	–	–	(34,919)
Effect of revaluation	51,668	–		–	–	–	51,668
As at 31 December 2022	359,334	178,836	33,091	404,104	46,313	7,434	1,029,112
Accumulated depreciation							
As at 31 December 2020	20,546	21,950	6,906	53,573	–	–	102,975
Accrued depreciation	7,969	9,967	5,385	34,616	–	–	57,937
Disposal	(3,118)	(1,646)	(2,416)	(1,006)	–	–	(8,186)
As at 31 December 2021	25,397	30,271	9,875	87,183	–	–	152,726
Accrued depreciation	9,522	15,181	5,838	36,776	–	881	68,198
Disposal	–	(1,886)	(286)	(1,051)	–	–	(3,223)
Write-off of accumulated depreciation after revaluation	(34,919)	–	–	–	–	–	(34,919)
As at 31 December 2022	–	43,566	15,427	122,908	–	881	182,782
Carrying amount							
As at 31 December 2021	256,307	117,710	17,624	255,411	–	–	647,052
As at 31 December 2022	359,334	135,270	17,664	281,196	46,313	6,553	846,330

As at 31 December 2022, property and equipment included fully depreciated assets at a cost of UZS 10,623 million (31 December 2021: UZS 9,894 million).

The Group engaged independent appraiser to determine fair value of buildings that are in ownership of the Group. The fair value is determined using a comparative approach (based on the cost of similar items offered on the market) and income approach (direct capitalization method). Date of valuation - 31 December 2022. More details about the fair value of buildings are disclosed in *Note 26*.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2022	*31 December 2021*
Cost	352,468	291,518
Accumulated depreciation	(35,128)	(26,294)
Carrying amount	317,340	265,224

(in millions of UZS)

11. Intangible assets

Movements in intangible assets are as follows:

	Intangible assets	*Assets under development*	*Total*
Cost			
As at 31 December 2020	96,009	–	96,009
Additions	44,274	2,327	46,601
Disposal	(5,142)	–	(5,142)
As at 31 December 2021	135,141	2,327	137,468
Additions	17,207	1,946	19,153
Disposal	(6,012)	–	(6,012)
As at 31 December 2022	146,336	4,273	150,609
Accumulated depreciation			
As at 31 December 2020	19,663	–	19,663
Accrued depreciation	11,336	–	11,336
Disposal	(387)	–	(387)
As at 31 December 2021	30,612	–	30,612
Accrued depreciation	16,494	–	16,494
Disposal	(1,030)	–	(1,030)
As at 31 December 2022	46,076	–	46,076
Net carrying amount			
As at 31 December 2021	104,529	2,327	106,856
As at 31 December 2022	100,260	4,273	104,533

As at 31 December 2022, intangible assets included fully depreciated assets at a cost of UZS 7,020 million (31 December 2021: UZS 2,089 million).

12. Income tax

The income tax expense comprises:

	2022	*2021*
Current income tax charge	260,454	79,834
Deferred income tax credit – origination and reversal of temporary differences	(30,177)	(5,506)
Less deferred tax recognised in other comprehensive income	(15,692)	–
Income tax expense	214,585	74,328

Deferred tax recognised in other comprehensive income is distributed as follows:

	2022	*2021*
Revaluation of buildings	15,692	–
Income tax recognized in other comprehensive income	15,692	–

The Group prepares tax calculations for the current period on the basis of tax accounting data carried out in accordance with the requirements of the tax legislation of the Republic of Uzbekistan, which may differ from IFRS.

Differences between IFRS and the tax legislation of the Republic of Uzbekistan result in certain temporary differences between carrying amount of a number of assets and liabilities for the purpose of the Group's financial statements preparation and income tax calculation.

Income tax is accrued in accordance with the Tax Code of the Republic of Uzbekistan. The current income tax rate for banks in 2022 was 20% (2021: 20%) of taxable profit.

(in millions of UZS)

12 Income tax (continued)

A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2022	*2021*
Profit before income tax	1,158,251	438,827
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	(231,650)	(87,765)
Non-taxable income from government securities	51,314	15,696
Non-deductible credit loss expense	(12,092)	–
Other non-deductible expenses	(22,157)	(2,259)
Income tax expense	(214,585)	(74,328)

As at 31 December 2022, current income tax assets amounted to UZS 23,522 million (as at 31 December 2021: UZS 10,082 million).

Deferred taxes reflect the net tax effect from temporary differences between the accounting value of assets and liabilities for financial reporting purposes and the amount determined for taxation purposes. Temporary differences as at 31 December 2022 and 2021 relate mostly to different methods of income and expense recognition as well as to the carrying values of certain assets.

Deferred tax assets and liabilities as at 31 December, as well as their movements for the respective years comprise the following:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	1 January 2021	*In profit or loss*	*In other comprehensive income*	*31 December 2021*	*In profit or loss*	*In other comprehensive income*	*31 December 2022*
Tax effect of deductible temporary differences							
Loans to customers	14,973	(5,884)	–	9,089	42,336	–	51,425
Investment securities	–	–	–	–	1,812	–	1,812
Lease liabilities	–	–	–	–	1,315	–	1,315
Cash and cash equivalents	–	–	–	–	668	–	668
Amounts due from credit institutions	–	–	–	–	501	–	501
Other liabilities	104	5,195	–	5,299	(3,826)	–	1,473
Other assets	2,819	5,428	–	8,247	(7,606)	–	641
Deferred tax asset	17,896	4,739	–	22,635	35,200	–	57,835
Tax effect of taxable temporary differences							
Property and equipment and right-of-use assets	(5,298)	767	–	(4,531)	11,178	(15,692)	(9,045)
Assets held for sale	–	–	–	–	(509)	–	(509)
Deferred tax liability	(5,298)	767	–	(4,531)	10,669	(15,692)	(9,554)
Deferred tax asset/(liability)	12,598	5,506	–	18,104	45,869	(15,692)	48,281

(in millions of UZS)

13. Other assets

Other assets comprise:

	31 December 2022	*31 December 2021*
Other financial assets		
Settlements with payment systems	73,477	19,942
Fees and commissions receivable	1,772	4,225
ECL allowance	(6,522)	(809)
Total other financial assets	68,727	23,358
Other non-financial assets		
Prepayment for services	200,412	3,078
Prepayment for equipment and goods	5,758	4,988
Settlements with employees	546	409
Other	10,710	1,692
Total other non-financial assets	217,426	10,167
Total other assets	286,153	33,525

The below tables present an analysis of movements in allowance for ECL for other financial assets:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 1 January 2021	–	–	(80)	(80)
Net change for the year	(51)	(51)	(627)	(729)
As at 31 December 2021	(51)	(51)	(707)	(809)
Net change for the year	(13)	(222)	(5,500)	(5,735)
Write-offs	–	–	22	22
As at 31 December 2022	(64)	(273)	(6,185)	(6,522)

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2022	*31 December 2021*
Amounts due to foreign banks	137,403	25,928
Current accounts of foreign banks	71,757	549
Current accounts of the banks of the Republic of Uzbekistan	9,747	164
Amounts due to the banks of the Republic of Uzbekistan	5,530	29,729
Total amounts due to credit institutions	224,437	56,370

As at 31 December 2022, the Group has no balances exceeding 10% of the Bank's capital, similar to the previous reporting period.

Amounts due to foreign banks are represented by balances payable to AKA Ausfuhrkredit- Gesellschaft mbH. The Group signed an agreement dated 20 July 2020 to open a credit line with AKA Ausfuhrkredit- Gesellschaft mbH within the limit of EUR 10.6 million. During 2020-2022, the Group received loans for a period of 1-6 years. The annual interest rate on the credit line is EURIBOR+1.3%-1.65%. The purpose of the loan is to finance export contracts.

As at 31 December 2022, the balances payable to AKA Ausfuhrkredit- Gesellschaft mbH amounted to UZS 137,403 million (31 December 2021: UZS 25,928 million).

(in millions of UZS)

15. Amounts due to customers

Amounts due to customers comprise:

	31 December 2022	*31 December 2021*
Legal entities		
Term deposits	8,395,248	5,447,502
Demand deposits	4,665,465	4,295,695
Individuals		
Term deposits	6,593,040	2,478,728
Demand deposits	5,401,803	1,000,811
Total amounts due to customers	25,055,556	13,222,736
Held as security against letters of credit (*Note 24*)	2,087,264	754,751
Held as security against guarantees (*Note 24*)	86,613	2,951
Held as security against loans issued	50,003	92,809

In accordance with the Civil Code of the Republic of Uzbekistan, the Group is obliged to repay the deposit amount at the first request of the depositor-individual. In case where a term deposit is returned to the depositor upon request before the expiry of the term, interest on the deposit is not paid or paid at a significantly lower interest rate, depending on the terms of agreement.

As at 31 December 2022, the Group had five customers with the total amount exceeding 10% of the Group's equity (31 December 2021: seven customers). The total balance on the accounts of these customers amounted to UZS 6,409,874 million or 25% (31 December 2021: UZS 4,136,945 million or 30.6%) of the total amount of funds of the Group's customers.

The accounts of the following customer categories are included in in amounts due to customers:

	31 December 2022	*31 December 2021*
Individuals	11,994,843	3,479,539
Corporate customers	10,331,130	8,852,508
State and budget organisations	2,729,583	890,689
Total amounts due to customers	25,055,556	13,222,736

The breakdown of amounts due to customers by industries is provided below:

	31 December 2022	*31 December 2021*
Individuals	11,994,843	3,479,539
Manufacturing	4,318,252	3,353,234
Trade and other services	2,509,686	1,770,095
Transport and telecommunications	1,532,616	1,128,478
Social funds	1,495,870	633,059
Investments in financial sector	1,248,692	1,201,427
Construction	422,824	603,428
Insurance	158,203	59,923
Agriculture and food industry	46,330	37,090
Other	1,328,240	956,463
Total amounts due to customers	25,055,556	13,222,736

(in millions of UZS)

16. Other borrowed funds

	31 December 2022	*31 December 2021*
Loans from non-bank financial institutions	183,407	210,827
Loans from the Government of the Republic of Uzbekistan	183,349	188,279
Subordinated debt	151,338	54,134
Bonds issued	116,848	51,052
Total other borrowed funds	634,942	504,292

Subordinated debt

As at 31 December 2022, subordinated debt is represented by loans from non-bank institutions with maturities in 2024-2032 and interest rates of 14%-21% per annum in UZS and 5% per annum in USD (as at 31 December 2021: in 2024-2027 and interest rates of 14%-18% per annum in UZS and 5% per annum in USD).

Bonds issued

As at 31 December 2022, the bonds issued are represented by bonds placed on the Republican Stock Exchange "Toshkent" with a maturity in 2027-2031 and an interest rate of 6.5% per annum and a refinancing rate of the CBU + 5% per annum (31 December 2021: in 2027 and an interest rate equal to the refinancing rate of the CBU + 5% per annum).

Loans from non-bank financial institutions

The funds received from non-bank financial institutions are represented by loans received from Abu Dhabi Uzbek Investment LLC in the amount of USD 20 million, with a nominal interest rate of 5.5%-6.5% per annum, and a maturity in 2024-2025. The funds were received to finance small and medium-sized businesses of the Republic of Uzbekistan.

As at 31 December 2022, loans received from Abu Dhabi Uzbek Investment LLC amounted to UZS 183,407 million (31 December 2021: UZS 210,827 million).

Loans from the Government of the Republic of Uzbekistan

The funds received from the Government of the Republic of Uzbekistan are represented by a long-term interest-free loan granted by the Fund for Financing State Development Programs of the Republic of Uzbekistan, with a maturity in 2033, in the amount of UZS 27,186 million (31 December 2021: UZS 29,996 million) and a long-term loan granted by the Ministry of Finance of the Republic of Uzbekistan, with a maturity in 2035-2041, with a nominal interest rate of 0%-13% per annum, in the amount of UZS 156,163 million (31 December 2021: UZS 158,283 million).

Interest-free loans were received from the Fund for Financing State Development Programs of the Republic of Uzbekistan and the Ministry of Finance of the Republic of Uzbekistan in accordance with the Decree of the President of the Republic of Uzbekistan *On measures for accelerated development of the service sector* for the issuance of subsidized loans for the establishment, construction, reconstruction, repair and equipping of non-governmental preschool educational organizations at interest rate of 1% per annum and a maturity of 15 years.

Loans from the Ministry of Finance of the Republic of Uzbekistan were received in accordance with the Decree of the President of the Republic of Uzbekistan *On additional measures to improve mortgage lending mechanisms* for issuance of mortgage loans to individuals.

(in millions of UZS)

17. Other liabilities

Other liabilities comprise:

	31 December 2022	*31 December 2021*
Other financial liabilities		
Accrued expenses for employee benefits	63,873	6,391
Accounts payable for services	48,092	15,055
Liabilities to payment systems	32,376	16,327
Accounts payable to Deposit Guarantee Fund	29,059	6,883
Settlements for money transfers	10,257	–
ECL allowances for credit related commitments *(Note 24)*	7,366	10,405
Lease liabilities	6,576	–
Other	5,276	752
Other financial liabilities	202,875	55,813
Other non-financial liabilities		
Other tax liability	8,278	2,943
Other	–	1,298
Other non-financial liabilities	8,278	4,241
Total other liabilities	211,153	60,054

18. Share capital

The table below shows movements of issued, fully paid and outstanding shares:

	Number of shares, pieces		*Nominal value, UZS*					
	Ordinary	*Preferred*	*Ordinary*	*Preferred*	*Adjust-ment for inflation*	*Total share capital*	*Share premium reserve*	*Total*
As at 1 January 2021	163,928,486	19,164,208	950	950	(1,368)	172,570	57,312	229,882
Increase in share capital	191,911,150	20,835,792	950	950	–	202,110	214,908	417,018
As at 31 December 2021	355,839,844	40,000,000	950	950	(1,368)	374,680	272,220	646,900
Increase in share capital	32,986,654	–	950	–	–	31,337	77,507	108,844
As at 31 December 2022	388,826,498	40,000,000	950	950	(1,368)	406,017	349,727	755,744

As at 31 December 2022 and 31 December 2021, all the authorized shares were issued and fully paid.

According to the legislation of the Republic of Uzbekistan, only accumulated retained earnings can be distributed as dividends to the shareholders of the Group in accordance with the consolidated financial statements of the Group prepared in accordance with national accounting policies. The Group’s share capital was formed by shareholders’ contributions, and the shareholders are entitled to receive dividends in UZS.

Dividends

Payment of dividends and other profit distribution are carried out on the basis of the current year’s net profit recorded in the accounting statements prepared in accordance with the legislation of the Republic of Uzbekistan.

In 2022 the Bank did not declare or pay any dividends on ordinary shares.

At the shareholders’ meeting held in August 2021, the Bank declared dividends in the amount of UZS 125,935 million on ordinary shares for the year ended 31 December 2020 (UZS 768 per share).

(in millions of UZS)

18. Share capital (continued)

Preferred shares

In 2022, the Bank declared and paid dividends in the amount of UZS 33,440 million on preferred shares (UZS 836 per share) (2021: UZS 26.775 million (UZS 836 per share)).

Holders of preferred shares are entitled to dividends. Dividend payments are not mandatory.

Additional paid-in capital

The additional paid-in capital is the amount of the share premium by which the contributions to the capital exceeded the nominal value of the issued shares.

In January 2022, the shareholders of the Group approved the decision to issue 32,986,654 ordinary shares with a par value of UZS 950 per share. The assets obtained as the result of the issue of the said shares comprised cash for the total amount of UZS 108,844 million. The yield on issue of shares amounted to UZS 77,507 million and was recorded as an increase in equity.

As at 31 December 2022, the share premium amounted to UZS 349,727 million (as at 31 December 2021, UZS 272,220 million).

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. As at 31 December 2022, the revaluation reserve amounted to UZS 81,001 million (as at 31 December 2021, UZS 18,803 million).

In 2022, the Group recognized the following changes in the value of buildings as part of the revaluation reserve for property and equipment:

- Revaluation recognized in other comprehensive income in the amount of UZS 78,461 million.
- Effect on deferred income tax recognized in other comprehensive income in the amount of UZS 15,692 million, and
- Revaluation recognized in other operating expenses in the amount of UZS 26,393 million.

19. Net interest income

Net interest revenue comprises the following:

	2022	*2021*
Interest income		
Loans to customers	2,122,715	990,133
Investment securities	256,878	78,951
Other interest income	29,074	21,544
Cash and cash equivalents	9,818	16,118
Amounts due from credit institutions	8,821	6,238
Total interest income calculated using the effective interest rate	2,427,306	1,112,984
Other interest income		
Net investment in finance lease	–	1,083
Interest expenses		
Amounts due to customers	964,048	442,791
Other borrowed funds	63,482	34,604
Amounts due to credit institutions	37,714	13,690
Amounts payable under repurchase agreements	10,314	5,031
Other interest expenses	716	5,131
Total interest expenses	1,076,274	501,247
Net interest income	1,351,032	612,820

(in millions of UZS)

20. Expected credit loss expense

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2022:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	5	(81)	(2,683)	(559)	–	(3,323)
Amounts due from credit institutions	6	(1,780)	–	–	–	(1,780)
Loans to customers	7	(135,912)	(19,002)	(86,820)	–	(241,734)
Investment securities	8	(7,767)	–	–	–	(7,767)
Other financial assets	13	(13)	(222)	(5,500)	–	(5,735)
Total expected credit loss expense		(145,553)	(21,907)	(92,879)	–	(260,339)

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2021:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	5	176	–	–	–	176
Amounts due from credit institutions	6	(236)	–	–	–	(236)
Loans to customers	7	(84,683)	9,298	(4,567)	(8,308)	(88,260)
Investment securities	8	(831)	–	–	–	(831)
Total expected credit loss expense		(85,574)	9,298	(4,567)	(8,308)	(89,151)

21. Net fee and commission income

Net commission income comprise the following:

	2022	*2021*
Transactions with plastic cards	493,296	124,364
Settlement operations	208,119	146,064
International cash transfers	114,001	76,567
Cash operations	39,131	16,569
Conversion	18,024	19,817
Commission on letters of credit	13,838	11,925
Guarantees	4,474	4,691
Other	18,204	3,768
Fee and commission income	909,087	403,765
Transactions with plastic cards	418,669	108,539
International cash transfers	53,538	13,240
Letters of credit	20,277	6,566
Settlement operations	15,523	6,959
Conversion	7,371	7,118
Cash collection services	3,791	3,275
Other	4,912	2,156
Fee and commission expense	524,081	147,853
Net fee and commission income	385,006	255,912

Revenue From contracts with customers

The Group usually collects fees and commissions in advance of completion of the underlying transaction or shortly thereafter (for contracts where performance obligation is satisfied point in time, such as settlement transactions). For services provided over time (such as those related to credit cards maintenance), the Group usually charges upfront monthly, quarterly or annual fees covering respective portion of the overall contract period.

The Group's revenue from contracts with customers is mainly concentrated in the Republic of Uzbekistan.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(in millions of UZS)

22. Net foreign exchange gain

Net foreign exchange gain comprises:

	2022	*2021*
Dealing	699,269	149,536
Currency risk indemnity	23,651	–
Realised losses on transactions with currency derivatives	(18,685)	–
Unrealised losses on transactions with currency derivatives	(16,459)	513
Foreign exchange revaluation	(99,142)	(10,325)
Total net foreign exchange gain	588,634	139,724

23. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2022	*2021*
Salaries and bonuses	428,333	216,986
Social security contributions	50,095	24,602
Total personnel expenses	478,428	241,588
Membership fees to the Deposit Guarantee Fund	85,658	26,067
Depreciation *(Notes 10, 11)*	84,692	69,273
Advertising	35,764	18,351
Revaluation of buildings	26,793	–
Repairs	23,144	13,497
Security	23,127	15,585
Stationery	22,696	12,506
Charity and sponsorship	20,690	9,484
Communication	17,775	5,655
Professional services	15,018	13,082
Revaluation of assets held for sale	14,049	–
Lease	13,935	7,076
Taxes other than income tax	11,429	20,610
Representative expenses	5,588	2,911
Vehicles maintenance costs	3,642	2,203
Utilities	2,608	4,244
Travel expenses	2,575	849
Fines and penalties	598	1,687
Insurance	293	783
Other	1,723	1,492
Total operating expenses	890,225	466,943

24. Commitments and contingencies

Operating environment

The Group operates in the Republic of Uzbekistan. Accordingly, the Group's business is affected by the economy and financial markets of the Republic of Uzbekistan, which display characteristics of emerging market. The legal, tax and regulatory frameworks continue its development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Uzbekistan.

(in millions of UZS)

24 Commitments and contingencies (continued)

Operating environment (continued)

The consolidated financial statements reflect management’s assessment of the impact of Uzbekistan business environment on the operations and the financial position of the Group. The actual influence of future business environment may differ from management’s assessment.

The financial condition of the Group and the results of its operating activities will continue to be influenced by political and economic transformations in the Republic of Uzbekistan, including the application of current and future legislation and tax regulation, which have a significant impact on the financial markets of the Republic of Uzbekistan and the economy as a whole. The Group’s management is unable to predict all the transformations that could affect the banking sector in general and the financial position of the Group in particular.

The following main economic indicators for 2022 were observed in Uzbekistan:

- Inflation: 12.3% (2021: 10.0%);
- GDP growth: 5.7% (2021: 6.8%);
- Refinancing rate of the CBU: 15.0% (2021: 14.0%).

Legal issues

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

Tax legislation

Currently, in the Republic of Uzbekistan there are a number of legislative acts regulating the system of taxes paid to the Republican and local state budgets. These taxes include value added tax, income tax, social tax and other taxes. The tax legislation of the Republic of Uzbekistan is subject to varying interpretations and subject to frequent changes. Often there are different opinions on the interpretation of legislative acts, both between different authorities and within one authority (i.e., the State Tax Committee and its various inspections), which creates uncertainty and the grounds for various disputes. Tax returns and other legal obligations (for example, aspects of customs and currency regulation) are subject to review and inspection by a number of agencies that, are entitled by law to impose significant administrative penalties (including fines and penalties) and may take a more assertive position in the interpretation of legislation and verification of tax calculations. As consequence, tax bodies can make a complaint on those deals and methods of the account on which earlier they did not show claims. This situation creates a greater probability of occurrence of tax risks in the Republic of Uzbekistan than, for example in other countries with more developed taxation systems. Tax audits may cover five calendar years of activity immediately preceding the year of audit. Under certain conditions, earlier periods may be subject to audit.

As at 31 December 2022, management believes that it adheres to an adequate interpretation of the relevant legislation, and the Group’s position on tax, currency and customs issues will be supported by regulatory authorities.

Credit related commitments

The main purpose of these instruments is to ensure that funds are available to customers as required. The total amount of guarantee liabilities, letters of credit and unused loan facilities does not necessarily represent future cash requirements, as the expiration or cancellation of these liabilities may be possible without providing the borrower with funds. Nevertheless, there is a potential risk, therefore, in the consolidated statement of financial position, among other liabilities under guarantees, a provision was made for credit related commitments with respect to the guarantees provided, depending on the financial condition of the customer. With respect to commitments to extend loans and unused credit lines, the Group is less exposed to the risk of losses, since in the event of impairment of loans issued, the Group will not provide the remaining amounts, therefore, the provision for these credit related commitments is null.

(in millions of UZS)

24 Commitments and contingencies (continued)

Credit related commitments (continued)

Outstanding credit related commitments are as follows:

	31 December 2022	*31 December 2021*
Letters of credit		
With post-financing	72,724	245,586
Without post-financing	2,383,629	827,386
Guarantees		
Financial guarantees	186,849	102,498
Performance guarantees	2,458	37,564
Undrawn loan commitments	1,614	6,839
Credit related commitments	2,647,274	1,219,873
ECL allowances for credit related commitments *(Note 17)*	7,366	10,405
Deposits held as security against letters of credit *(Note 15)*	2,087,264	754,751
Deposits held as security against guarantees *(Note 15)*	86,613	2,951

Below is an analysis of changes in allowances for ECL for the year ended 31 December 2022:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL as at 1 January 2022	10,405	–	–	10,405
Net change for the year	(3,039)	–	–	(3,039)
As at 31 December 2022	7,366	–	–	7,366

Below is an analysis of changes in allowances for ECL for the year ended 31 December 2021:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL as at 1 January 2021	1,523	1,418	532	3,473
Net change for the year	8,882	(1,418)	(532)	6,932
As at 31 December 2021	10,405	–	–	10,405

25. Related party transactions

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

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

(in millions of UZS)

25 Related party transactions (continued)

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

	2022				*2021*		
	Parent	*Other share-holders*	*Entities under common control*	*Key mana-gement personnel*	*Share-holders*	*Entities under common control*	*Key mana-gement personnel*
Assets							
Loans to customers	–	7,785	–	7,929	70,669	–	7,496
Liabilities							
Amounts due to customers	12,034	78,906	39,256	8,401	3,689	–	20,291

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

	For the year ended 31 December						
	2022				*2021*		
	Parent	*Other share-holders*	*Entities under common control*	*Key mana-gement personnel*	*Share-holders*	*Entities under common control*	*Key mana-gement personnel*
Interest income calculated using the effective interest rate	–	2,349	–	355	7,259	–	1,399
Interest expenses	(28)	(2,574)	–	(106)	(161)	–	(3,484)
Credit loss expense	–	(566)	–	(108)	(596)	–	(113)

Loans to other shareholders and key management personnel were provided with the maturity from 3 to 15 years, in UZS at 9% per annum and 23% per annum, respectively. Amounts due to customers are presented by demand deposits and term deposits placed both in UZS and in foreign currency. Term deposits from the parent company, other shareholders and key management personnel in UZS are attracted with an interest rate from 17% to 23% per annum, in foreign currency the interest rate was from 3% to 6% per annum.

Remuneration of key management personnel was comprised of the following:

	2022	*2021*
Salaries and other short-term employee benefits	15,120	4,376
Social security contributions	1,814	525
Total key management personnel remuneration	16,934	4,901

26. Fair value measurements

Fair value hierarchy

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

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

(in millions of UZS)

26. Fair value measurements (continued)

Fair value hierarchy (continued)

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

		Fair value measurement using			
As at 31 December 2022	*Date of valuation*	*Level 1 inputs*	*Level 2 inputs*	*Level 3 inputs*	*Total*
Assets measured at fair value					
Property and equipment – buildings	31 December 2022	–	–	359,334	359,334
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2022	1,862,670	4,447,358	–	6,310,028
Amounts due from credit institutions	31 December 2022	–	1,697,075	–	1,697,075
Loans to customers	31 December 2022	–	–	16,911,241	16,911,241
Investment securities	31 December 2022	–	2,754,465	–	2,754,465
Other financial assets	31 December 2022	–	–	68,727	68,727
Liabilities measured at fair value					
Derivative financial liabilities					
- Foreign exchange forwards and swaps	31 December 2022	–	492	–	492
- Foreign exchange options	31 December 2022	–	15,967	–	15,967
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31 December 2022	–	–	215,442	215,442
Amounts due to customers	31 December 2022	–	–	24,581,429	24,581,429
Other borrowed funds	31 December 2022	–	–	484,510	484,510
Other financial liabilities	31 December 2022	–	–	202,875	202,875

		Fair value measurement using			
As at 31 December 2021	*Date of valuation*	*Level 1 inputs*	*Level 2 inputs*	*Level 3 inputs*	*Total*
Assets measured at fair value					
Property and equipment – buildings	31 December 2019	–	–	256,307	256,307
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2021	913,079	3,065,586	–	3,978,665
Amounts due from credit institutions	31 December 2021	–	897,712	–	897,712
Loans to customers	31 December 2021	–	–	8,788,578	8,788,578
Investment securities	31 December 2021	–	1,430,590	–	1,430,590
Other financial assets	31 December 2021	–	–	23,358	23,358
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31 December 2021	–	–	56,370	56,370
Amounts due to customers	31 December 2021	–	–	14,401,591	14,401,591
Other borrowed funds	31 December 2021	–	–	504,292	504,292
Other financial liabilities	31 December 2021	–	–	55,813	55,813

The Group classifies assets held for sale measured at fair value less costs to sell with the carrying amount of UZS 23,036 million to Level 3 for the purposes of measuring fair value (31 December 2021: Level 3, UZS 41,258 million).

(in millions of UZS)

26. Fair value measurements (continued)

Fair value hierarchy (continued)

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

	31 December 2022			*31 December 2021*		
	Carrying value	*Fair value*	*Unrecog-nised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecog-nised gain/(loss)*
Financial assets						
Cash and cash equivalents	6,310,028	6,310,028	–	3,978,665	3,978,665	–
Amounts due from credit institutions	1,726,032	1,697,075	(28,957)	897,712	897,712	–
Loans to customers	16,516,765	16,911,241	394,476	8,051,816	8,788,578	736,762
Investment securities	2,711,914	2,754,465	42,551	1,430,590	1,430,590	–
Other financial assets	68,727	68,727	–	23,358	23,358	–
Financial liabilities						
Amounts due to credit institutions	224,437	215,442	8,995	56,370	56,370	–
Amounts due to customers	25,055,556	24,581,429	474,127	13,222,736	14,401,591	(1,178,855)
Other borrowed funds	634,942	484,510	150,432	504,292	504,292	–
Other financial liabilities	202,875	202,875	–	55,813	55,813	–
Total unrecognised change in fair value			1,041,624			(442,093)

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

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

Derivatives

Derivatives valued using a valuation model with market observable inputs are mainly interest rate swaps, currency swaps and forward exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. Derivatives valued using a valuation model with significant inputs that are observable in the market are primarily long-term option contracts. These derivatives are valued using the binomial models. Models combine various assumptions that are not observable at the market including volatility of market rates.

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data.

Financial assets and financial liabilities at amortised cost

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

(in millions of UZS)

26. Fair value measurements (continued)

Valuation techniques and assumptions (continued)

Property and equipment – buildings

The fair value of real estate was determined using a comparative approach (based on market prices for offers of similar real estate) for buildings located in Tashkent, and an income approach (direct capitalization method) for other regions of the Republic of Uzbekistan.

The comparative approach is based on market transaction prices, significantly adjusted for differences in the nature, location or condition of property. In determining the cost of a similar building, the Group applies judgement on the impact on the market value of the following aspects:

- Adjustment for bargain;
- Adjustment for size of the building;
- Adjustment for location.

When estimating the fair value of real estate by income method, capitalization rate of 10.19% per annum was used. The increase in capitalization rate would reduce the fair value of buildings.

For income approach (direct income capitalization method) the following assumptions were used:

- Rental rates used by the appraiser were calculated based on the analysis of rental rates (rental offers) for comparative objects;
- When calculating the potential gross income, the total area of the premises was used as a typical for the analyzed local non-residential real estate markets;
- The amount of average market rental rate that was used within the income approach, takes into account the number of population and the degree of development of the commercial real estate market in the towns where the valuation objects are situated.

As at the valuation date, 31 December 2022, the fair value of real estate is based on estimates made by an independent certified appraiser.

27. Risk management

Introduction

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

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

Risk management structure

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

Supervisory Board

The Supervisory Board is responsible for the overall approach to risk management, for the adoption of a strategy and principles for risk management, approving indicators of risk appetite.

Management Board

The Management Board is responsible for the general management of banking risks, distribution of powers and responsibilities for managing banking risk between the heads of departments at various levels, establishes the procedure for interaction and reporting, and is responsible for ensuring compliance by structural units of the bank's local acts and implementation of relevant decisions made in respect of risks by the Supervisory Board.

(in millions of UZS)

27. Risk management (continued)

Introduction (continued)

Risk management

The Risk Management Department develops and participates in the development of local acts of the Bank on risk management, including risk appetite indicators, is responsible for implementing and conducting procedures related to risk management procedures in order to ensure an independent control process, as well as for monitoring compliance with risk management principles, policies and limits, stress testing.

Compliance control

The Compliance Control Department performs functions of internal control in terms of effective detection and suppression of operations with cash or other property aimed at legalization of proceeds of crime, financing of terrorism and financing weapons of mass destruction proliferation, compliance control and risk management in terms of compliance by the Bank or employees with the current legislation, regulations of the CBU and the requirements of local acts of the Bank, regulating the procedure of providing services by the Bank and carrying out banking operations.

Treasury

The Group's Treasury is responsible for managing the Group's assets and liabilities, as well as for the overall financial structure. The Treasury also has primary responsibility for liquidity risk, financing risk and market risk of the Group.

Internal audit

Risk management processes within the Group are audited annually by the Internal Audit Department, which verifies both the sufficiency of the procedures and the implementation of these procedures by the Group. The Internal Audit Department discusses the results of the inspections with management and presents its findings and recommendations to the Audit Committee.

Risk assessment and risk communication systems

The Group's risks are estimated using a method which reflects both the expected loss, which is likely to be incurred in the ordinary course of business, and unforeseen losses, which are an estimate of the largest actual losses based on statistical models. The models use the probabilities obtained from past experience and adjusted for economic conditions. The Group also stimulates the "worst-case scenarios" that will occur in case of events that are considered unlikely.

Risk monitoring and control are mainly based on limits set by the Group. Such limits reflect the business strategy and market conditions in which the Group operates as well as the level of risk that the Group is prepared to accept, with particular attention being paid to individual industries. In addition, the Group monitors and evaluates its overall exposure to risks in relation to the aggregate position across all risks and transactions.

Information obtained on all types of activities is studied and processed for the purpose of analysis, control and early detection of risks. This information is provided with explanations to the Management Board/Supervisory Board of the Group, and the head of each of the unit. The report contains information on the aggregate amount of credit risk, projected credit indicators, exceptions to established credit limits, liquidity ratios and changes in the level of risk. The calculation of reserves according to National Accounting Standards is carried out using software, while, if necessary, additional reserves are created by decision of the authorized body on the basis of the results of individual monitoring and the conclusions obtained from loan monitoring units. The Supervisory Board and the Management Board receive a detailed quarterly risk report containing all the necessary information to assess the Group's risks and make appropriate decisions. On a monthly basis, the Management Board receives a detailed report on credit and liquidity risk, including as part of the quarterly risk report.

For all levels of the Group, various risk reports are compiled that are distributed to ensure that all units of the Group have access to extensive, relevant and up-to-date information.

Risk mitigation

As part of its risk management, the Group uses derivatives and other instruments to manage positions arising from changes in interest rates, exchange rates, credit risk, and positions on forecast transactions.

The Group actively uses collateral to reduce its credit risks (more information is disclosed below).

(in millions of UZS)

27. Risk management (continued)

Introduction (continued)

Excessive risk concentration

Risk concentrations arise when a number of counterparties carry out similar activities, or operate in the same geographic region, or counterparties have similar economic characteristics, and changes in economic, political and other conditions have a similar effect on the ability of these counterparties to perform contractual obligations.

Risk concentrations reflect the relative sensitivity of the Group’s performance to changes in conditions that affect a particular industry or geographic region.

In order to avoid excessive concentrations of risk, the Group’s policies and procedures include special principles aimed at maintaining a diversified portfolio. The identified risk concentrations are managed.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry segments, and by monitoring whether identified risk limits are observed.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The carrying amount of components of the consolidated statement of financial position, including derivatives, without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Impairment assessment

The Group calculates expected credit losses (ECLs) to estimate expected cash shortfalls, which are discounted using the effective interest rate or its approximation. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

(in millions of UZS)

27. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

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

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

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

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

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

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

Definition of default and cure

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

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

- Category “unsatisfactory”, “doubtful” and “loss” under the CBU classification;
- Absence of communication with the borrower, as well as the lack of information to determine the financial condition of the borrower over the past 12 months;
- The borrower is deceased;
- The borrower has filed for bankruptcy or declared bankruptcy;

It is the Group’s policy to consider a financial instrument as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

(in millions of UZS)

27. Risk management (continued)

Credit risk (continued)

Definition of default and cure (continued)

Treasury and interbank relationships

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. To assess such relationships, the credit risk department of the Group analyzes publicly available information, such as financial statements, and data from other external sources, such as external ratings.

International external rating agency (Fitch) rating	*Internal rating description*	*PD*
AA+ to AAA AA A+ to AA-	High rating	0-0.06%
A- BBB+ BBB BBB- BB+	Standard rating	0.06-0.42%
BB- to BB B- to B+ CCC CCC-	Sub-standard	0.42-34.50%
D	Impaired	100%

As at 31 December 2022, for the purposes of assessing the ECL for organizations registered in the Russian Federation, the Group used the following approach:

- Organizations not included in the sanctions lists of the United States, the European Union and the United Kingdom were assigned to Stage 2. For the purposes of determining the probability of default, the pre-default rating of international rating agencies was used. The level of losses in default was determined at 62%;
- Organizations included in the sanctions lists of the United States, the European Union and the United Kingdom were assigned to Stage 3. The probability of default was determined at 100%. The default loss rate was set at 82%.

Corporate lending

In the case of commercial lending, the borrowers are assessed by the Group's Corporate Lending Department. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

The Group uses the following internal credit rating levels for loans to customers:

Number of overdue days	Internal rating description	PD
Not overdue	Standard rating	0-2%
Overdue less than 30 days	Standard rating	2-12%
Overdue 30-90 days	Sub-standard	12-100%
Overdue more than 91 days	Impaired	100%

Exposure at Default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the counterparty's ability to increase its exposure while approaching default and potential early repayments too. To calculate EAD for Stage 1 loans, the Group estimates the probability of default within 12 months to estimate 12-month ECLs. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

(in millions of UZS)

27. Risk management (continued)

Credit risk (continued)

Definition of default and cure (continued)

Loss given default

The Group estimates LGD indicators on the basis of information on the ratios of return of funds with respect to claims against counterparties that have defaulted on their obligations. LGD valuation models take into account the structure, type of collateral, seniority of the claim, the industry in which the counterparty operates, and the cost of recovering any collateral that is an integral part of a financial asset. For loans secured by real estate of individuals, the ratio between the loan amount and the value of collateral (LTV ratio) is the main parameter for determining the amount of loss in case of default. LGD indicators are calculated based on discounted cash flows using the effective interest rate as a discount factor.

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

LGD levels are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk for a financial instrument since initial recognition when contractual payments on a financial instrument are more than 30 days past due.

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

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

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

- All assets within Stage 3, the debt on which is more than 0.2% of the arithmetic average size of equity for the last 2 years according to IFRS;
- The Stage 2 commercial loan portfolio, the debt on which is more than UZS 25,000 million;
- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and investment securities);
- Financial assets that have been classified as POCI when the original loan was derecognised, and a new loan was recognised as a result of a credit driven debt restructuring.

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

- Small and standard assets within Stage 1 and Stage 2, as well as assets within Stage 3, the debt on which is less than 0.2% of the arithmetic average of equity over the past 2 years according to IFRS;
- Purchased credit impaired financial assets managed on a collective basis.

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

(in millions of UZS)

27. Risk management (continued)

Credit risk (continued)

Definition of default and cure (continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of credit related financial asset items in the consolidated statement of financial position:

31 December 2022	Note	Stage 3	High	Standard	Sub-standard	Impaired	Total
		Stage 1	43,823	4,145,942	–	–	4,189,765
Cash and cash equivalents,		Stage 2	–	–	257,385	–	257,385
except for cash on hand	5	Stage 3	–	–	–	208	208
Amounts due from credit institutions	6	Stage 1	1,161,306	556,005	8,721	–	1,726,032
		Stage 1	–	15,803,898	–	–	15,803,898
		Stage 2	–	–	442,761	–	442,761
Loans to customers	7	Stage 3	–	–	–	270,106	270,106
Investment securities	8	Stage 1	–	2,711,914	–	–	2,711,914
Undrawn loan commitments	26	Stage 1	–	1,614	–	–	1,614
Letters of credit	26	Stage 1	–	2,456,353	–	–	2,456,353
Financial guarantees	26	Stage 1	–	189,307	–	–	189,307
Total			1,205,129	25,865,033	708,867	270,314	28,049,343

31 December 2021	Note	Stage 3	High	Standard	Sub-standard	Impaired	Total
Cash and cash equivalents, except for cash on hand	5	Stage 1	47,498	3,018,088	–	–	3,065,586
Amounts due from credit institutions	6	Stage 1	675,384	190,405	31,923	–	897,712
		Stage 1	–	7,615,771	–	–	7,615,771
		Stage 2	–	–	278,588	–	278,588
Loans to customers	7	Stage 3	–	–	–	157,457	157,457
Investment securities	8	Stage 1	–	1,430,590	–	–	1,430,590
Undrawn loan commitments	26	Stage 1	–	6,839	–	–	6,839
Letters of credit	26	Stage 1	–	1,072,972	–	–	1,072,972
Financial guarantees	26	Stage 1	–	140,062	–	–	140,062
Total			722,882	13,474,727	310,511	157,457	14,665,577

(in millions of UZS)

27 Risk management (continued)

Geographical risk

The following table shows the geographical analysis of the Group's assets and liabilities as at 31 December 2022:

	31 December 2022				*31 December 2021*			
	Uzbekistan	*OECD countries*	*Other countries*	*Total*	*Uzbekistan*	*OECD countries*	*Other countries*	*Total*
Financial assets								
Cash and cash equivalents	6,001,972	97,225	210,831	6,310,028	3,903,067	37,615	37,983	3,978,665
Amounts due from credit institutions	564,727	1,161,305	–	1,726,032	254,198	643,514	–	897,712
Loans to customers	16,516,765	–	–	16,516,765	8,051,816	–	–	8,051,816
Investment securities	2,711,914	–	–	2,711,914	1,430,590	–	–	1,430,590
Other financial assets	68,727	–	–	68,727	23,358	–	–	23,358
Total financial assets	25,864,105	1,258,530	210,831	27,333,466	13,663,029	681,129	37,983	14,382,141
Financial liabilities								
Amounts due to credit institutions	15,277	137,403	71,757	224,437	29,893	26,357	120	56,370
Derivative financial liabilities	16,459	–	–	16,459	–	–	–	–
Amounts due to customers	24,926,742	56,093	72,721	25,055,556	13,222,736	–	–	13,222,736
Other borrowed funds	634,942	–	–	634,942	504,292	–	–	504,292
Other financial liabilities	202,875	–	–	202,875	55,813	–	–	55,813
Total financial liabilities	25,796,295	193,496	144,478	26,134,269	13,812,734	26,357	120	13,839,211
Net position on financial assets and liabilities	67,810	1,065,034	66,353	1,199,197	(149,705)	654,772	37,863	542,930

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. In order to limit this risk, the management ensured availability of different funding sources in addition to the existing minimal amount of bank deposits. Management also controls assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group is exposed to the risk due to the daily need to use available funds for settlement of customer accounts, maturing deposits, loans, payments under guarantees and derivative financial instruments that are settled in cash. The Group does not accumulate cash in the event of a one-time fulfilment of obligations under all the above requirements, since, based on the existing practice, it is possible to predict with a sufficient accuracy the necessary level of funds required to fulfil these obligations. Liquidity risk is controlled by the Group's Treasury and Risk Management Department.

(in millions of UZS)

27 Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

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

31 December 2022	*On demand and less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Amounts due to credit institutions	92,227	–	63,806	34,586	42,143	232,762	224,437
Derivative financial liabilities	–	–	16,459	–	–	16,459	16,459
Amounts due to customers	10,262,152	373,899	4,341,275	11,826,949	24,598	26,828,873	25,055,556
Other borrowed funds	792	5,360	49,046	156,771	585,462	797,431	634,942
Other financial liabilities	–	–	202,875	–	–	202,875	202,875
Total undiscounted financial liabilities	10,355,171	379,259	4,673,461	12,018,306	652,203	28,078,400	26,134,269

31 December 2021	*On demand and less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Amounts due to credit institutions	19,922	8,254	1,114	7,591	28,664	65,545	56,370
Amounts due to customers	9,303,506	275,145	1,689,806	3,190,335	39,206	14,497,998	13,222,736
Other borrowed funds	706	5,230	48,020	361,269	423,428	838,653	504,292
Other financial liabilities	–	–	55,813	–	–	55,813	55,813
Total undiscounted financial liabilities	9,324,134	288,629	1,794,753	3,559,195	491,298	15,458,009	13,839,211

The table below shows the contractual expiry by maturity of the Bank's credit related commitments and contingencies. Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
As at 31 December 2022	261,187	–	–	–	261,187
As at 31 December 2021	354,923	–	–	–	354,923

The Group expects that not all of the credit related contractual commitments will be drawn before expiry of the commitments.

(in millions of UZS)

27 Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table shows the sensitivity of the Group's consolidated statement of profit or loss and other comprehensive income to possible changes in interest rates, with all other variables being assumed to be constant.

Sensitivity of the consolidated statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on net interest income for one year, calculated on the basis of non-trading financial assets and financial liabilities with a floating interest rate available as of 31 December 2022.

Currency	*Increase in basis points 2022*	*Sensitivity of net interest income 2022*
UZS	100	(32,316)
EUR	100	(1,367)

Currency	*Decrease in basis points 2022*	*Sensitivity of net interest income 2022*
UZS	(100)	32,316
EUR	(100)	1,367

The Group believes that the interest rate risk as at 31 December 2021 is insignificant due to the insignificant amount of assets and liabilities with floating interest rates.

Currency risk

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

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

Currency	*Change in currency rate in % 2022*	*Effect on profit before tax 2022*	*Change in currency rate in % 2021*	*Effect on profit before tax 2021*
USD	23.66%	(448,301)	10.00%	26,417
	-23.66%	448,301	-10.00%	(26,417)
EUR	22.65%	(7,727)	10.00%	2,175
	-22.65%	7,727	-10.00%	(2,175)

Operational risk

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

(in millions of UZS)

28. Maturity analysis of assets and liabilities

The table below shows a maturity analysis of assets and liabilities: Information about the Group's contractual undiscounted liabilities is disclosed in *Note 27* Risk management.

	2022			*2021*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	6,310,028	–	6,310,028	3,978,665	–	3,978,665
Amounts due from credit institutions	763,373	962,659	1,726,032	887,190	10,522	897,712
Loans to customers	3,020,015	13,496,750	16,516,765	1,346,615	6,705,201	8,051,816
Investment securities	2,209,107	502,807	2,711,914	1,430,590	–	1,430,590
Assets held for sale	23,036	–	23,036	41,258	–	41,258
Property and equipment and right-of-use assets	–	846,330	846,330	–	647,052	647,052
Intangible assets	–	104,533	104,533	–	106,856	106,856
Current income tax assets	23,522	–	23,522	10,082	-	10,082
Deferred income tax assets	–	48,281	48,281	–	18,104	18,104
Other assets	214,751	71,402	286,153	33,525	–	33,525
Total assets	12,563,832	16,032,762	28,596,594	7,727,925	7,487,735	15,215,660
Liabilities						
Amounts due to credit institutions	153,968	70,469	224,437	28,901	27,469	56,370
Derivative financial liabilities	16,459	–	16,459	–	–	–
Amounts due to customers	14,684,650	10,370,906	25,055,556	11,107,423	2,115,313	13,222,736
Other borrowed funds	49,970	584,972	634,942	234,334	269,958	504,292
Other liabilities	211,153	–	211,153	60,054	–	60,054
Total liabilities	15,116,200	11,026,347	26,142,547	11,430,712	2,412,740	13,843,452
Net position	(2,552,368)	5,006,415	2,454,047	(3,702,787)	5,074,995	1,372,208

The Group's capability to meet its liabilities depends upon its ability to realise an equivalent amount of assets within the certain period of time. There is a significant concentration of customer accounts in the period of one year or less as a result of significant concentration of customer accounts.

The Group received significant funds from the depositors. Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

(in millions of UZS)

28. Maturity analysis of assets and liabilities (continued)

The maturity analysis does not reflect the historical stability of customer accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the table. Included in amounts due to customers are term deposits of individuals. In accordance with the legislation of the Republic of Uzbekistan, the Group is obliged to repay such deposits upon demand of a depositor. Term deposits in the table above are presented in accordance with the contractual terms.

For operational management of liquidity risk, the Group regularly monitors external factors that can influence the level of the Group's liquidity and makes a forecast of payment flows. For medium-term and long-term liquidity risk management, the Group analyzes the gap in maturity of claims and liabilities.

The Group continues to increase the volume of investments in short-term types of credit products and reduce the practice of granting grace periods for corporate loans. In order to maintain the required level of liquidity, the Group can raise additional funds in the interbank lending market. Diversification of liquidity sources helps to minimize the Group's dependence on one source and ensure complete fulfilment of its obligations.

29. Segment information

The main format for providing information on the segments of the Group's activities is the disclosure by operating segments, the supplementary one is the disclosure by geographical segments. Most transactions of the Group are related to residents of the Republic of Uzbekistan.

Operating segments

The Group operates in two main operating segments:

- Individuals — provision of banking services to private clients, maintenance of current accounts of private clients, acceptance of savings accounts and deposits, maintenance of debit cards, provision of consumer loans and loans secured by real estate;
- Legal entities — maintaining settlement accounts, attracting deposits, providing loans and other lending services, direct debit, transactions with foreign currencies and derivative financial instruments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2022 or 2021.

The table below presents assets and liabilities of the Group's operating segments:

As at 31 December 2022	*Individuals*	*Legal entities*	*Investment banking*	*Unallocated*	*Total*
Cash and cash equivalents	–	–	6,310,028	–	6,310,028
Amounts due from credit institutions	–	1,726,032	–	–	1,726,032
Loans to customers	10,260,688	6,256,077	–	–	16,516,765
Investment securities	–	–	2,711,914	–	2,711,914
Assets held for sale	–	–	–	23,036	23,036
Property and equipment and right-of-use assets	–	–	–	846,330	846,330
Intangible assets	–	–	–	104,533	104,533
Current income tax assets	–	–	–	23,522	23,522
Deferred income tax assets	–	–	–	48,281	48,281
Other assets	69,273	206,170	–	10,710	286,153
Total assets	10,329,961	8,188,279	9,021,942	1,056,412	28,596,594
Liabilities					
Amounts due to credit institutions	–	137,403	87,034	–	224,437
Derivative financial liabilities	–	16,459	–	–	16,459
Amounts due to customers	11,994,843	13,060,713	–	–	25,055,556
Other borrowed funds	127,117	507,825	–	–	634,942
Other liabilities	135,565	70,312	–	5,276	211,153
Total liabilities	12,257,525	13,792,712	87,034	5,276	26,142,547

(in millions of UZS)

29 Segment information (continued)

Operating segments (continued)

As at 31 December 2021	*Individuals*	*Legal entities*	*Investment banking*	*Unallocated*	*Total*
Cash and cash equivalents	–	–	3,978,665	–	3,978,665
Amounts due from credit institutions	–	897,712	–	–	897,712
Loans to customers	3,802,840	4,248,976	–	–	8,051,816
Investment securities	–	–	1,430,590	–	1,430,590
Assets held for sale	–	–	–	41,258	41,258
Property and equipment and right-of-use assets	–	–	–	647,052	647,052
Intangible assets	–	–	–	106,856	106,856
Current income tax assets	–	–	–	10,082	10,082
Deferred income tax assets	–	–	–	18,104	18,104
Other assets	23,767	8,066	–	1,692	33,525
Total assets	3,826,607	5,154,754	5,409,255	825,044	15,215,660
Liabilities					
Amounts due to credit institutions	–	25,875	30,495	–	56,370
Amounts due to customers	3,479,539	9,743,197	–	–	13,222,736
Other borrowed funds	128,693	375,599	–	–	504,292
Other liabilities	29,601	28,403	–	2,050	60,054
Total liabilities	3,637,833	10,173,074	30,495	2,050	13,843,452

The following tables present profits and losses by the Group's operating segments:

For the year ended 31 December 2022	*Individuals*	*Legal entities*	*Investment banking*	*Unallocated*	*Total*
Interest income	1,521,674	630,115	275,517	–	2,427,306
Interest expenses	(436,083)	(629,877)	(10,314)	–	(1,076,274)
Net interest income	1,085,591	238	265,203	–	1,351,032
Credit loss expense	(137,453)	(111,796)	(11,090)	–	(260,339)
Net interest income after credit loss expense	948,138	(111,558)	254,113	–	1,090,693
Fee and commission income	674,915	234,172	–	–	909,087
Fee and commission expense	(451,469)	(72,612)	–	–	(524,081)
Net gains from foreign currencies	–	–	588,634	–	588,634
Net losses from initial recognition of financial assets measured at amortized cost	–	(33,329)	–	–	(33,329)
Other income	–	–	–	17,284	17,284
Personnel and other operating expenses	(664,447)	(79,553)	–	(146,225)	(890,225)
Other expenses on impairment and provisions	–	–	–	188	188
Profit before income tax expense	507,137	(62,880)	842,747	(128,753)	1,158,251
Income tax expense	–	–	–	(214,585)	(214,585)
Net profit for the year	507,137	(62,880)	842,747	(343,338)	943,666

(in millions of UZS)

29 Segment information (continued)

Operating segments (continued)

For the year ended 31 December 2021	*Individuals*	*Legal entities*	*Investment banking*	*Unallocated*	*Total*
Interest income	524,981	401,636	–	186,367	1,112,984
Other interest income	–	–	–	1,083	1,083
Interest expenses	(205,366)	(258,115)	–	(37,766)	(501,247)
Net interest income	319,615	143,521	–	149,684	612,820
Credit loss expense	(65,208)	(23,943)	–	–	(89,151)
Net interest income after credit loss expense	254,407	119,578	–	149,684	523,669
Fee and commission income	220,749	183,016	–	–	403,765
Fee and commission expense	(108,786)	(39,067)	–	–	(147,853)
Net gains from foreign currencies	–	–	139,724	–	139,724
Other income	201	–	–	9,000	9,201
Personnel and other operating expenses	(241,588)	(153,646)	–	(71,709)	(466,943)
Other expenses on impairment and provisions	–	(22,736)	–	–	(22,736)
Profit before income tax expense	124,983	87,145	139,724	86,975	438,827
Income tax expense	–	–	–	(74,328)	(74,328)
Net profit for the year	124,983	87,145	139,724	12,647	364,499

30. Changes in liabilities arising from financing activities

	Other borrowed funds	*Total*
Carrying amount as at 31 December 2020	307,391	307,391
Additions	194,738	194,738
Redemption	(3,177)	(3,177)
Foreign exchange adjustments	–	–
Other	5,340	5,340
Carrying amount as at 31 December 2021	504,292	504,292
Additions	165,472	165,472
Redemption	(57,296)	(57,296)
Foreign exchange adjustments	20,991	20,991
Other	1,483	1,483
Carrying amount as at 31 December 2022	634,942	634,942

"Other" represents the effect of accrued, but not yet paid interest on other borrowed funds. The Group classifies interest paid as cash flows from operating activities.

(in millions of UZS)

31. Capital adequacy

In the management of capital, the Group has the following objectives: compliance with capital requirements established by the CBU and, in particular, the requirements of the deposit insurance system; ensuring the Group's ability to function as a going concern and maintaining the capital base at the level necessary to ensure the compliance of the capital adequacy ratio with the requirements of the CBU. The compliance with the capital adequacy ratio established by the CBU is monitored monthly according to forecast and actual data containing the relevant calculations, which are verified and approved by the Bank's management.

According to the Regulation on the Requirements for the Adequacy of the Capital of Commercial Banks No. 2693 registered by the Ministry of Justice on 6 July 2015 and its supplement (the "Regulation"), the following requirements are set for banks:

- The minimum level of K1 is set at 13.0%;
- The minimum level of K2 is set at 10.0%, taking into account the capital conservation buffer of 3.0% of risk-weighted assets.

According to the supplement No. 2693-2 dated 23 October 2017, the requirement is set for existing banks to increase the minimum share capital to UZS 100 billion, which must be formed until 1 January 2019.

As at 31 December 2022 and 31 December 2021, the Bank met the requirements to regulatory capital requirements set by the Regulation.

The following table provides an analysis of the Bank's regulatory capital calculated based on the CBU Regulation:

	31 December 2022	*31 December 2021*
Tier I capital	**2,314,860**	1,230,119
Tier II capital	**625,187**	338,839
Total capital	**2,940,047**	1,568,958
Total amount of risk-weighted assets	**18,896,503**	10,257,137
K1	**15.56%**	15.30%
K2	**12.25%**	11.99%

32. Subsequent events

On 1 December 2022, at an extraordinary meeting of Shareholders, it was decided to convert 40,000,000 preferred shares, with a nominal value of UZS 950, for a total nominal amount of UZS 38,000 million (issue No. ROZ 14-19 dated 9 October 2020) by cancelling them and issuing ordinary uncertified registered shares in a number of 40,000,000 pieces, with a nominal value of UZS 950, for a total nominal amount of UZS 38,000 million. The conversion of shares was made in January 2023.

During 2023, there were changes in the Group 's shareholding structure as follows:

(percentage of ownership)	*28 April 2023*	*31 December 2022*
Legal entities		
Finance TCI LLC	**61.54**	67.87
Continent ARM investments LLC (formerly "Continent Insurance LLC")	**38.46**	32.13
Total	**100.00**	**100.00**

Approved and signed on behalf of the Management of the Group:

Mayevskiy K.L.
Chairman of the Management Board of the Bank

Seal

Allayorova D.N.
Chief Accountant of the Bank

28 April 2023