JOINT-STOCK COMMERCIAL
MORTGAGE BANK

“IPOTEKA BANK”

AND ITS SUBSIDIARIES

Consolidated Financial Statements and Independent Auditor’s Report For the Years Ended 31 December 2019, 2018 and 2017

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSCMB "Ipoteka Bank" ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 December 2019, 2018 and 2017 and the related consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and of significant accounting policies and notes to the consolidated financial statements ("the consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Uzbekistan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2019, 2018 and 2017 were approved by the Management Board on 30 September 2020.

On behalf of the Management Board:

Shukhrat Atabaev Chairman of the Board	Elyor Normetov Chief Accountant
30 September 2020 Tashkent, Uzbekistan	30 September 2020 Tashkent, Uzbekistan

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Joint Stock Commercial Mortgage Bank "Ipoteka bank"

Opinion

We have audited the consolidated financial statements of Joint Stock Commercial Mortgage Bank "Ipoteka bank" ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, 2018 and 2017, 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 years 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 2019, 2018 and 2017 and its consolidated financial performance and its consolidated cash flows for the years 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' *Code of Ethics for Professional Accountants* (the "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.

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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment and measurement of expected credit losses ("ECL") on loans and advances to customers As at 31 December 2019, the loans and advances to customers amounted to UZS 19,839,756 million, net of allowance for ECL of UZS 541,986 million assessed on a collective and individual basis. The collective assessment of ECL involves the risk of inappropriate application of assumptions in the parameters of ECL model, such as significant increase in credit risk ("SICR"), probability of default, loss given default rates and exposure at default, and the risk of inadequate input data, including internally generated historical data and its inconsistency or lack of adjustment for market based forward-looking information. Defining the criterion that appropriately reflect the signs of SICR is one of the key areas of judgement.	We obtained an understanding of the credit risk management processes and ECL assessment and measurement, including identification of events leading to significant increase in credit risk and events of default. We analysed the methodologies for consistency with IFRS 9 requirements. To test the appropriateness of staging of loans, we identified the key criterion that drive the staging of loans and, for a sample of loans, we have challenged the Group's staging and whether relevant impairment events had been identified on a timely manner, such as delinquency of interest or principal, existence of litigation cases, restructuring events and certain financial performance indicators in order to evaluate whether the loans were appropriately classified to the respective stage.

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Individual assessment of ECL is dependent on the accuracy of impairment staging that reflects the magnitude of credit risk increase based on the estimation of the expected future cash flows related to individual balances. Management applies significant judgements in determining the inputs to be used in the impairment loss models. Due to the significance of the balances of the loans and advances to customers, the risks associated with the implementation of the impairment model and the complexity of management's judgements applied in measuring the ECL, we identified impairment of loans as a key audit matter. Refer to Notes 3 and 10 to the consolidated financial statements for the description of the Group's policy on the calculation of ECL and disclosure of related balances, respectively.	For the collective assessment models, we analysed the key assumptions used in assessing the probability of default and loss given default with reference to historical information on incurred credit losses, including statistics for recoveries of loans. We tested the accuracy and completeness of the models' source data, such as loans and advances balances and their allocation by days in arrears. We checked the calculation of ECL for arithmetical accuracy. For individually significant loans, we tested the appropriateness of the amount of allowance recognized as at the reporting date by re-performing the calculations on a sample basis for individually significant loans in stage 3, including reviewing the Group's documented credit assessment of the borrowers, challenging assumptions underlying ECL calculation, such as future cash flow projections and the valuation of collateral held, agreeing key assumptions to supporting documents. We assessed the accuracy and completeness of the disclosures in the financial statements.
Liquidity and Going concern principle	
Notes 3 and 20 to these consolidated financial statements describe the details of the Group's non-compliance with certain financial covenants stipulated in the long-term loan agreements signed between the Government of Uzbekistan ("the Government" or "the Ministry of Finance") and the Bank as requested by the Asian Development Bank (ADB). As a result, the Ministry of Finance of Uzbekistan has the right to request the Group to accelerate the repayment of the funds they advanced for the total amount of UZS 309,386 million. The management has, therefore, classified these borrowings within "Less than 3 months" profile in the liquidity disclosure (Note 32). The Bank has concluded that the going concern basis remains appropriate according to the actions taken and plans as described in Note 3. In reaching such conclusion, the Group has considered the continued support by the Government and commitment of ADB to the projects being financed, its strategic role as a government arm in the economy of Uzbekistan and its ability to take mitigating actions if and when required. Due to a direct impact of the covenant breach on the liquidity and financial position of the Group and pervasiveness of the conclusion on appropriateness of the going concern assumption on the financial statements, this area is determined as a key audit matter.	We reviewed management's analyses of liquidity risks, covenants compliance and evaluated reasonableness of going concern assumption by challenging management's judgments and conclusions. We challenged the Group's assumptions in respect of its strategic role in governmental programs, commitment by ADB to continue financing the projects and continuing financial support by the Government. We obtained understanding of the management's remediation plan related to covenants compliance, including understanding of the measures that will be taken by the management to achieve the target indicators in the forecast period. To obtain understanding of significant events related to the going concern and compliance of financial covenants in accordance with agreements with creditors, we checked management board and Council meeting minutes. We analyzed the sources of planned funding from local and international financial institutions and checked the status of negotiating and agreeing the terms of financing. We assessed the Group's ongoing support from the Government and performed the following procedures:

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- reviewed the Group's participation in the strategically important State programs and checked supporting documentation on eligibility for Government's financing;
- reviewed the Government's plan for the Bank's share capital injections, checked the progress and reviewed relevant supporting documentation.

In order to understand the creditor's position we also:
- reviewed key loan agreements with regards to the risk of non-compliance with covenants and checked loan covenants calculations;
- reviewed formal letters received from the Government and ADB.

We checked appropriateness and completeness of the disclosures made in the consolidated financial statements in respect of going concern.

Other Information – Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("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.

Those charged with governance are 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.

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As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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.
- 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.

We communicate with those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, 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.

Deloitte va Touche

"Deloitte & Touche" Audit Organisation LLC
License authorizing audit of companies registered by the Ministry of Finance of the Republic of Uzbekistan under #00776 dated 5 April 2019

Certificate authorizing audit of banks registered by the Central bank of the Republic of Uzbekistan under #3 dated 14 October 2013

30 September 2020
Tashkent, Uzbekistan

Erkin Ayupov
Qualified Auditor/Engagement Partner
Auditor qualification certificate authorizing audit of companies, #04830 dated 22 May 2010 issued by the Ministry of Finance of the Republic of Uzbekistan

Auditor qualification certificate authorizing audit of banks, #6/8 dated 30 June 2015 issued by the Central bank of the Republic of Uzbekistan

Director
"Deloitte & Touche" Audit Organisation LLC

In millions of Uzbekistan Soums	Notes	31 December 2019	31 December 2018*	31 December 2017*
ASSETS				
Cash and cash equivalents	8	2,630,173	1,315,362	1,374,091
Due from other banks	9	845,018	508,224	1,249,251
Loans and advances to customers	10	19,839,756	17,598,212	10,563,180
Debt securities of the Government of the Republic of Uzbekistan	11	131,149	154,610	-
Financial assets at fair value through other comprehensive income	12	6,572	5,784	-
Investment securities available for sale	12	-	-	5,821
Investment in associates	13	1,964	2,240	2,300
Premises, equipment and intangible assets	14	276,601	184,921	138,300
Current income tax prepayment		8	878	18
Deferred income tax asset	28	57,451	33,534	9,294
Other financial assets	15	5,210	1,211	17,515
Other non-financial assets	16	51,076	26,374	23,880
TOTAL ASSETS		**23,844,978**	**19,831,350**	**13,383,650**
LIABILITIES				
Due to other banks	17	284,533	-	160
Customer accounts	18	7,935,719	7,090,686	5,648,433
Debt securities in issue	19	14,850	9,934	12,797
Borrowings from government, state and international financial institutions	20	11,530,321	11,057,373	6,303,874
Other borrowed funds	21	425,905	-	-
Other financial liabilities	22	53,050	13,500	9,862
Other non-financial liabilities	22	52,445	47,732	44,498
TOTAL LIABILITIES		**20,296,823**	**18,219,225**	**12,019,624**
EQUITY				
Share capital	23	2,815,810	983,979	844,421
Share subscription reserve	23	-	124,723	109,477
Share premium	23	-	754	754
Share capital reserve	23	90,656	60,873	31,428
Retained earnings		644,542	443,726	368,472
Revaluation reserve of financial assets at fair value through other comprehensive income		(225)	(731)	-
Net assets attributable to the Bank's owners		**3,550,783**	**1,613,324**	**1,354,552**
Non-controlling interest	35	(2,628)	(1,199)	9,474
TOTAL EQUITY		**3,548,155**	**1,612,125**	**1,364,026**
TOTAL LIABILITIES AND EQUITY		**23,844,978**	**19,831,350**	**13,383,650**

*See Note 6 for details.

Approved for issue and signed on behalf of the Management Board on 30 September 2020.

Shukhrat Atabaev
Chairman of the Board

Elyor Normetov
Chief Accountant

In millions of Uzbekistan Soums	Notes	2019	2018	2017
Interest income	24	1,952,784	1,224,371	582,492
Interest expense	24	(917,559)	(577,354)	(284,911)
Net interest income before provision for credit losses		**1,035,225**	**647,017**	**297,581**
Charge for credit losses on loans and advances to customers	7	(274,856)	(95,581)	(45,236)
Net interest income		**760,369**	**551,436**	**252,345**
Fee and commission income	25	255,425	216,187	205,201
Fee and commission expense	25	(47,748)	(38,346)	(34,506)
Net gain/(loss) from trading in foreign currencies		16,727	(1,075)	59,536
Net gain from foreign exchange translation		20,070	10,533	206,991
Dividend income		181	961	482
Impairment losses on non-financial assets	14,16	-	(25,659)	-
Impairment (charge) / recovery on other financial assets and contingencies	7	(5,774)	1,023	(3,071)
Other operating income	26	31,127	14,592	10,906
Administrative and other operating expenses	27	(619,401)	(503,558)	(391,363)
Share of result of associates	13	(276)	(60)	-
Profit before tax		**410,700**	**226,034**	**306,521**
Income tax expense	28	(71,682)	(48,329)	(25,570)
NET PROFIT FOR THE YEAR		**339,018**	**177,705**	**280,951**
Profit attributable to:				
- Owners of the Bank		339,219	190,103	282,349
- Non-controlling interest		(201)	(12,398)	(1,398)
NET PROFIT FOR THE YEAR		**339,018**	**177,705**	**280,951**
Items that will not be reclassified subsequently to profit or loss:				
Fair value adjustment on financial assets at fair value through other comprehensive income		656	(173)	-
Tax effect	28	(150)	38	-
Total other comprehensive income / (loss) for the year		**506**	**(135)**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**339,524**	**177,570**	**280,951**
Total comprehensive income attributable to:				
- Owners of the Bank		339,725	189,968	282,349
- Non-controlling interest	35	(201)	(12,398)	(1,398)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**339,524**	**177,570**	**280,951**
Basic and diluted earnings per ordinary share in UZS	29	**0.27**	**0.19**	**0.59**

Approved for issue and signed on behalf of the Management Board on 30 September 2020.

Shukhrat Atabaev
Chairman of the Board

Elyor Normetov
Chief Accountant

In millions of Uzbekistan Soums	**Notes**	**Share capital**	**Share subscription reserve**	**Share premium**	**Share capital reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
31 December 2016		**269,421**	**-**	**754**	-	**143,850**	**414,025**	**-**	**414,025**
Net profit / (loss) for the year		-	-	-	-	282,349	282,349	(1,398)	280,951
Total comprehensive income / (loss) for the year		-	-	-	-	282,349	282,349	(1,398)	280,951
Capitalisation of retained earnings - ordinary shares		33,827	-	-	-	(33,827)	-	-	-
Recognition of liability component of preference shares	23	(896)	-	-	-	(225)	(1,121)	-	(1,121)
Share subscription deposit - ordinary shares	23	-	109,477	-	31,428	-	140,905	-	140,905
Ordinary shares issued	23	542,069	-	-	-	-	542,069	-	542,069
Dividends declared - ordinary shares	30	-	-	-	-	(23,675)	(23,675)	-	(23,675)
Additional non-controlling interest from new subsidiaries		-	-	-	-	-	-	10,872	10,872
31 December 2017		**844,421**	**109,477**	**754**	**31,428**	**368,472**	**1,354,552**	**9,474**	**1,364,026**

		Attributable to owners of the Bank								
In millions of Uzbekistan Soums	**Notes**	**Share capital**	**Share subscription reserve**	**Share premium**	**Share capital reserve**	**Retained earnings**	**Revaluation reserve of financial assets at fair value through other comprehensive income**	**Total**	**Non-controlling interest**	**Total equity**
31 December 2017		**844,421**	**109,477**	**754**	**31,428**	**368,472**	**-**	**1,354,552**	**9,474**	**1,364,026**
Effect of IFRS 9 adoption on 1 January 2018	5	-	-	-	-	(57,870)	(596)	(58,466)	-	(58,466)
1 January 2018 (restated under IFRS 9)		**844,421**	**109,477**	**754**	**31,428**	**310,602**	**(596)**	**1,296,086**	**9,474**	**1,305,560**
Net profit / (loss) for the year		-	-	-	-	190,103	-	190,103	(12,398)	177,705
Other comprehensive loss for the year		-	-	-	-	-	(135)	(135)	-	(135)
Total comprehensive income / (loss) for the year		-	-	-	-	190,103	(135)	189,968	(12,398)	177,570
Share subscription deposit - ordinary shares		-	126,906	-	57,343	-	-	184,249	-	184,249
Ordinary shares issued	23	139,558	(111,660)	-	(27,898)	-	-	-	-	-
Dividends declared - ordinary shares	30	-	-	-	-	(56,979)	-	(56,979)	-	(56,979)
Share increase in subsidiaries with non-controlling interest		-	-	-	-	-	-	-	1,725	1,725
31 December 2018		**983,979**	**124,723**	**754**	**60,873**	**443,726**	**(731)**	**1,613,324**	**(1,199)**	**1,612,125**

Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries
Consolidated Statement of Changes in Equity for the years ended 31 December 2019, 2018 and 2017

		Attributable to owners of the Bank								
In millions of Uzbekistan Soums	Notes	Share capital	Share subscription reserve	Share premium	Share capital reserve	Retained earnings	Revaluation reserve of financial assets at fair value through other comprehensive income	Total	Non-controlling interest	Total equity
31 December 2018		**983,979**	**124,723**	**754**	**60,873**	**443,726**	**(731)**	**1,613,324**	**(1,199)**	**1,612,125**
Net profit / (loss) for the year		-	-	-	-	339,219	-	339,219	(201)	339,018
Other comprehensive income for the year		-	-	-	-	-	506	506	-	506
Total comprehensive income / (loss) for the year		-	-	-	-	339,219	506	339,725	(201)	339,524
Share subscription deposit - ordinary shares		-	-	-	90,501	-	-	90,501	-	90,501
Ordinary shares issued	23	477,907	(124,723)		(60,718)	-	-	292,466	-	292,466
Dividends declared - ordinary shares	30	-	-	-	-	(111,580)	-	(111,580)	-	(111,580)
Conversion of debt into equity by the shareholder, net of tax		1,353,924	-	(754)	-	(26,823)	-	1,326,347	-	1,326,347
Share decrease in subsidiaries with non-controlling interest		-	-	-	-	-	-	-	(1,228)	(1,228)
31 December 2019		**2,815,810**	**-**	**-**	**90,656**	**644,542**	**(225)**	**3,550,783**	**(2,628)**	**3,548,155**

Approved for issue and signed on behalf of the Board of Management on 30 September 2020.

Shukhrat Atabaev
Chairman of the Board

Elyor Normetov
Chief Accountant

In millions of Uzbekistan Soums	Notes	2019	2018*	2017*
Cash flows from operating activities				
Interest received		1,902,701	1,065,979	531,837
Interest paid		(890,055)	(515,064)	(294,387)
Fees and commissions received		250,506	217,505	216,526
Fees and commissions paid		(47,748)	(38,346)	(34,506)
Net gain from trading in foreign currencies		16,727	13,511	44,404
Other operating income received		30,736	14,105	10,906
Staff costs paid		(428,668)	(303,984)	(234,765)
Administrative and other operating expenses paid		(145,233)	(175,237)	(109,092)
Income tax paid		(1,519)	(397)	(3)
Cash flows from operating activities before changes in operating assets and liabilities		**687,447**	**278,072**	**130,920**
Net (increase) / decrease in due from other banks		(310,957)	742,588	(164,733)
Net increase in loans and advances to customers		(4,551,544)	(6,889,735)	(2,981,691)
Net decrease in other financial assets		28,664	14,208	-
Net increase in other non-financial assets		(2,803)	(12,579)	(19,856)
Net increase / (decrease) in due to other banks		283,471	(160)	(256,136)
Net increase in customer accounts		520,612	1,421,704	677,879
Net (decrease) / increase in other financial liabilities		(9,258)	(103)	7,900
Net (decrease) / increase in other non-financial liabilities		(3,171)	5,878	8,963
Net cash used in operating activities		**(3,357,539)**	**(4,440,127)**	**(2,596,754)**
Cash flows from investing activities				
Purchase of premises, equipment and intangible assets		(94,808)	(87,106)	(61,013)
Proceeds from disposal of premises, equipment and intangible assets		8,381	1,628	964
Proceeds from property for resale		-	-	13,362
Purchase of financial assets at fair value through other comprehensive income		(132)	(901)	-
Purchase of investment securities available for sale		-	-	(3,499)
Purchase of associates (incorporation)		-	-	(2,300)
Purchase of debt securities of the Government of the Republic of Uzbekistan		(378,846)	(155,569)	-
Proceeds from debt securities of the Government of the Republic of Uzbekistan		402,925	-	-
Dividend income received		181	961	482
Net cash used in investing activities		**(62,299)**	**(240,987)**	**(52,004)**
Cash flows from financing activities				
Issue of ordinary shares		292,466	-	542,069
Proceeds from borrowings from government, state and international financial institutions	32	5,049,974	4,994,355	2,120,013
Repayment of borrowings from government, state and international financial institutions	32	(591,249)	(437,602)	(212,129)
Proceeds from issue of debt securities	32	7,750	5,750	-
Repayment of debt securities in issue	32	(2,900)	(8,500)	(15,600)
Dividends paid	30	(111,457)	(56,860)	(23,465)
Share (decrease)/increase in subsidiaries non-controlling interest		(1,228)	1,725	8,672
Proceeds from stock subscription		840	126,357	109,477
Net cash from financing activities		**4,644,196**	**4,625,225**	**2,529,037**
Effect of exchange rate changes on cash and cash equivalents		**90,453**	**(2,840)**	**962,381**
Net increase / (decrease) in cash and cash equivalents		**1,314,811**	**(58,729)**	**842,660**
Cash and cash equivalents at the beginning of the year	8	1,315,362	1,374,091	531,431
Cash and cash equivalents at the end of the year	8	**2,630,173**	**1,315,362**	**1,374,091**
Non-cash transactions				
Transfer of loans funded by UFRD		3,707,454	-	-
Conversion of debt into equity by the shareholder	23	1,353,924	-	-
Utilization of share subscription and share capital reserves to increase share capital		185,441	139,558	-
Repossessed assets		7,348	-	-

*See Note 6 for details.

Approved for issue and signed on behalf of the Management Board on 30 September 2020.

Shukhrat Atabaev
Chairman of the Board

Elyor Normetov
Chief Accountant

1. Introduction

The Bank is a Joint Stock Company limited by shares and was set up in accordance with the regulations of the Republic of Uzbekistan ("Uzbekistan").

The Bank operates in Uzbekistan and was founded by the Decree of the President of the Republic of Uzbekistan #PP-10 dated 16 February 2005. The Bank was established by merging two banks - State Joint Stock Housing Savings Bank "Uzjilsberbank" and State Joint Stock Mortgage Bank "Zamin". The Bank is registered in Uzbekistan to carry out banking and foreign exchange activities and has operated under the banking license #74 reissued by the Central bank of Uzbekistan ("CBU") on 21 October 2017.

Principal activity. The Bank's principal activity is commercial banking and retail banking, operations with securities, foreign currencies and trade financing. The Bank accepts deposits from legal entities and individuals and makes loans, transfers payments in Uzbekistan and abroad. The Bank conducts its banking operations from its head office in Tashkent and 39 branches within Uzbekistan as at 31 December 2019 (31 December 2018: 39 branches; 31 December 2017: 38 branches). As at 31 December 2019, 2018 and 2017, the number of employees of the Bank was 4,461, 5,334 and 5,305, respectively. The decrease in the headcount is associated with transformation of the Bank with a focus, on mobile and internet banking, and a closure of inefficient banking offices.

The Bank participates in the state deposit insurance scheme introduced by the Uzbek Law #360-II "Insurance of Individual Bank Deposit" dated 5 April 2002. On 28 November 2008, the President of Uzbekistan issued the Decree #UP-4057 stating that in case of the bank license withdrawal, the State Deposit Insurance Fund guarantees repayment of 100% of individual deposits regardless of the deposit amount.

Registered address and place of business. The Bank's registered address is: Shahrisabz Street 30, Tashkent, 100000, Uzbekistan.

Presentation currency. These consolidated financial statements are presented in millions of Uzbekistan Soums ("UZS millions").

Shareholders. As at 31 December 2019, 2018 and 2017, the interest of the shareholders in the Bank's share capital was as follows:

	31 December 2019	**31 December 2018**	**31 December 2017**
Fund for the Reconstruction and Development of the Republic of Uzbekistan (UFRD)	81.5%	53.2%	60.3%
Ministry of Finance of the Republic of Uzbekistan	10.5%	22.6%	11.5%
Uzneftmahsulot JSC	2.7%	7.7%	9.0%
Others (individually less than 5%)	5.3%	16.5%	19.2%
Total	**100%**	**100%**	**100%**

According to the Presidential Decree #PP-4112 dated 14 January 2019, shares of the Ministry of Finance of the Republic of Uzbekistan in the Bank was transferred to the State asset management agency of the Republic of Uzbekistan.

According to the Decree of the Cabinet of Ministers #523 dated 25 June 2019, shares of the State asset management agency of the Republic of Uzbekistan in the Bank was transferred back to the Ministry of Finance of the Republic of Uzbekistan in order to ensure an effective transformation of the Bank's business model for subsequent privatization.

1. Introduction (Continued)

Subsidiaries and associates. As at 31 December 2019, 2018 and 2017, the Bank’s subsidiaries and associates comprised the following:

	Ownership					
Name	**31 December 2019**	**31 December 2018**	**31 December 2017**	**Year of incorporation**	**Industry**	**Country**
Bank's direct interest in subsidiaries:						
Ipoteka Sarmoyasi LLC	100%	100%	100%	2017	Investment	Uzbekistan
Ipoteka Leasing LLC	100%	100%	100%	2017	Leasing	Uzbekistan
Imkonsugurta LLC	100%	-	-	2019	Insurance	Uzbekistan
Bank's indirect interest in subsidiaries via IpotekaSarmoyasi LLC						
O'zbekbaliqsanoat LLC	100%	100%	100%	2017	Fishery	Uzbekistan
Qaraqalpaqbaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Andijonbaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Buxorobaliqsanoat LLC	100%	72%	51%	2017	Fishery	Uzbekistan
Jizzaxbaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Qashqadaryobaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Navoiybaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Namanganbaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Samarqandbaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Surxandaryobaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Sirdaryobaliqsanoat LLC	100%	51%	51%	2017	Fishery	Uzbekistan
Toshkentbaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Farg'onabaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Xorazmbaliqsanoat LLC	51%	51%	51%	2017	Fishery	Uzbekistan
Baliqchilikilmiymarkazi LLC	100%	100%	-	2018	Scientific development	Uzbekistan
Keramikaquyosh LLC	100%	100%	-	2018	Manufacturing	Uzbekistan
Tozaquyoshmateriallari LLC	100%	100%	-	2018	Developing Innovation technologies	Uzbekistan
SBTECH LLC	100%	100%	-	2018	Developing Innovation technologies	Uzbekistan
SIDPAC LLC	100%	100%	-	2018	Developing Innovation technologies	Uzbekistan
Bank's interest in associates:						
Nukus Agro Fish LLC	23%	25%	25%	2017	Fishery	Uzbekistan
Nukus-Group Gold Fish LLC	25%	25%	25%	2017	Fishery	Uzbekistan

In accordance with Presidential Decree #PP-2939 dated 1 May 2017, the Group established subsidiaries with 51% ownership and obtained control through its ability to cast a majority of votes. The main objective of the Group from such investments is to finance the regional fisheries, to replenish their working capital and assist them in the implementation of fish farming development programs. During 2018, according to the Presidential Decree #PP-3365 dated 1 November 2017, additional 5 subsidiaries were established by the Group to develop innovation technologies and science.

According to the decision of the Council dated 6 April 2019, a new fully owned insurance company Imkonsugurta LLC was established with the share capital equal to UZS 30 billion. The company renders general insurance services.

The subsidiaries controlled by the Group are consolidated in these financial statements and associates are accounted for using an equity method.

2. Operating Environment of the Group

Republic of Uzbekistan. Uzbekistan economy displays characteristics of an emerging market, including but not limited to, a currency that is not freely convertible outside of the country and a low level of liquidity in debt and equity markets. Also, the banking sector in Uzbekistan is particularly impacted by local political, legislative, fiscal and regulatory developments. The largest Uzbek banks are state-controlled and act as an arm of Government to develop the country's economy. The Government distributes funds from the country's budget, which flow through the banks to various government agencies, and other state and privately owned entities.

Economic stability in Uzbekistan is largely dependent upon the effectiveness of economic measures undertaken by the Government, together with other legal, regulatory and political developments, all of which are beyond the Bank's control.

The Bank's financial position and operating results will continue to be affected by future political and economic developments in Uzbekistan including the application and interpretation of existing and future legislation and tax regulations which greatly impact Uzbek financial markets and the economy overall.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Uzbekistan economy.

Management of the Group is monitoring developments in the current environment and taking measures, it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group in addition to the effects disclosed in Note 38 is at this stage difficult to determine.

3. Summary of Significant Accounting Policies

Going concern. These consolidated financial statements have been prepared on the assumption that the Group will continue to operate as a going concern for the foreseeable future.

For the year ended 31 December 2019, the Group had a cash outflow from operating activities mainly as a result of on-lending the funds received from international financial institutions and the State to finance the government and investment projects increasing the loans and advances to customers by 13%.

As at 31 December 2019, the Group had a cumulative liquidity deficit up to one year of UZS 1,883,307 million of which UZS 309,386 million was attributable to a non-compliance with the cost-to-income ratio stipulated in the tripartite subsidiary loan agreement No. 3471 dated 5 April 2017 and No. 3673 dated 19 November 2018 between the Republic of Uzbekistan (the "State"), the Rural Restructuring Agency and the Bank (the "Subsidiary Loan Agreements") that were entered into in connection with a programme between the State and the Asian Development Bank ("ADB") and certain project agreements with ADB, as detailed in Note 20.

The Bank has been proactively communicating with both ADB and the State about its non-compliance with the cost-to-income ratio and in December 2019 produced an action plan (the "Action Plan") to achieve compliance with such covenant during 2019-2021. ADB confirmed it had no objection to the Action Plan and, as at 31 December 2019, had not requested the acceleration of the State's debt obligations and the State had in turn not sought prepayment of the Bank's debt obligations as a consequence of past and/or ongoing non-compliance with the above financial covenant under the terms of the Subsidiary Loan Agreements.

Subsequent to the reporting date, due to the effects of the pandemic on the Uzbek economy and banking sector, the Bank estimates that it might need to take additional measures to ensure compliance with the cost-to-income ratio. These measures include but not limited to increase of online lending to reduce operating costs, closing inefficient branches, optimisation of staff costs and substituting state financed low margin lending with high margin commercial lending. In addition, the Bank monitors its non-performing loans ratio impacted by various measures adopted by the State to combat the negative impact of pandemic (including postponement of payments of borrowers facing financial difficulties until 1 October 2020 and a moratorium on enforcement measures in relation to assets of the borrowers negatively impacted by the pandemic). The amendments to the Action Plan covering these two covenants are being discussed and agreed with ADB and the Ministry of Finance. The Management does not anticipate that the State will exercise its right to demand prepayment or apply any sanctions and believes that such non-compliance is not expected to adversely affect the Group's

3. Summary of Significant Accounting Policies (Continued)

financial performance, and in particular its liquidity position. In addition, the Group has received a letter from the State confirming that no event of default has occurred under the Subsidiary Loan Agreements as a result of non-compliance with cost-to-income ratio.

The Group's Management believes that the Group will be able to continue as a going concern for the foreseeable future due to the following factors:

- State ownership and continued ongoing support by the State. As at 31 December 2019, 92% of the Bank's issued share capital is owned by the State through the Fund for the Reconstruction and Development of the Republic of Uzbekistan and the Ministry of Finance of the Republic of Uzbekistan ("the Ministry of Finance"). During 2019, the State has contributed into the share capital of the Bank UZS 1,831,831 million. In addition, the Presidential Decree PP-2660 dated 22 November 2016 exempted the Bank from payment of corporate income and property taxes for five years commencing from 1 January 2017. According to the above decree, the funds saved from such tax relief are directed to the share capital of the Bank as a contribution of the Ministry of Finance.
- The Bank plays a vital role as a government arm/vehicle to channel the State funds to the strategic sectors of the economy of Uzbekistan. The Management believes that in spite of a substantial portion of customer accounts being on demand, the fact that significant portion of these customer accounts are of large State controlled entities which are either the Group's shareholders or its entities under common control and the past experience of the Group, indicate that these customer accounts provide a long-term and stable source of funding for the Group. As at 31 December 2019, total current accounts and borrowings with maturities up to one year of State and State controlled entities amounted to UZS 4,057,310 million. The State lends most of the borrowings of the Group (as at 31 December 2019: UZS 8,096,225 million). Should the Group's liquidity position require more funding, the Group's Management believes that the terms of the State borrowings and deposits of the State controlled entities could be re-negotiated. The Group's cumulative liquidity position up to one year adjusted for exclusion of the State borrowings and deposits of the State controlled entities would result in a surplus in the amount of UZS 2,174,003 million.
- In 2020, the Group entered into an agreement with the International Finance Corporation ("IFC") for a USD 35 million of credit line that will mature on 31 December 2022 to finance Micro, Small or Medium Sized Enterprises. Subject to satisfying certain prescribed conditions, IFC may be entitled to partially or fully convert this credit line into the ordinary shares of the Bank.
- In 2020, the Bank received credit facilities from foreign banks and international financial institutions in the amount of USD 65 million and EURO 93 million.
- Based on a regular assessment of the customer accounts, in particular with respect to those of other non-State owned entities, their past performance and the analysis of events subsequent to the reporting date, the Group's management believes that the customers intend to hold their deposits with the Group and that they will remain at a similar level for the foreseeable future forming a stable funding base.

The Management is not aware of any circumstances that would question the continuation of the Group and considers that all operations will proceed in the normal course of business with the Government retaining the strategic control at least until 2022 as planned in the "Strategy for reforming of the banking system of the Republic of Uzbekistan for 2020 to 2025". This strategy envisages the State's plan to make its shares in the Bank available for sale to strategic private investors.

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by IASB under the historical cost convention, as modified by the initial recognition and subsequent measurement of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented except for the accounting policies and impact of the adoption of IFRS 9 Financial Instruments and new Standards and Interpretations referred to in Note 5.

The Group is required to maintain its records and prepare its consolidated financial statements for regulatory purposes in Uzbek Soums in accordance with Uzbekistan Accounting Legislation and related instructions. These consolidated financial statements are based on the Bank's Uzbekistan Accounting Legislation books and records, adjusted and reclassified in order to comply with IFRS.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. Summary of Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. The Republic of Uzbekistan has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the statement of financial position date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of Uzbekistan indicated that hyperinflation had ceased effective from 1 January 2007. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, which are effectively share capital and premises and equipment, the amounts expressed in the measuring unit current as at 31 December 2006 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Uzbekistan Consumer Price Index ("CPI"), provided by the State Committee on Statistics of the Republic of Uzbekistan, and from indices obtained from other sources for years prior to 1994.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss (PL), after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

3. Summary of Significant Accounting Policies (Continued)

Purchases and sales of non-controlling interests. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial instruments - key measurement terms.

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

3. Summary of Significant Accounting Policies (Continued)

Cost is the fair value of the financial asset at initial acquisition or recognition and includes *transaction costs*. All investments in equity instruments and contracts on those instruments are measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if the there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

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

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

Initial recognition of financial instruments. All other financial instruments are initially recorded at fair value plus transaction costs except for financial assets at fair value through profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

3. Summary of Significant Accounting Policies (Continued)

Accounting for financial assets from 1 January 2018.

Financial assets in the scope of IFRS 9 “Financial Instruments” (“IFRS 9”) are classified as either financial assets at amortised cost, fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income (“FVTOCI”), as appropriate. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 Financial Instruments (“IFRS 9”) are required to be subsequently measured at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Retention of an asset to obtain the cash flows stipulated by the contract. This business model suggests financial asset management aims to realize cash flows by receiving principal and interest payments over the life of the financial instrument. Within the framework of this business model, holding a financial asset to maturity is a priority, but early disposal is not prohibited.
- Retention of an asset with a view for obtaining contractual cash flows and sale of financial assets. This business model assumes that the management of financial assets is aimed at both obtaining contractual cash flows and sale of financial assets. Within the framework of this business model, the receipt of cash from the sale of a financial asset is a priority, which is characterized by a greater frequency and volume of sales compared to "holding an asset to receive contractual cash flows" business model.
- Retention of an asset for other purposes. Within the framework of this business model, financial assets can be managed with the following purposes:
  - management with a view to selling cash flows through the sale of financial assets;
  - liquidity management to meet daily funding needs;
  - a portfolio, which management and performance is measured on a fair value basis;
  - a portfolio, which matches the definition of held for trading. Financial assets are deemed to be held for trading if they were acquired mainly with a view to subsequent disposal in the near future (up to 180 days), gaining short-term profit, or represent derivative financial instruments (except for a financial guarantee or derivative financial instrument that was designated as a hedging instrument).

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

- loans and advances to customers classified as assets at amortised cost are contained within the framework of a business model which aims to receive cash flows exclusively for repayment of unpaid interest and principal stipulated by loan agreement and that have contractual cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding;
- balances on correspondent accounts, interbank loans/deposits, repo transactions are classified, as a rule, as assets, estimated at amortised cost, since they are managed within the framework of a business model, which aims to receive cash flows stipulated by the contract, and that have contractual cash flows that are SPPI;
- debt securities may be classified into any of the three classification categories, taking into account the selected business model and compliance with the SPPI criterion;
- equity securities are generally classified as instruments at fair value through other comprehensive income;
- trading securities and derivatives are classified as financial assets at fair value through profit or loss or other comprehensive income.

Debt instruments at amortised cost or at fair value through other comprehensive income (FVTOCI)

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group’s business model for managing the asset. For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

3. Summary of Significant Accounting Policies (Continued)

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group’s business model does not depend on The Management’s intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments that reflect how the Group manages its financial assets in order to generate cash flows. The Group’s business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Group does not reasonably expect to occur, such as so-called ‘worst case’ or ‘stress case’ scenarios. The Group takes into account all relevant evidence available 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 in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Impairment of financial assets

Expected credit loss (ECL) measurement - definitions

ECL is a probability-weighted measurement of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights).

An ECL measurement is unbiased and should be determined by evaluating a range of possible outcomes.

An ECL measurement is based on four components used by the Group:

3. Summary of Significant Accounting Policies (Continued)

- *Exposure at Default (EAD)* - an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
- *Probability of Default (PD)* - an estimate of the likelihood of default to occur over a given time period.
- *Loss Given Default (LGD)* - an estimate of a loss arising on default. It is based on the difference between contractual cash flows due and those that the lender would expect to receive, including from any collateral. It usually expressed as a percentage of EAD.
- *Discount Rate* - a tool to discount an expected loss from the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Calculation of financial assets impairment was made taking into account the following factors:

- In order to calculate the expected credit losses, the Bank performs loan assessment on an individual basis and on a collective basis depending on general credit risk features.
- Expected credit losses represent estimates of expected credit losses weighted at probability of a default and calculated as present value of all expected losses in amounts due. Calculations are based on justified and verified information, which may be received without any significant costs or efforts. Calculation of the present value of the expected future cash flows of the secured financial asset reflects the cash flow that may result from foreclosure, less the cost of obtaining and selling collateral, regardless of whether the recovery is probable or not. The allowance is based on the Group's own experience in assessing losses and management assumptions about the level of losses likely to be recognised on assets in each category of a credit risk, based on debt servicing capabilities and borrower's credit track record.
- Impairment for treasury operations (investments in debt securities, reverse repurchase transactions, interbank loans and deposits, correspondent account transactions, accounts receivable under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, duration of a transaction and the extent of loss in case of a default.
- Assets classified at fair value through profit or loss are not subject to impairment under IFRS 9.

The estimated credit losses for treasury operations are estimated on an individual basis (except for individual claims in the form of receivables).

Initially, the Management isolates those assets that it deems necessary to assess for ECL on an individual basis. An asset is estimated on an individual basis if the total debt of the borrower at the reporting date exceeds the materiality level. The level of materiality is determined as 8% of arithmetic average of Bank’s statutory profit before tax for the last three years. In the existence of facts or circumstances that can significantly affect the Bank’s estimated materiality level, which, due to these facts or circumstances may be at an unexpected or atypical level for the relevant period, when, for example, the Bank’s large profits or losses may occur due to one-time general economic conditions / changes or other external conditions or non-typical operations for the Bank, then it is possible to normalize the estimated amount of profit before tax for the relevant period by excluding such income / loss from the calculated amount of profit before tax. The level of materiality is analyzed at least once a year to assess its adequacy and applicability, and based on the results of this analysis, the level of materiality may be revised.

Individually significant assets are segmented by stages in accordance with the following approach:

Stage 1

All loans at initial recognition are classified in Stage 1 and remain in Stage 1 if no significant increase in the level of credit risk has been identified or until the factors indicating an increase in credit risk have been identified, except for loans acquired or created credit impaired;

Stage 2

- Loans in which the maximum number of days overdue on principal or interest ranges from 31 days to 90 days;
- Loans, in the category of “substandard” according to the Regulation on the classification procedure of the CBU;

3. Summary of Significant Accounting Policies (Continued)

- Actual or expected (based on reasonable and corroborated information) reduction of the borrower's external credit rating by 2 or more notches;
- A significant deterioration in the quality or condition of the collateral according to the data of the last monitoring report, which is expected to reduce the economic incentive for the borrower to make the planned payments stipulated by the contract or otherwise affect the probability of default (if the information is available). When the security is a guarantee of third parties, significant financial difficulties of the guarantor;
- Credit impaired loans subject to the borrower paying off the debt, which leads to a decrease in the gross book value of the financial instrument as of the formation of provisions to or below the amount of principal at the time of transfer of the financial instrument to the category of credit impaired loans;
- The presence of uncertainty in respect of going concern in the auditor's report of the financial statements of the borrower;
- Involvement in legal proceedings of the borrower (co-borrower), which may worsen its financial condition;
- Violation of covenants one or more times within three months prior to the reporting date.

Stage 3

- Loans for which the maximum number of overdue days on principal or interest is more than 90 days;
- Loans in the “unsatisfactory”, “doubtful” and “bad” categories according to the Regulation on the Classification Procedure of the CBU;
- If the Bank has information on cross-default, overdue payments for 90 calendar days or more on loans with a maturity of more than one year to other creditors;
- Loans that were revised from the time of initial recognition (loans with the status “restructured” in the loan portfolio, including loans that were repaying less than 25% of the principal debt since the date of the last restructuring or the last revision) (except for the cases of loan restructuring, when the financial condition of the borrower is stable and allows the borrower to pay off the debt to the Bank and when the revision and restructuring occurs at the discretion of higher authorities);
- The presence of significant financial difficulties of the borrower;
- Lack of communication with the borrower, as well as the lack of information to determine the financial condition of the borrower (co-borrower) for the last 12 months;
- Reduction of the borrower's external credit rating to CC and lower;
- Writing off part and / or the entire amount of debt on the principal debt and / or remuneration of the borrower
- Suspension of interest accrual on a loan;
- Availability of information about the death of the borrower (co-borrower) if an individual;
- Purchase or creation of a financial instrument with a big discount that reflects the credit losses incurred;
- The borrower's appeal to the court with a statement of recognition of its bankruptcy or filing a claim by a third party to declare the borrower bankrupt in accordance with the legislation of the Republic of Uzbekistan and loans for which there is a court decision or court proceedings are underway (loans for which there are court decision dates in the loan portfolio);
- Any of the principal or accrued interest recorded in off balance sheet accounts in accordance with CBU instructions and/or suspension of interest accrual;

The amount of expected credit losses for loans that are classified in Stage 1 and in Stage 2 is determined on a collective basis.

For each individually significant borrower in Stage 3, one of the following repayment strategies is determined:

- “Restructuring” strategy: restructuring the loan, revising credit conditions and developing an action plan that can allow the borrower to repay the loan;

- Strategy “Realization of collateral”: liquidation of a loan by selling collateral.

The choice of the most appropriate strategy is determined based on the individual situation of the borrower, its availability and consent to cooperation, the availability of opportunities to restore activity, production or the possibility of eliminating the causes that caused losses and the inability to service the debt, the availability of funds from other business lines of the borrower, value, condition of pledges regarding debt and other factors.

In the event that the borrower incurs losses and the Bank has no evidence of other sources of income and funds to service the debt, the strategy for selling collateral for the borrower is chosen.

3. Summary of Significant Accounting Policies (Continued)

Financial assets that did not meet the criteria set for individually significant assets above are also segmented by stages based on the following criteria for further collective assessment for ECL:

Stage 1

There is no significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the next 12 months. All loans at initial recognition are classified in Stage 1 and remain in Stage 1 until the identification of factors that indicate a significant increase in credit risk, except for acquired or created loan-impaired loans.

Stage 2

Significant increase in credit risk since recognition of an asset, impairment is recognized as expected losses over the life of a financial asset.

- Loans in which the maximum number of days overdue on principal or interest ranges from 31 days to 90 days;
- Loans in the category of "substandard" according to the Regulation on the classification procedure of the CBU;
- Loans that were credit-impaired (Stage 3) as at the end of the previous quarter due to one or more transition criteria of Stage 3, and which as at the end of the current quarter have signs of Stage 1 or 2;
- In the absence of historical information about the number of overdue days for accrued interest, loans for which there is an amount of overdue interest at the end of the current quarter;
- Loans for which there is an amount of overdue interest at the end of the previous quarter, and the amount of overdue interest at the end of the current quarter has decreased or is equal to the amount of overdue interest at the end of the current quarter;
- Loans for which, in one or two months of the quarter, at least one overdue principal or interest was reversed from overdue account back to non-overdue account.

Stage 3

Financial asset is in default or has the following signs of impairment;

- Loans for which the maximum number of overdue days on principal or interest is more than 90 days;
- Loans in the category of "unsatisfactory", "doubtful" and "bad" in accordance with the Regulation on the classification procedure of the CBU;
- Loans that have been revised since initial recognition (loans with the status "Restructured in the loan portfolio, including loans for which the repayment was less than 25% of the principal debt since the date of the last restructuring or the last revision (except in cases of restructuring of loans, when the financial condition of the borrower is stable and allows the borrower to repay the debt to the Bank and when restructuring occurs at the decision of higher authorities);
- Loans for which there is a court decision or a trial is in progress (loans for which there are court decision dates in the loan portfolio);
- Loans for which the contract has expired, but the borrower has not fully repaid the debt according to the payment schedule;
- Loans for which there is a positive difference between the accrued amount of overdue interest at the end of the reporting quarter and at the end of the previous quarter;
- Any of the principal or accrued interest recorded in off balance sheet accounts in accordance with CBU instructions and/or suspension of interest accrual;
- Loans for which, in every month of the quarter, at least one overdue principal or interest was reversed from overdue account back to non-overdue account.

***Incorporation of forward-looking information*.** The Group incorporates forward-looking information into measurement of ECL when there is a statistically proven correlation between the macro-economic variables and the NPL. As at the reporting dates, statistical tests have failed and ECL has not been adjusted for forward-looking information. The Management updates its statistical tests for correlation as at each reporting date.

3. Summary of Significant Accounting Policies (Continued)

Write-off. Financial assets are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Accounting for financial assets prior to 1 January 2018.

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available for sale financial assets, as appropriate. The Group determines the classification of its financial assets depending on the nature and purpose of the financial assets, which is determined at the time of initial recognition.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value unless fair value cannot be reliably determined, in which case the investment securities available for sale are carried at cost. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year.

Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Loans and advances and receivables. Loans and receivables are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and receivables are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

3. Summary of Significant Accounting Policies (Continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include deposits with the Central bank of Uzbekistan ("the CBU") except mandatory reserve deposits held with CBU and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Debt securities of the Government of the Republic of Uzbekistan. Debt securities of the Government of the Republic of Uzbekistan are classified as debt securities at amortised cost under IFRS 9, since the Group holds them for long-term investment purposes, the "hold to collect" business model and the cash flow characteristics assessments.

3. Summary of Significant Accounting Policies (Continued)

***Premises and equipment*.** Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Uzbekistan Soum at 31 December 2006 for assets acquired prior to 1 January 2007, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

***Depreciation*.** Construction in progress is not depreciated. Depreciation of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Building and premises	20
Office and computer equipment	5-10
Motor vehicles	5

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the reporting period.

***Intangible assets*.** The Group’s intangible assets have definite useful lives and primarily comprise capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of five years.

***Repossessed collateral*.** Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Accounting for leases after 1 January 2019.

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Group as lessor.</u> Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3. Summary of Significant Accounting Policies (Continued)

The Group as lessee. Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Group:

1. Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
2. Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
3. Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Administrative and other operating expenses' in profit or loss.

Accounting for leases prior to 1 January 2019.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

3. Summary of Significant Accounting Policies (Continued)

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Subordinated debt. Subordinated debt is measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. As per the requirements of the CBU, subordinated debt must meet the following criteria:

- In the event of bankruptcy or liquidation of the Bank, repayment of these debts is subordinate to the repayment of the Bank’s liabilities to all other creditors;
- These debts should not be secured by a pledge;
- The initial contractual maturity must be more than 5 years;
- Consent of the CBU is required for early repayments.

Borrowings from government, state and international financial institutions. These borrowings are carried at amortised cost.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Share capital. Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are reflected in expenses of the period. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Preference shares are accounted for as a compound financial instrument having both a liability component and an equity component. The liability component is initially determined as the present value of future minimum dividend payments discounted at the Bank’s incremental borrowing rate and the rest of the sale proceeds are classified as equity component.

Debt that is convertible, either mandatorily or at the option of the holder, into a fixed number of equity shares of the issuer is a compound instrument. The liability and equity components of a compound instrument are accounted for separately.

Convertible debt that permits the holder to convert the instrument into a variable number of shares dependent on the share price at the date of conversion is not a compound instrument.

3. Summary of Significant Accounting Policies (Continued)

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

When dividends are declared on preference shares, the excess of the dividend above its minimum amount is recognised in equity (as the discretionary payment of the equity component). The minimum dividend is recognised as a decrease of a liability component of preference shares when paid.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Uzbekistan legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of profit or loss and other comprehensive income unless it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within Administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual branches of the Bank.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary’s dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

***Recoverability of deferred tax assets**.* The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely that the deferred tax asset will be fully realized.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positionswere to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Large-scale tax system transformations are taking place in the Republic of Uzbekistan associated with the adoption of the Concept for Improving the Tax Policy of the Republic of Uzbekistan. Its main reforms are implemented in the Tax Code, other regulatory acts, including the annual “budgetary” resolution and entered into force on 1 January 2019.

There were significant changes introduced in tax law of the Republic of Uzbekistan in accordance with the Presidential decree #PD-4086 on “Forecasting the main macroeconomic budget indicators and parameters for 2019 and budget guidelines for 2020-2021” dated 26 December 2018. Corporate income tax for credit organisations has been set at of 20%.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3. Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses).

Foreign currency translation. The functional currency of the Group, which is the currency of the primary economic environment in which the Group operates and the Group's presentation currency is the national currency of the Republic of Uzbekistan, Uzbek Soum ("UZS").

Monetary assets and liabilities are translated into Group's functional currency at the official exchange rate of the Central Bank of Uzbekistan (furthermore CBU) at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Group's functional currency at year-end official exchange rates of the CBU, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

Exchange rates for the currencies in which the Bank transacts were as follows:

Closing exchange rates – [UZS]	**31 December 2019**	**31 December 2018**	**31 December 2017**
1 USD	9,507.56	8,339.55	8,120.07
1 EUR	10,624.70	9,479.57	9,624.72

Average exchange rates for the year ended 31 December -	**2019**	**2018**	**2017**
1 USD	8,839.03	8,068.87	5,121.14
1 EUR	9,892.67	9,535.52	5,855.32

3. Summary of Significant Accounting Policies (Continued)

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank's shares by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions*.* Wages, salaries, contributions to Uzbekistan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting**.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Business model assessment.

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Models and assumptions used.

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Significant increase of credit risk.

As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable information.

For treasury operations, the Group calculates ECL on a financial asset based not only on the current estimates of the credit quality of the counterparty/issuer at the reporting date, but also taking into account possible deterioration of the financial condition due to the adverse macroeconomic factors of the counterparty's/issuer's environment in the future. In particular, the level of ECL for treasury operations is affected by the rating outlook (positive, stable, negative) assigned by international rating agencies, which affects the probability of default ("PD").

For bank loans, the calculation of ECL takes into account the possible estimated effects migration of collective loans and collateral coverage.

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Probability of default.

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

PD for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody's), which publish tabular data with the values of the probabilities of default. The probabilities of default are maintained up to date and are updated on a periodic basis as the default statistics are updated.

PD for individually assessed loans of corporate, small and medium businesses is basing on the quantitative and qualitative characteristics of the borrower. The calculation of PD on loans assessed on a collective basis is carried out on the basis of historical data using the migration matrices and roll-rates.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Loss Given Default.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

LGD for treasury operations is determined according to the Default Study data from international rating agencies (S&P, Fitch, Moody's) and depends on the type of debt on the financial asset: senior secured/unsecured, subordinated, sovereign. In addition, LGD may be adjusted if collateral is provided for the asset, as well as if there are indications of impairment for the financial asset (Stage 2 or Stage 3).

LGD for collectively assessed loans is calculated based on an estimate of the recoverability of debt in case of the pledged collateral sale with a discount period that corresponds to the pledged collateral implementation terms.

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Exposure at Default.

EAD 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, and expected drawdowns on committed facilities. The Group’s modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

Establishing groups of assets with similar credit risk characteristics.

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset’s expected cash flows using the asset’s original EIR, regardless of whether it is measured on an individual basis or a collective basis.

***Tax legislation*.**

Uzbekistan tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.

***Valuation of financial instruments*.**

As described in Note 36, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 36 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Borrowings from government, state and international financial institutions.

The Group obtains long term financing from government, state and international financial institutions at interest rates at which such institutions ordinarily lend in emerging markets and which may be lower than rates at which the Group could source the funds from local lenders. As a result of this financing, the Group is able to advance funds to specific customers at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of these instruments and its judgement is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgement management also considered that these instruments are a separate market sector.

Deferred income tax asset recognition.

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan include whether the Group is expecting to achieve stable growth in net profit during following years.

Preference shares. According to current legislation, the Group is obliged to pay the minimum level of dividends on preference shares, considering it has sufficient profits. However, the legislation is not clear on whether the Group has the right to pay dividends of less than the minimum level when it has sufficient profits. Accordingly, the Group considers that it has an obligation to pay the minimum dividend amount, and the preference shares are accounted for as a compound instrument having both a liability component and an equity component. The liability component is initially determined as the present value of minimum dividend payments discounted at the Group’s incremental borrowing rate and the rest of the sale proceeds are classified as equity component. As a discount rate the Bank used its average borrowing rate on customer deposits and considers the rate as adequate.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

IFRS 9 Financial Instruments

In these consolidated financial statements, the Group has applied IFRS 9, effective for annual periods beginning on or after 1 January 2018. IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

As such, fiscal 2018 results reflect the adoption of IFRS 9, while prior period reflect results under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in the consolidated statement of changes in equity.

This standard suggests changes in classification principles of financial instruments and replacement of "incurred losses" model applied by IAS 39 with "expected losses" model.

In preparing this consolidated financial statements, the significant judgments made by the Management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2017 prepared in accordance with IFRS, except for changes relating to IFRS 9.

	IAS 39 Measurement category	As at 31 December 2017, IAS 39 Carrying Amount	Reclassification	Remeasurement	As at 1 January 2018, IFRS 9 Carrying Amount	IFRS 9 Measurement category
Cash and cash equivalents	Loans and receivables	1,374,092	-	(101)	1,373,991	Amortized cost
Due from other banks	Loans and receivables	1,249,251	-	(7,555)	1,241,696	Amortized cost
Investment securities available for sale	AFS	5,821	(5,821)	-	-	-
Loans and advances to customers	Loans and receivables	10,563,180	-	(65,598)	10,497,582	Amortized cost
Other financial assets	Loans and receivables	17,515	-	(4)	17,511	Amortized cost
Provisions on commitments and contingencies	-	-	-	(96)	(96)	-
Deferred income tax asset	-	9,294	-	16,138	25,432	-
Deferred income tax asset related to AFS	-	654	-	(654)	-	-
Financial assets at fair value through other comprehensive income (2017: Investment securities available for sale)	-	-	5,821	(764)	5,057	FVOCI
Deferred income tax asset OCI	-	-	-	168	168	-

Impact of initial application of IFRS 16 Leases.

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the current lease guidance including IAS 17 Leases and the related Interpretations became effective for accounting periods beginning on or after 1 January 2019.

The Group has applied IFRS 16 using the modified retrospective approach, which means the adoption from 1 January 2019 with no restatement of comparative periods - i.e. comparative period is presented as previously reported under IAS 17 and related interpretations.

The Group made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the assessment of a lease in accordance with IAS 17 and IFRIC 4 continued to apply to those leases entered or modified before 1 January 2019.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the lessee. Control is considered to exist if the lessee has:

a) The right to obtain substantially all of the economic benefits from the use of an identified asset; and
b) The right to direct the use of that asset.

The Group applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019, (whether it is a lessor or a lessee in the lease contract).

On initial application of IFRS 16 for the long-term leases the Group applied the following:

a) Right-of-use assets and lease liabilities are recognized in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Depreciation of right-of-use assets and interest on lease liabilities are recognized in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) are recognized in the consolidated cash flow statement.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as electronic terminals and other), the Group opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Judgements related to the application of IFRS 16

Although, for majority of its lease agreements there is an option to extend short term lease agreements at maturity with new terms with the consent of both parties, the Management of the Group considers that these agreements fall under IFRS16 exemption available for short-term leases due to the fact that agreements are not enforceable after the initial lease term due to insignificant economic penalties to be incurred by both parties in case the lease is not extended. As such, the Group applies the exemption for short-term leases consistently on transition and subsequently.

Under IFRS 16, right-of-use assets were assessed for impairment in accordance with IAS 36 Impairment of Assets. This replaced the previous requirement to recognise a provision for onerous lease contracts.

The implementation of IFRS 16 has no material impact on the amounts or disclosures in these consolidated financial information.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*	The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the ‘solely payments of principal and interest’ (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.
Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*	The Group has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).
Annual Improvements to IFRS Standards 2015–2017 Cycle	The Group has adopted the amendments included in the *Annual Improvements to IFRS Standards 2015–2017 Cycle* for the first time in the current year. The *Annual Improvements* include amendments to four Standards:
Amendments to IAS 12 *Income Taxes*	IAS 12 *Income Taxes*. The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
IFRIC 23 Uncertainty over Income Tax Treatments	The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to: • determine whether uncertain tax positions are assessed separately or as a group; and • assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: • If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. • If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued, but are not yet effective:

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 3	*Definition of a business*
Amendments to IAS 1 and IAS 8	*Definition of material*
Conceptual Framework	*Amendments to References to the* Conceptual Framework *in IFRS Standards*

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 17 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The management of the Bank expects that the application of this standard will have an impact on the consolidated financial statements of the Group in the future, since the Group has a newly established subsidiary, Imkonsugurta LLC, that has instruments within the scope of this Standard.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the board; however, earlier application of the amendments is permitted. The management of the Bank anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

Amendments to IFRS 3 Definition of a Business. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted. The management of the Group does not expect that the application of these amendments will have an impact on the consolidated financial statements of the Group.

Amendments to IAS 1 and IAS 8 Definition of Material. The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards.

The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted. The management of the Group does not expect that the application of these changes will have an impact on the consolidated financial statements of the Group.

Amendments to References to the Conceptual Framework in IFRS Standards. Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

6. Reclassifications and restatements

In 2019, the Group's management revisited the classification of long-term loans received from the local state owned commercial banks designated to finance only specific state projects. The tenor and restricted use nature of these loans were different to term deposits attracted to finance daily operating and liquidity needs. To provide a better understanding of their nature to the users of the financial statements, the management reclassified these loans from "Due to other banks" line item to "Borrowings from government, state and international financial institutions" line item in the consolidated statement of financial position. For the purpose of consistency in presentation, the comparative information was also reclassified.

The management has also identified an error in the classification of cash flows associated with the loans received to finance the specific state projects, which were previously classified as cash flows from operating activities. As a result of the retrospective correction of error, the cash flows related to these projects have been retrospectively reclassified from operating activities to financing activities in the consolidated statement of cash flows.

The management has also identified that the "Proceeds from borrowings from government, state and international financial institutions" and "Repayment of borrowings from government, state and international financial institutions" within financing activities of the consolidated statement of cash flows for the years ended 31 December 2018 and 2017 included interbranch transactions. The management has retrospectively corrected cash flows from these borrowings to present net of interbranch transactions.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the above reclassification and restatement was accounted retrospectively.

The effect of the reclassification on the ***Consolidated Statement of Financial Position as at 31 December 2018***:

In millions of Uzbekistan Soums	**As previously reported**	**Reclassification**	**As amended**
Due to other banks	65,673	(65,673)	-
Borrowings from government, state and international financial institutions	10,991,700	65,673	11,057,373

The effect of the reclassification on the ***Consolidated Statement of Financial Position as at 31 December 2017:***

In millions of Uzbekistan Soums	**As previously reported**	**Reclassification**	**As amended**
Due to other banks	851,699	(851,539)	160
Borrowings from government, state and international financial institutions	5,452,335	851,539	6,303,874

The effect of adjustment to the ***Consolidated Statement of Cash Flows for the year ended 31 December 2018***:

In millions of Uzbekistan Soums	**As previously reported**	**Adjustments**	**As restated**
Net (decrease) / increase in due to other banks	55,063	(55,223)	(160)
Net cash used in operating activities	**(4,384,904)**	**(55,223)**	**(4,440,127)**
Proceeds from borrowings from government, state and international financial institutions	12,988,600	(7,994,245)	4,994,355
Repayment of borrowings from government, state and international financial institutions	(8,487,070)	8,049,468	(437,602)
Net cash from financing activities	**4,570,002**	**55,223**	**4,625,225**

6 Reclassifications and restatements (Continued)

The effect of adjustment to the ***Consolidated Statement of Cash Flows for the year ended 31 December 2017:***

In millions of Uzbekistan Soums	As previously reported	Adjustments	As restated
Net increase / (decrease) in due to other banks	(143,025)	(113,111)	(256,136)
Net cash used in operating activities	**(2,483,643)**	**(113,111)**	**(2,596,754)**
Proceeds from borrowings from government, state and international financial institutions	2,844,479	(724,466)	2,120,013
Repayment of borrowings from government, state and international financial institutions	(1,049,706)	837,577	(212,129)
Net cash from financing activities	**2,415,926**	**113,111**	**2,529,037**

For the years ended 31 December 2018 and 2017, the adjustment of the consolidated statement of cash flows includes the elimination of interbranch transaction in the amount of UZS 8,064,624 million and UZS 724,465 million, respectively.

7. Provisions for Expected Credit Losses

The following table illustrates the movement in provisions for loans and advances to customers and for other financial assets and contingencies for the year ended 31 December 2019:

	Loans and advances to customers (Note 10)			Cash and cash equivalents (Note 8)	Due from other banks (Note 9)	Guarantees (Note 22, 34)			Other financial assets (Note 15)	Debt securities of the Government of the Republic of Uzbekistan (Note 11)	
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 1**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Stage 1**	**Total**
1 January 2019	**125,819**	**9,839**	**133,012**	**50**	**3,806**	**315**	**-**	**-**	**20**	**960**	**273,821**
Transfer to stage 1	55,323	(8,064)	(47,259)	-	-	-	-	-	-	-	-
Transfer to stage 2	(3,273)	16,044	(12,771)	-	-	-	-	-	-	-	-
Transfer to stage 3	(2,523)	(203)	2,726	-	-	-	-	-	-	-	-
New originations	197,271	-	-	25	6,157	572	-	-	372	586	204,983
Transfer of new originations**	(87,282)	22,933	64,349	-	-	-	-	-	-	-	-
Derecognition of financial assets	(15,093)	(981)	(17,338)	-	(1,221)	(152)	-	-	-	(755)	(35,540)
Other changes*	(24,669)	18,147	117,519	(10)	(838)	(158)	236	627	-	333	111,187
Recovery of bad debt written-off / (Bad debt written off)	-	-	(3,472)	-	599	-	-	-	-	-	(2,873)
Currency translation difference	808	216	908	8	296	17	-	1	-	-	2,254
31 December 2019	**246,381**	**57,931**	**237,674**	**73**	**8,799**	**594**	**236**	**628**	**392**	**1,124**	**553,832**
Total			**541,986**	**73**	**8,799**			**1,458**	**392**	**1,124**	**553,832**

7. Provisions for Expected Credit Losses (Continued)

The following table illustrates the movement in provisions for loans and advances to customers and for other financial assets and contingencies for the year ended 31 December 2018:

	Loans and advances to customers (Note 10)			Cash and cash equivalents (Note 8)	Due from other banks (Note 9)	Guarantees (Note 22, 34)	Other financial assets (Note 15)	Debt securities of the Government of the Republic of Uzbekistan (Note 11)	
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 1**	**Stage 1**	**Stage 3**	**Stage 1**	**Total**
1 January 2018	**61,430**	**26,457**	**83,517**	**100**	**7,555**	**96**	**4**	**-**	**179,159**
Transfer to stage 1	39,485	(17,854)	(21,631)	-	-	-	-	-	-
Transfer to stage 2	(282)	7,258	(6,976)	-	-	-	-	-	-
Transfer to stage 3	(861)	(2,464)	3,325	-	-	-	-	-	-
New originations	128,531	-	-	11	1,127	252	-	960	130,881
Transfer of new originations**	(55,779)	2,760	53,019	-	-	-	-	-	-
Derecognition of financial assets	(11,258)	(5,494)	(17,349)	(6)	(3,442)	(55)	16	-	(37,588)
Other changes*	(35,626)	(840)	37,617	(55)	147	22	-	-	1,265
Recovery of bad debt written-off / (Bad debt written off)	-	-	1,139	-	(1,581)	-	-	-	(442)
Currency translation difference	179	16	351	-	-	-	-	-	546
31 December 2018	**125,819**	**9,839**	**133,012**	**50**	**3,806**	**315**	**20**	**960**	**273,821**
Total			**268,670**	**50**	**3,806**	**315**	**20**	**960**	**273,821**

*“Other changes” are atributable to changes in parameters (PD, LGD), changes in EAD and adjustment of ECL due to transfer to new stages.

** “Transfer of new orginations” reflects the transfers of ECL on new loans originated during the reporting period from Stage 1 to other stages. The information on transfers above reflects the migration of loans from their initial stage (or the stage as at the beginning of the reporting date) to the stage they were in as at the reporting date. This information does not reflect the intermediate stage that the loans could be assigned to throughout the reporting period.

7. Provisions for Expected Credit Losses (Continued)

Movements in the provision for loan impairment during 2017 were as follows:

In millions of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
1 January 2017	**41,140**	**620**	**6,300**	**44**	**48,104**
Provision for loan impairment during the year	33,765	1,935	9,165	371	**45,236**
Bad debt written-off	(1,800)	(34)	(1,496)	-	**(3,330)**
Recovery of bad debt written-off	2,344	209	1,199	-	**3,752**
Currency translation difference	12,044	-	-	-	**12,044**
31 December 2017	**87,493**	**2,730**	**15,168**	**415**	**105,806**

Movements in the provision for other financial instruments during 2017 were as follows:

In millions of Uzbekistan Soums	2017
1 January 2017	**229**
Additional provision charge	3,071
Bad debt written off	(3,202)
31 December 2017	**98**

8. Cash and Cash Equivalents

In millions of Uzbekistan Soums	31 December 2019	31 December 2018	31 December 2017
Cash on hand	485,924	350,214	415,100
Cash balances with the CBU (other than mandatory reserve deposits)	895,114	578,405	398,643
Correspondent accounts and overnight placements with other banks	874,388	375,237	557,068
Placements with other banks with original maturities of less than three months	374,820	11,556	3,280
Less – Provision for expected credit losses (Note 7)	(73)	(50)	-
Total cash and cash equivalents	**2,630,173**	**1,315,362**	**1,374,091**

8. Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents, excluding cash on hand, as at 31 December 2019 is summarized below:

In millions of Uzbekistan Soums	Cash balances with the CBU (other than mandatory reserve deposits)	Correspondent accounts and overnight placements with other banks	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired				
- Central bank of Uzbekistan	895,114	-	-	895,114
- "Aa2" (Moody's)	-	1,205	-	1,205
- "Aa3" (Moody's)	-	3,878	-	3,878
- "A1" (Moody's)	-	103,419	-	103,419
- "A2" (Moody's)	-	682,494	-	682,494
- "A3" (Moody's)	-	50,921	-	50,921
- "Ba1" (Moody's)	-	7,145	64,333	71,478
- "B2" (Moody's)	-	2,915	159,369	162,284
- "B2" (Standard & Poors)	-	17,623	-	17,623
- "Baa3" (Moody's)	-	629	-	629
- "BB-" (Standard & Poors)	-	4,159	2,252	6,411
- "BB-" (Fitch)	-	-	148,746	148,746
- "B" (Standard & Poors)	-	-	120	120
Less – Provision for expected credit losses (Note 7)	(22)	(26)	(25)	(73)
Total cash and cash equivalents, excluding cash on hand	**895,092**	**874,362**	**374,795**	**2,144,249**

The credit quality of cash and cash equivalents, excluding cash on hand, as at 31 December 2018 is summarized below:

In millions of Uzbekistan Soums	Cash balances with the CBU (other than mandatory reserve deposits)	Correspondent accounts and overnight placements with other banks	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired				
- Central bank of Uzbekistan	578,405	-	-	578,405
- "Aa2" (Moody's)	-	817	-	817
- "A1" (Moody's)	-	180,327	-	180,327
- "A2" (Moody's)	-	122,899	-	122,899
- "A3" (Moody's)	-	47,292	-	47,292
- "B2" (Moody's)	-	8,954	10,000	18,954
- "B" (Standard & Poors)	-	3	-	3
- "B+" (Fitch)	-	3,787	1,556	5,343
- Unrated	-	11,158	-	11,158
Less – Provision for expected credit losses (Note 7)	(20)	(30)	-	(50)
Total cash and cash equivalents, excluding cash on hand	**578,385**	**375,207**	**11,556**	**965,148**

8. Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents, excluding cash on hand, as at 31 December 2017 is summarized below:

In millions of Uzbekistan Soums	Cash balances with the CBU (other than mandatory reserve deposits)	Correspondent accounts and overnight placements with other banks	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired				
- Central bank of Uzbekistan	398,643	-	-	398,643
- "Aa2" (Moody's)	-	597	-	597
- "A" (Fitch Ratings)	-	363,372	-	363,372
- "A-" (Standard & Poors)	-	31,033	-	31,033
- "BBB+" (Standard & Poors)	-	38,119	-	38,119
- "B+" (Fitch Ratings)	-	17,022	3,280	20,302
- "B+" (Standard & Poors)	-	61,469	-	61,469
- Unrated	-	45,456	-	45,456
Total cash and cash equivalents, excluding cash on hand	**398,643**	**557,068**	**3,280**	**958,991**

9. Due from Other Banks

In millions of Uzbekistan Soums	31 December 2019	31 December 2018	31 December 2017
Long term placements with other banks	447,769	159,626	580,932
Short term placements with other banks with original maturities of more than three months	90,692	118,402	261,963
Mandatory reserve deposit held with CBU	315,356	234,002	406,356
Less – Provision for expected credit losses (Note 7)	(8,799)	(3,806)	-
Total due from other banks	**845,018**	**508,224**	**1,249,251**

The mandatory reserve deposit held with CBU includes obligatory reserve, which depends on the level of funds attracted from customers. These reserves are non-interest bearing deposits held in accordance with CBU instructions. The Group does not have the right to use these deposits for the purposes of funding its own activities.

As at 31 December 2017, mandatory reserve deposit held with CBU contains mandatory reserves against credit losses which was terminated in accordance with the Presidential decree #PP-3270 dated 12 September 2018.

As at 31 December 2019, long term placements with other banks include long term loans provided to other local banks in the amount of UZS 276,600 million (31 December 2018: UZS nil; 31 December 2017: UZS nil) which were funded from UFRD according to the PD# 4231 dated 7 March 2019 (Purpose: Development of family entrepreneurship in regions). These loans were provided with 5% interest rate until March 2026.

Due from other banks includes investments in debt securities of commercial banks of Uzbekistan with the balance of UZS 2,301 million (31 December 2018: UZS 8,361 million, 31 December 2017: UZS 19,526 million).

As at 31 December 2019, 2018 and 2017, due from other banks include deposits placed with State owned banks in the amount of UZS 94,953 million, UZS 56,435 million and UZS 11,311 million, respectively.

9. Due from Other Banks (Continued)

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at the end of the years are as follows:

In millions of Uzbekistan Soums	**31 December 2019**	**31 December 2018**	**31 December 2017**
Neither past due nor impaired			
- Central bank of Uzbekistan	315,356	234,002	406,356
- "A1" (Moody's)	40	43,014	-
- "A2" (Moody's)	24	21	-
- "A3" (Moody's)	14,930	6,137	-
- "A" (Fitch)	-	-	21
- "A-" (Standard & Poors)	-	-	174,142
- "BBB+" (Standard & Poors)	-	-	413,443
- "BBB-" (Fitch)	747	-	-
- "Ba1" (Moody's)	1,997	-	-
- "BB-" (Fitch)	6,391	-	-
- "BB-" (Standard & Poors)	7,111	-	-
- "B+" (Standard & Poors)	-	8,900	-
- "B1" (Moody's)	7,200	-	-
- "B+" (Fitch)	-	3,361	3,349
- "B" (Fitch)	48,400	-	-
- "B2" (Moody's)	279,050	176,874	32,140
- "B3" (Moody's)	43,700	-	168,000
- "B2" (Standard & Poors)	1,000		
- "B" (Standard & Poors)	3,500	-	-
- "B-" (Standard & Poors)	24,200	37,501	51,800
- "B-" (Fitch)	15,000	-	-
- Unrated	85,171	2,220	-
Less – Provision for expected credit losses (Note 7)	(8,799)	(3,806)	-
Total due from other banks	**845,018**	**508,224**	**1,249,251**

Geographical and interest rate analyses of due from other banks are disclosed in Note 32.

10. Loans and Advances to Customers

In millions of Uzbekistan Soums	31 December 2019	31 December 2018	31 December 2017
Corporate loans	7,998,400	12,388,307	7,942,539
Small business loans	6,391,443	2,164,264	1,055,082
Residential mortgage loans	5,169,389	2,748,458	1,444,048
Consumer loans	822,510	565,853	227,317
Total loans and advances to customers before provision for expected credit losses	**20,381,742**	**17,866,882**	**10,668,986**
Provision for expected credit losses (Note 7)	(541,986)	(268,670)	(105,806)
Total loans and advances to customers	**19,839,756**	**17,598,212**	**10,563,180**

As at 31 December 2019, 2018 and 2017, loans and advances to customers include loans provided to State owned enterprises in the amount of UZS 3,298,438 million, UZS 5,633,935 million and UZS 5,140,147 million, respectively.

As at 31 December 2019, corporate loans include finance lease receivables of UZS 269,229 million (31 December 2018: UZS 99,563 million, 31 December 2017: UZS 73,591 million) before impairment provisions.

On 9 October 2019, a Presidential Decree #PP-4487 ("the Decree") was signed focusing on reduction of the State presence, further improvement of the financial stability and commercialization of the banking sector of Uzbekistan. The Decree stipulated a withdrawal of State financed low-margin and subsidized assets out from the State owned banks to ease the pressure on their return on assets and performance (Note 20, 23).

In December 2019, the Group executed the following transactions to meet the requirements stipulated in this Decree:

- The Group transferred eight low-margin loans specified in the Decree ("the Non-core loans") to the UFRD. To compensate for the reduction of assets, the Group was simultaneously discharged from its liabilities to the UFRD by decreasing the Borrowings from government, state and international financial institutions for the same amount. In accordance with the Decree, these USD denominated loans were provided to one of the largest State-owned metallurgical companies to fund national projects and amounted to an equivalent of UZS 3,707,454 million (or USD 389 million) on the date of transaction. These loans were State financed at interest rates ranging from 2% to 3% and on-lent at interest rates ranging from 2.25% to 4%.
- Also, the Government, in its capacity as a shareholder of the Group, has instructed to substantially modify initial terms of the two USD denominated low-margin loans funded by the UFRD by changing their currency profile and interest rates. These modifications resulted in derecognition of old assets with the carrying value of UZS 361,745 million (or USD 38 million) and recognition of new assets with the fair value on initial recognition of UZS 327,273 million. As a result, loss on initial recognition of the asset in the amount of UZS 34,472 million was recognized directly in shareholder's equity by reducing the available share premium and the retained earnings for the remaining amount net of tax in the amount of UZS 6,894 million.

10. Loans and Advances to Customers (Continued)

The tables below shows breakdown of loans and advances to customers by stages:

In millions of Uzbekistan Soums	31 December 2019	31 December 2018	31 December 2017
Stage 1	18,668,575	17,458,087	-
Stage 2	997,929	112,087	-
Stage 3	715,238	296,708	-
Total loans and advances to customers before provision for expected credit losses	**20,381,742**	**17,866,882**	**10,668,986**
Less: Provision for expected credit losses (Note 7)	(541,986)	(268,670)	(105,806)
Total loans and advances to customers	**19,839,756**	**17,598,212**	**10,563,180**

The tables below analyze information about the significant changes in the gross carrying amount of loans and advances to customers during the year:

	Loans and advances to customers			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**17,458,087**	**112,087**	**296,708**	**17,866,882**
Transfer to stage 1	142,216	(65,947)	(76,269)	-
Transfer to stage 2	(539,087)	570,623	(31,536)	-
Transfer to stage 3	(368,014)	(2,423)	370,437	-
New financial assets originated or purchased	8,236,316	-	-	8,236,316
Transfer of new originations*	(691,651)	444,265	247,386	-
Derecognition of financial assets	(7,731,516)	(25,984)	(60,985)	(7,818,485)
Changes in EAD	2,162,224	(34,692)	(27,031)	2,100,501
Bad debt written off	-	-	(3,472)	(3,472)
Gross carrying amount as at 31 December 2019	**18,668,575**	**997,929**	**715,238**	**20,381,742**

10. Loans and Advances to Customers (Continued)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**9,934,544**	**560,268**	**174,174**	**10,668,986**
Transfer to stage 1	404,092	(372,095)	(31,997)	-
Transfer to stage 2	(49,745)	67,537	(17,792)	-
Transfer to stage 3	(353,827)	(14,286)	368,113	-
New financial assets originated or purchased	7,023,742	-	-	7,023,742
Transfer of new originations*	(212,249)	58,482	153,767	-
Derecognition of financial assets	(1,818,066)	(105,540)	(42,201)	(1,965,807)
Changes in EAD	2,529,596	(82,279)	(308,495)	2,138,822
Recovery of bad debt written off	-	-	1,139	1,139
Gross carrying amount as at 31 December 2018	**17,458,087**	**112,087**	**296,708**	**17,866,882**

* "Transfer of new orginations" reflects the transfers of new loans originated during the reporting period from Stage 1 to other stages.

The information on transfers above reflects the migration of loans from their initial stage (or the stage as at the beginning of the reporting date) to the stage they were in as at the reporting date. This information does not reflect the intermediate stage that the loans could be assigned to throughout the reporting period.

Economic sector risk concentrations within the customer loan portfolio were as follows:

	31 December 2019		**31 December 2018**		**31 December 2017**	
In millions of Uzbekistan Soums	**amount**	**%**	**amount**	**%**	**amount**	**%**
Manufacturing	6,440,904	31.6	8,215,364	46.0	6,320,876	59.0
Individuals	5,991,899	29.4	3,314,311	18.5	1,671,365	15.7
Construction	4,794,719	23.5	3,960,918	22.2	1,443,034	13.5
Trade and services	1,638,102	8.0	1,082,427	6.1	540,919	5.1
Agriculture	993,322	4.9	622,902	3.5	315,739	3.0
Transport and communication	281,290	1.4	362,871	2.0	119,209	1.1
Municipal services	214,403	1.1	195,545	1.1	144,253	1.4
Oil & Gas	9,242	0.0	93,552	0.5	110,722	1.1
Other	17,861	0.1	18,992	0.1	2,869	0.1
Total loans and advances to customers before provision for expected credit losses	**20,381,742**	**100**	**17,866,882**	**100**	**10,668,986**	**100**

As at 31 December 2019, the Group had top 10 borrowers with the aggregate loan balance of UZS 7,473,199 million (31 December 2018: UZS 9,515,058 million, 31 December 2017: UZS 3,709,021 million) or 37% (31 December 2018: 53%, 31 December 2017: 35%) of total loans and advances to customers.

10. Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2019 was as follows:

In millions of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Loans collateralised by:					
-real estate	1,164,279	5,163,803	3,366,410	7,626	**9,702,118**
- future cash flow	3,375,387	-	7,746	-	**3,383,133**
-state guarantee	1,809,574	-	-	-	**1,809,574**
-equipment and inventory	581,644	-	916,571	-	**1,498,215**
-letters of surety	266,367	1,830	681,351	495,157	**1,444,705**
-insurance	10,437	3,756	675,492	220,473	**910,158**
-cash deposit	654,932	-	1,481	30,495	**686,908**
-vehicles	35,371	-	576,655	68,742	**680,768**
-other assets	100,409	-	165,737	17	**266,163**
Total loans collateralised	**7,998,400**	**5,169,389**	**6,391,443**	**822,510**	**20,381,742**
Total loans and advances to customers before provision for expected credit losses	**7,998,400**	**5,169,389**	**6,391,443**	**822,510**	**20,381,742**

Information about collateral at 31 December 2018 was as follows:

In millions of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Loans collateralised by:					
-real estate	2,195,577	2,746,455	1,192,451	7	**6,134,490**
-state guarantee	4,340,820	-	-	-	**4,340,820**
- future cash flow	3,449,709	-	4,252	-	**3,453,961**
-letters of surety	579,658	2,002	234,581	476,563	**1,292,804**
-equipment and inventory	1,030,947	-	148,291	12	**1,179,250**
-vehicles	169,281	-	313,306	42,537	**525,124**
-insurance	108,807	1	267,441	46,366	**422,615**
-cash deposit	328,356	-	419	261	**329,036**
-other assets	185,152	-	3,523	107	**188,782**
Total loans collateralised	**12,388,307**	**2,748,458**	**2,164,264**	**565,853**	**17,866,882**
Total loans and advances to customers before provision for expected credit losses	**12,388,307**	**2,748,458**	**2,164,264**	**565,853**	**17,866,882**

10. Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2017 was as follows:

In millions of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Loans collateralised by:					
- state guarantee	3,970,322	-	-	-	**3,970,322**
- real estate	1,229,120	1,442,864	624,714	612	**3,297,310**
- future cash flow	1,173,051	-	-	-	**1,173,051**
- equipment and inventory	788,863	-	17,104	35	**806,002**
- letters of surety	395,173	1,184	92,024	200,102	**688,483**
- cash deposit	220,566	-	813	16,641	**238,020**
- insurance	5,972	-	148,680	4,726	**159,378**
- vehicles	25,911	-	110,669	5,106	**141,686**
- other assets	133,561	-	61,078	95	**194,734**
Total loans collateralised	**7,942,539**	**1,444,048**	**1,055,082**	**227,317**	**10,668,986**
Total loans and advances to customers before impairment provision	**7,942,539**	**1,444,048**	**1,055,082**	**227,317**	**10,668,986**

The amounts disclosed in the tables above represent the outstanding balances of loans and not the fair value of the collateral held against such loans.

10. Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2019 is as follows:

In millions of Uzbekistan Soums	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Not past due loans	7,788,763	5,078,955	5,774,908	803,872	**19,446,498**
Total not past due loans	**7,788,763**	**5,078,955**	**5,774,908**	**803,872**	**19,446,498**
Past due loans					
- less than 30 days overdue	-	8,026	89,553	6,303	**103,882**
- 31 to 90 days overdue	-	38,125	239,315	6,647	**284,087**
- 91 to 180 days overdue	17,098	39,442	209,235	3,492	**269,267**
- 181 to 360 days overdue	-	4,055	68,120	1,620	**73,795**
- more than 360 days overdue	-	786	10,312	576	**11,674**
Total past due loans	**17,098**	**90,434**	**616,535**	**18,638**	**742,705**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	155,838	-	-	-	**155,838**
- 31 to 90 days overdue	11,235	-	-	-	**11,235**
- more than 360 days overdue	25,466	-	-	-	**25,466**
Total individually impaired loans (gross)	**192,539**	**-**	**-**	**-**	**192,539**
- Impairment provisions for individually impaired loans	(54,272)	-	-	-	**(54,272)**
- Impairment provisions assessed on portfolio basis	(64,427)	(177,025)	(232,495)	(13,767)	**(487,714)**
Less provision for expected credit losses	**(118,699)**	**(177,025)**	**(232,495)**	**(13,767)**	**(541,986)**
Total loans and advances to customers	**7,879,701**	**4,992,364**	**6,158,948**	**808,743**	**19,839,756**

As at 31 December 2019, the outstanding amount of loans and advances given under the program of lending to individual mortgage borrowers to obtain typical houses financed by the Ministry of Finance constituted UZS 1,662,233 million (31 December 2018: UZS 1,273,421 million; 31 December 2017: UZS 860,554 million), of which loans with outstanding amount of UZS 2,720 million (31 December 2018: UZS 7,558 million; 31 December 2017: UZS 6,003 million) were overdue (0.2% of the total outstanding amount of loans given under the project (31 December 2018: 0.6%; 31 December 2017: 0.7%)).

10. Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2018 is as follows:

In millions of Uzbekistan Soums	**Corporate loans**	**Residential mortgage loans**	**Small business loans**	**Consumer loans**	**Total**
Not past due loans	12,300,927	2,655,848	2,051,233	560,012	**17,568,020**
Total not past due loans	**12,300,927**	**2,655,848**	**2,051,233**	**560,012**	**17,568,020**
Past due loans					
- less than 30 days overdue	24,424	41,320	40,208	3,078	**109,030**
- 31 to 90 days overdue	11,117	5,548	15,814	699	**33,178**
- 91 to 180 days overdue	11,364	33,337	22,257	1,119	**68,077**
- 181 to 360 days overdue	625	6,957	23,820	877	**32,279**
- more than 360 days overdue	-	5,448	10,932	68	**16,448**
Total past due loans	**47,530**	**92,610**	**113,031**	**5,841**	**259,012**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	19,278	-	-	-	**19,278**
- 91 to 180 days overdue	20,572	-	-	-	**20,572**
Total individually impaired loans (gross)	**39,850**	**-**	**-**	**-**	**39,850**
- Impairment provisions for individually impaired loans	(17,821)	-	-	-	**(17,821)**
- Impairment provisions assessed on portfolio basis	(49,829)	(144,034)	(48,909)	(8,077)	**(250,849)**
Less provision for expected credit losses	**(67,650)**	**(144,034)**	**(48,909)**	**(8,077)**	**(268,670)**
Total loans and advances to customers	**12,320,657**	**2,604,424**	**2,115,355**	**557,776**	**17,598,212**

10. Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

In millions of Uzbekistan Soums	**Corporate loans**	**Residential mortgage loans**	**Small business loans**	**Consumer loans**	**Total**
Not past due loans	7,875,208	1,404,771	962,537	223,862	**10,466,378**
Total not past due loans	**7,875,208**	**1,404,771**	**962,537**	**223,862**	**10,466,378**
Past due loans					
- less than 30 days overdue	9,014	29,752	61,966	648	**101,380**
- 31 to 90 days overdue	17,362	3,382	11,874	2,101	**34,719**
- 91 to 180 days overdue	3,931	1,670	6,568	471	**12,640**
- 181 to 360 days overdue	10,893	1,455	7,026	199	**19,573**
- more than 360 days overdue	9,659	3,018	5,111	36	**17,824**
Total past due loans	**50,859**	**39,277**	**92,545**	**3,455**	**186,136**
Loans individually determined to be impaired (gross)					
- 31 to 90 days overdue	16,472	-	-	-	**16,472**
Total individually impaired loans (gross)	**16,472**	**-**	**-**	**-**	**16,472**
- Impairment provisions for individually impaired loans	(5,719)	-	-	-	**(5,719)**
- Impairment provisions assessed on portfolio basis	(81,774)	(2,730)	(15,168)	(415)	**(100,087)**
Less total impairment provisions	**(87,493)**	**(2,730)**	**(15,168)**	**(415)**	**(105,806)**
Total loans and advances to customers	**7,855,046**	**1,441,318**	**1,039,914**	**226,902**	**10,563,180**

10. Loans and Advances to Customers (Continued)

In millions of Uzbekistan Soums	Due within 1 year	Due between 1 and 5 years	Total
Finance lease payments receivable at 31 December 2019	**59,053**	**273,676**	**332,729**
Unearned finance income	(16,032)	(47,468)	**(63,500)**
Impairment loss provision	(492)	(2,584)	**(3,076)**
Present value of lease payments receivable at 31 December 2019	**42,529**	**223,624**	**266,153**
Finance lease payments receivable at 31 December 2018	**37,715**	**97,239**	**134,954**
Unearned finance income	(14,060)	(21,331)	**(35,391)**
Impairment loss provision	(105)	(336)	**(441)**
Present value of lease payments receivable at 31 December 2018	**23,550**	**75,572**	**99,122**
Finance lease payments receivable at 31 December 2017	**25,324**	**74,610**	**99,934**
Unearned finance income	(8,089)	(18,254)	(26,343)
Impairment loss provision	(154)	(493)	(647)
Present value of lease payments receivable at 31 December 2017	**17,081**	**55,863**	**72,944**

The normal contractual finance lease receivables arrangements of the Bank include the following main terms and conditions:

- Lease term (1-5 years);
- Stated annual lease interest is in the range of 14% - 28% in UZS and 4.6% for EURO, payable monthly from commencement/delivery of lease object to the lessee;
- Finance income computed using effective interest rate;
- Lessee insures risks related to the leased assets such as damage caused by various reasons, theft and other with an insurer and keeps it insured throughout the term of the lease. Insurance fees are paid by the Lessee;
- The Bank is entitled to possession of the object if certain terms of the agreement are not fulfilled;
- Initial direct costs are initially borne by the Bank and are reimbursed by lessees prior to the inception of the lease; and
- Legal title passes to the lessee upon repayment of final lease payment.

11. Debt Securities of the Government of the Republic of Uzbekistan

In millions of Uzbekistan Soums	**Nominal %**	**Maturity**	**31 December 2019**	**31 December 2018**	**31 December 2017**
Government bonds of Ministry of Finance of the Republic of Uzbekistan	16%	December 2021	60,153	60,579	-
Government bonds of Ministry of Finance of the Republic of Uzbekistan	16%	December 2021	47,689	-	-
Government bonds of Ministry of Finance of the Republic of Uzbekistan	15%	July 2022	13,443	-	-
Government bonds of Ministry of Finance of the Republic of Uzbekistan	15%	February 2020	10,988	-	-
Government's zero coupon bonds of Ministry of Finance of the Republic of Uzbekistan	-	June 2019	-	56,082	-
Government bonds of Ministry of Finance of the Republic of Uzbekistan	16%	December 2019	-	38,909	-
Less - Provision for expected credit losses (Note 7)			(1,124)	(960)	-
Total debt securities of the Government of the Republic of Uzbekistan			**131,149**	**154,610**	-

During 2019, the Group has sold the Government bonds of the Republic of Uzbekistan in the amount of UZS 255,685 million prior to their maturity to fund their unexpected liquidity needs. This sale was unexpected and not customary, and therefore, is not a change in the business model of "hold to collect".

12. Financial Assets at Fair Value through Other Comprehensive Income (IAS 39 – Investment Securities Available for Sale (2017))

Equity securities	Nature of business	31 December 2019	31 December 2018	31 December 2017
Chilonzor buyum savdo kompleksi JSC	Trade	4,470	3,193	3,410
Qo'qon neftegaz parmalash ishlari JSC	Oil & Gas	392	845	342
O'zagrolizing JSC	Leasing	368	401	692
Qurilish-Lizing LLC	Leasing	360	360	360
O'zMed-Lizing JSC	Leasing	302	358	341
Qo'yliq dehqon bozori OAJ	Trade	283	-	-
Kredit ahborot tahliliy markazi LLC	Consulting	154	166	40
O`zshahar qurilish invest LLC	Construction	90	90	90
O'zgeoburneftgaz JSC	Oil & Gas	56	47	4
O'zneftgazqazibchiqarish JSC	Oil & Gas	46	36	36
Uzneftmahsulot JSC	Oil & Gas	26	20	21
Xorazm Baliq Sanoat Agro LLC	Fishery	25	25	25
O'zmarkazimpeks JSC	Trade	-	243	456
Banklararo maslahat markazi LLC	Consulting	-	-	4
Total financial assets at fair value through other comprehensive income (IAS 39 - Investment securities available for sale (2017))		**6,572**	**5,784**	**5,821**

The capital markets of Uzbekistan including the stock exchanges function nominally and do not have an active trading. As a result, equity instruments originated in Uzbekistan are usually illiquid and do not have an active market. In the absence of publicly available information on fair value of equity instruments, the market applies a dividend discount model to approximate the fair value of equity instruments. The fair value of the equity securities at fair value through other comprehensive income held by the Group were determined as the present value of future dividends by assuming dividend growth rate of zero per annum. The Management built its expectation based on previous experience of dividends received on such financial assets over multiple years, and accordingly calculated the value using the average rate of return on investments.

As at 31 December 2019, 2018 and 2017, none of the equity investments were pledged as collateral against borrowings of the Group.

As at 31 December 2019, 2018 and as at 1 January 2018, after IFRS 9 adoption, revaluation reserve of equity financial assets at fair value through other comprehensive income amounted to UZS 281 million less tax effect of UZS 56 million, UZS 938 million less tax effect of UZS 207 million and UZS 764 million less tax effect of UZS 168 million, respectively.

13. Investment in Associates

The table below summarises the movements in the carrying amount of the Group’s investment in associates:

In millions of Uzbekistan Soums	2019	2018	2017
Carrying amount at 1 January	**2,240**	**2,300**	**-**
Fair value of net assets of associate established	-	-	2,300
Share of losses of associates	(276)	(60)	-
Carrying amount at 31 December	**1,964**	**2,240**	**2,300**

Name	31 December 2019		31 December 2018		31 December 2017	
	% ownership interest	Place of business	% ownership interest	Place of business	% ownership interest	Place of business
Nukus Agro Fish LLC	23%	Uzbekistan	25%	Uzbekistan	25%	Uzbekistan
Nukus-Group Gold Fish LLC	25%	Uzbekistan	25%	Uzbekistan	25%	Uzbekistan

In accordance with the Presidential Decree #PP-2939 dated 1 May 2017, the Group participated in the establishment of 25% associates (fisheries) and obtained significant influence over them. Principle activities of associates are not strategic to activities of the Group.

Summarised financial information of each material associate as at 31 December 2019 is as follows:

In millions of Uzbekistan Soums	Nukus Agro Fish LLC	Nukus-Group Gold Fish LLC	Total associates
Current assets	91	662	**753**
Non-current assets	11,318	1,283	**12,601**
Current liabilities	(707)	(1)	**(708)**
Non-current liabilities	(4,278)	-	**(4,278)**
Loss from continuing operations	(1,135)	(56)	**(1,191)**
Total comprehensive loss	(1,135)	(56)	**(1,191)**

Summarised financial information of each material associate as at 31 December 2018 is as follows:

In millions of Uzbekistan Soums	Nukus Agro Fish LLC	Nukus-Group Gold Fish LLC	Total associates
Current assets	463	723	**1,186**
Non-current assets	8,747	1,279	**10,026**
Current liabilities	(318)	(2)	**(320)**
Non-current liabilities	(1,931)	-	**(1,931)**
Loss from continuing operations	(238)	-	**(238)**
Total comprehensive loss	(238)	-	**(238)**

13. Investment in Associates (Continued)

Summarised financial information of each material associate as at 31 December 2017 is as follows:

In millions of Uzbekistan Soums	**Nukus Agro Fish LLC**	**Nukus-Group Gold Fish LLC**	**Total associates**
Current assets	1,322	1,049	**2,371**
Non-current assets	6,399	957	**7,356**
Current liabilities	(11)	(5)	**(16)**
Non-current liabilities	(511)	-	**(511)**
Loss from continuing operations	(1)	-	**(1)**
Total comprehensive loss	(1)	-	**(1)**

14. Premises, Equipment and Intangible Assets

In millions of Uzbekistan Soums	Building and premises	Office and Computer equipment	Motor vehicles	Construction in progress	Intangible assets	Total
Cost at 31 December 2016	37,977	78,448	3,959	32,273	3,136	155,793
Accumulated depreciation /amortisation	(10,916)	(47,605)	(1,915)	-	(2,423)	(62,859)
Carrying amount at 31 December 2016	**27,061**	**30,843**	**2,044**	**32,273**	**713**	**92,934**
Additions	8,997	42,924	19	7,617	1,457	61,014
Disposals (net of depreciation)	(46)	(799)	(119)	-	-	(964)
Net transfers	223	(1,417)	1,284	(198)	108	-
Depreciation / amortisation charge (Note 27)	(2,197)	(11,580)	(656)	-	(251)	(14,684)
Carrying amount at 31 December 2017	**34,038**	**59,971**	**2,572**	**39,692**	**2,027**	**138,300**
Cost at 31 December 2017	47,124	116,137	4,474	39,692	4,699	212,126
Accumulated depreciation / amortisation	(13,086)	(56,166)	(1,902)	-	(2,672)	(73,826)
Carrying amount at 31 December 2017	**34,038**	**59,971**	**2,572**	**39,692**	**2,027**	**138,300**
Additions	23,627	48,092	39	13,646	1,691	87,095
Disposals (net of depreciation)	(576)	(88)	(191)	(286)	-	(1,141)
Net transfers	39,178	1,072	2,055	(42,307)	2	-
Depreciation / amortisation charge (Note 27)	(3,806)	(18,677)	(1,148)	-	(562)	(24,193)
Impairment losses	(15,140)	-	-	-	-	(15,140)
Carrying amount at 31 December 2018	**77,321**	**90,370**	**3,327**	**10,745**	**3,158**	**184,921**
Cost at 31 December 2018	94,115	160,961	6,158	10,745	6,392	278,371
Accumulated depreciation / amortisation	(16,794)	(70,591)	(2,831)	-	(3,234)	(93,450)
Carrying amount at 31 December 2018	**77,321**	**90,370**	**3,327**	**10,745**	**3,158**	**184,921**
Additions	14,568	95,725	585	18,356	3,129	132,363
Disposals (net of depreciation)	(5,698)	(1,915)	(344)	(33)	-	(7,990)
Net transfers	18,750	(4,722)	5,110	(19,152)	14	-
Depreciation / amortisation charge (Note 27)	(4,035)	(26,038)	(1,587)	-	(1,033)	(32,693)
Carrying amount at 31 December 2019	**100,906**	**153,420**	**7,091**	**9,916**	**5,268**	**276,601**
Cost at 31 December 2019	121,826	250,047	11,505	9,916	9,539	402,833
Accumulated depreciation / amortisation	(20,920)	(96,627)	(4,414)	-	(4,271)	(126,232)
Carrying amount at 31 December 2019	**100,906**	**153,420**	**7,091**	**9,916**	**5,268**	**276,601**

During 2019, 2018 and 2017, office and computer equipment increased mainly because of the following:

- Purchase of automated teller machines amounting to UZS 26,700 million, UZS 9,041 million and UZS 62 million, respectively;
- Purchase of point of sale terminals amounting to UZS 25,298 million, UZS 12,936 million and UZS 7,015 million, respectively.

During 2019, 2018 and 2017, construction in progress amounting to UZS 18,750 million, UZS 39,178 million and UZS 223 million, respectively were transferred to the building and premises because of completion of renovation and purchase of buildings for head office as well as for branches.

As at 31 December 2019, the Group had impairment losses on property, plant and equipment of regional fishery entities in the amount UZS nil (31 December 2018:15,140 million; 31 December 2017: UZS nil).

As at 31 December 2019, 2018 and 2017, included in premises and equipment were fully depreciated assets totaling UZS 48,453 million, UZS 47,349 million and UZS 29,630 million, respectively.

As at 31 December 2019, 2018 and 2017, premises and equipment of the Group were not pledged.

15. Other Financial Assets

In millions of Uzbekistan Soums	**31 December 2019**	**31 December 2018**	**31 December 2017**
Commission and other receivable	5,602	401	282
Charter capital contributions receivable from shareholders	-	830	2,199
Unrealised gain on forex contracts	-	-	15,132
Less – Provision for expected credit losses (Note 7)	(392)	(20)	-
Less impairment provision (Note 7)	-	-	(98)
Total other financial assets	**5,210**	**1,211**	**17,515**

16. Other Non-Financial Assets

In millions of Uzbekistan Soums	**31 December 2019**	**31 December 2018**	**31 December 2017**
Prepayments	22,305	13,072	16,565
Assets for finance lease	16,317	4,831	-
Repossesed assets	7,348	-	-
Inventories	2,841	5,030	4,233
Prepayment for subscriptions	1,043	2,377	2,366
Insurance assets	76	-	-
Other	1,146	1,438	716
Less impairment provision	-	(374)	-
Total other non-financial assets	**51,076**	**26,374**	**23,880**

As at 31 December 2019, prepayments include advance payments for construction in progress in the amount of UZS 2,930 million (31 December 2018: UZS 1,131 million, 31 December 2017: UZS 2,442 million), for leasing equipment in the amount of UZS 3,656 million (31 December 2018: UZS 589 million, 31 December 2017: UZS 8,000 million), for renovation of branches in the amount of UZS 3,042 million (31 December 2018: UZS 1,396 million, 31 December 2017: UZS 1,285 million) and for purchase of plastic cards in the amount of UZS 3,527 million (31 December 2018: nil, 31 December 2017: nil).

As at 31 December 2019 and 2018, assets for finance lease include vehicles and equipment purchased by subsidiary company “Ipoteka Leasing” LLC for the purpose of finance lease.

As at 31 December 2019, the Group has written off inventory of regional fishery entities in the amount of UZS nil (31 December 2018: UZS 10,519 million, 31 December 2017: UZS nil).

17. Due to Other Banks

In millions of Uzbekistan Soums	31 December 2019	31 December 2018	31 December 2017
Long-term placements of other banks	-	-	160
Short-term placements of other banks	284,533	-	-
Total due to other banks	**284,533**	**-**	**160**

Short term placements of other banks are placements by domestic banks in UZS bearing interest of 17-19% and in USD bearing interest of 5-6%.

18. Customer Accounts

In millions of Uzbekistan Soums	31 December 2019	31 December 2018	31 December 2017
State and public organisations			
- Current/settlement accounts	1,473,109	1,641,572	1,247,002
- Term deposits	3,113,328	2,529,517	1,796,628
Other legal entities			
- Current/settlement accounts	1,119,693	1,025,372	733,572
- Term deposits	409,958	340,242	586,612
Individuals			
- Current/settlement accounts	692,424	439,100	371,185
- Term deposits	1,127,207	1,114,883	913,434
Total customer accounts	**7,935,719**	**7,090,686**	**5,648,433**

Economic sector concentrations within customer accounts are as follows:

	31 December 2019		31 December 2018		31 December 2017	
In millions of Uzbekistan Soums	Amount	%	Amount	%	Amount	%
State and budgetary organisations	4,586,437	58	4,171,089	59	3,043,630	54
Individuals	1,819,631	23	1,553,983	22	1,284,619	23
Private enterprises	1,014,692	13	906,317	13	912,263	16
Joint ventures	199,423	3	231,883	3	130,948	2
Non-governmental organisations	183,863	2	86,635	1	174,371	3
Other	131,673	1	140,779	2	102,602	2
Total customer accounts	**7,935,719**	**100**	**7,090,686**	**100**	**5,648,433**	**100**

As at 31 December 2019, the Group had top 10 customers with outstanding balances of UZS 2,956,464 million (31 December 2018: UZS 1,863,569 million; 31 December 2017: UZS 2,325,354 million) or 37% (31 December 2018: 26%, 31 December 2017: 41%) of total customer accounts.

As at 31 December 2019, 2018 and 2017, customer accounts include funds pledged against letters of credit and guarantees in the amount of UZS 334,234 million, UZS 1,038,563 million and UZS 1,444,955 million, respectively.

19. Debt Securities in Issue

In millions of Uzbekistan Soums	**31 December 2019**	**31 December 2018**	**31 December 2017**
Certificates of deposit	14,850	9,934	12,797
Total debt securities in issue	**14,850**	**9,934**	**12,797**

Interest rate and maturity analysis of debt securities in issue is disclosed in Note 32.

As at 31 December 2019, 2018 and 2017, debt securities in issue include debt securities of State owned enterprises in the amount of UZS 2,804 million, UZS 3,435 million and UZS 5,248 million, respectively.

20. Borrowings from Government, State and International Financial Institutions

In millions of Uzbekistan Soums	**31 December 2019**	**31 December 2018**	**31 December 2017**
Borrowings from the Ministry of Finance of the Republic of Uzbekistan	7,189,496	4,279,968	940,230
Borrowings from International Financial Institutions	2,363,981	1,248,547	714,007
Borrowings from Domestic Financial Institutions	981,936	1,020,391	857,394
Borrowings from the Fund for the Reconstruction and Development of the Republic of Uzbekistan	906,729	4,389,285	3,700,032
Borrowings from CBU	76,101	107,104	80,133
Debt component of preference shares	12,078	12,078	12,078
Borrowings from government, state and international financial institutions	**11,530,321**	**11,057,373**	**6,303,874**

As detailed in Note 10 and 23, in December 2019, in line with the Presidential Decree #PP-4487, the Group has extinguished its borrowings from the UFRD in the amount of UZS 3,707,454 million (or USD 389 million) by transferring the Non-core loans to the UFRD, and converted borrowings received from the UFRD in the amount of UZS 1,353,924 million into the Group's share capital.

Some of the long-term borrowing agreements disclosed above stipulate specific covenants non-compliance with which may give the lenders a right to recall funding advanced to the Bank.

In 2017 and 2018, ADB advanced two loans to the State, in connection with financing of certain horticulture projects in Uzbekistan. The State on-lent a part of these loans to the Bank under the Subsidiary Loan Agreements. The loan agreements between ADB and the State require the latter to cause the Bank to ensure maintenance of a number of covenants including a cost-to-income ratio throughout the implementation period of the project. The same financial covenants are included in the Subsidiary Loan Agreements. As at 31 December 2019, the Group was not in compliance with the cost-to-income ratio stipulated in the Subsidiary Loan Agreements that had an outstanding balance of UZS 309,386 million.

Pursuant to the terms of the Subsidiary Loan Agreements, any non-compliance with such covenants gives the State the right to demand prepayment of the loans advanced to the Bank. The Bank has been proactively communicating with both ADB and the State to establish a strategic action plan in order to rectify the non-compliance with cost-to-income ratio and to ensure compliance with this covenant in the future. In December 2019, the Bank produced the Action Plan to achieve compliance with such covenant by 2021. ADB confirmed in writing it had no objection to the proposed Action Plan and, as at 31 December 2019, had not requested the acceleration of the State's debt obligations and the State had in turn not sought prepayment of the Bank's debt obligations as a consequence of past and/or ongoing non-compliance with the above financial covenant under the terms of the Subsidiary Loan Agreements. In addition, the Group has received a letter from the State confirming that no event of default has occurred under the Subsidiary Loan Agreements as a result of non-compliance with cost-to-income ratio.

20. Borrowings from Government, State and International Financial Institutions (Continued)

Subsequent to the reporting date, due the effects of the pandemic on the Uzbek economy and banking sector, the Bank estimates that it might need to take additional measures to ensure compliance with the cost-to-income ratio. In addition, the Bank monitors its non-performing loans ratio impacted by various measures adopted by the State to combat the negative impact of pandemic (including postponement of payments of borrowers facing financial difficulties until 1 October 2020 and a moratorium on enforcement measures in relation to assets of the borrowers negatively impacted by the pandemic). The amendments to the Action Plan covering these two covenants are being discussed and agreed with ADB and the Ministry of Finance. The Management does not anticipate that the State will exercise its right to demand prepayment or apply any sanctions and believes that such non-compliance is not expected to adversely affect the Group’s financial performance, and in particular its liquidity position.

As a result of the above covenant non-compliance, as at 31 December 2019, the Group classified its long-term borrowings for the total amount of UZS 309,386 million as “Less than 3 months” for the IFRS reporting purposes.

As at 31 December 2018 and 2017, the Group did not comply with certain financial covenants set by ADB, European Bank for Reconstruction and Development, China Development Bank and Islamic Corporation for the Development of the Private Sector (“the ICD”) and all had the right to claim for early repayment of their loans advanced to the Bank. As at the date of issuance of these consolidated financial statements, these historic non-compliance with covenants were rectified (except for the non-compliance with the cost-to-income ratio under the Subsidiary Loan Agreements described above), none of the lenders have exercised this right and the commitment of the Bank to ICD has expired.

As a result of the above covenant non-compliances, the Group classified its long-term borrowings for the total amount of UZS 656,286 million and UZS 22,376 million as at 31 December 2018 and 2017, respectively, as “Less than 3 months” for the IFRS reporting purposes.

Interest rate and maturity analysis of borrowings from government, state and international financial institutions is disclosed in Note 32.

21. Other Borrowed Funds

In millions of Uzbekistan Soums	**Currency**	**Maturity date**	**Nominal %**	**31 December 2019**	**31 December 2018**	**31 December 2017**
Debt of the Ministry of Finance of the Republic of Uzbekistan	UZS	November, 2029	3%	202,311	-	-
Debt of the Ministry of Finance of the Republic of Uzbekistan	UZS	November, 2030	3%	180,718	-	-
Debt of the Ministry of Finance of the Republic of Uzbekistan	UZS	November, 2028	3%	42,876	-	-
Total other borrowed funds				**425,905**	**-**	**-**

Other borrowed funds will further be directed to financing of program of lending to individual mortgage borrowers.

These other borrowed funds were originated as a result of transfer of the borrowings from the Ministry of Finance of the Republic of Uzbekistan by signing additional agreements on 9 March 2019 with intention to turn them into subordinated debt. As at 31 December 2019, all criteria set by the CBU to qualify for subordinated debt have been met except for subordination to all other creditors of the Bank.

Further amendments to the agreement with the Ministry of Finance of the Republic of Uzbekistan to introduce the subordination clause are under discussion.

As at 31 December 2018 and 2017, these borrowings were recorded as Borrowings from government, state and international financial institutions.

22. Other Liabilities

In millions of Uzbekistan Soums	Note	31 December 2019	31 December 2018	31 December 2017
Payable to suppliers		50,270	12,093	8,282
Dividends payable		601	478	359
Other payables		2,179	929	1,221
Total other financial liabilities		**53,050**	**13,500**	**9,862**
Payables to employees		29,334	23,236	15,014
Insurance liabilities		3,556	-	-
Payable to State deposit insurance fund		3,424	-	3,544
Other tax liabilities		2,033	8,204	15,460
Unearned revenue		1,579	1,727	2,109
Expected liability for bank guarantees	7	1,458	315	-
Other		11,061	14,250	8,371
Total other non-financial liabilities		**52,445**	**47,732**	**44,498**
Total other liabilities		**105,495**	**61,232**	**54,360**

As at 31 December 2019, 2018 and 2017, payables to suppliers include the following:

- Payable for acquisition of point of sale (POS) terminals in the amount of UZS 23,284 million, UZS nil and UZS nil, respectively.
- Payable for acquisition of automated teller machines (ATM) in the amount of UZS 16,069 million, UZS nil and UZS 3,534 million, respectively.

As at 31 December 2019, payable to employees includes year end bonus to employees of UZS 28,853 million. (31 December 2018: UZS 23,004 million; 31 December 2017: UZS 14,378 million)

As at 31 December 2019, other item in other non-financial liabilities includes funds in the amount of UZS 3,579 million (31 December 2018: UZS 1,800 million; 31 December 2017: UZS nil) to be directed to the Fund for developing fishing industry according to PD 2939 "On measures to improve the fish industry management system" dated 1 May 2017.

23. Share Capital

In millions of Uzbekistan Soums except for number of shares	**Number of outstanding shares**	**Ordinary shares**	**Inflation adjustment**	**Share premium**	**Total**
At 31 December 2016	**75,505,700**	**263,004**	**6,417**	**754**	**270,175**
Share split	270,083,888,900	-	-	-	-
Ordinary shares issued	542,069,446,400	542,069	-	-	542,069
Capitalisation of retained earnings	33,826,553,600	32,931	-	-	32,931
At 31 December 2017	**846,055,394,600**	**838,004**	**6,417**	**754**	**845,175**
Ordinary shares issued	139,558,100,583	139,558	-	-	139,558
At 31 December 2018	**985,613,495,183**	**977,562**	**6,417**	**754**	**984,733**
Ordinary shares issued	1,831,830,635,251	1,831,831	-	-	1,831,831
Conversion of debt into equity by the shareholder, net of tax	-	-	-	(754)	(754)
At 31 December 2019	**2,817,444,130,434**	**2,809,393**	**6,417**	**-**	**2,815,810**

As at 31 December 2019, outstanding shares include 2,809,392,130,434 ordinary shares and 8,052,000,000 preference shares with a par value of UZS 1 per share issued and fully paid in UZS.

As at 31 December 2018, outstanding shares include 977,561,495,183 ordinary shares and 8,052,000,000 preference shares with a par value of UZS 1 per share issued and fully paid in UZS.

As at 31 December 2017, outstanding shares include 838,003,394,600 ordinary shares and 8,052,000,000 preference shares with a par value of UZS 1 per share issued and fully paid in UZS.

During 2019, the share capital of the Bank was increased by UZS 1,831,831 million as a result of the following:

- In April 2019, the UFRD increased its shareholding in the Bank by injecting funds in the amount of UZS 417,189 million of which UZS 124,723 million was contributed through utilization of the Share Subscription Reserve outstanding as at the beginning of the year;
- In December 2019, the Ministry of Finance increased its shareholding in the Bank by utilizing the Share Capital Reserve in the amount of UZS 60,718 million;
- In December 2019, the UFRD increased its shareholding in the Bank by converting the Group's borrowings, received from the UFRD into the Group's variable number of new shares issued at par value of UZS 1. No gain or loss was recognized as a result of this conversion. These borrowings were on-lent to two large State owned metallurgical companies to fund the national projects and amounted to an equivalent of UZS 1,353,924 million (or USD 143 million) as at the date of conversion.

Also, the Government, in its capacity as a shareholder of the Group, has instructed to substantially modify initial terms of the two loans funded by the UFRD (see Note 10) by changing their currency profile and interest rates. These modifications resulted in derecognition of old assets with the carrying value of UZS 361,745 million (or USD 38 million) and recognition of new assets with the fair value on initial recognition of UZS 327,273 million. As a result, loss on initial recognition of the asset in the amount of UZS 34,472 million was recognized directly in shareholder's equity by reducing the available share premium and the retained earnings for the remaining amount net of tax in the amount of UZS 6,894 million.

During 2018, the share capital of the Bank was increased by UZS 139,558 million of which UZS 111,661 million was contributed by the UFRD through utilization of the accumulated Share Subscription Reserve and UZS 27,898 million by the Ministry of Finance through utilization of accumulated Share Capital Reserve. Details of these reserves disclosed below.

During 2017, the share capital of the Bank was increased by UZS 575,896 million of which UZS 542,069 million was contributed by the UFRD and UZS 33,827 million by all shareholders through capitalization of the dividends. In accordance with the Shareholders' resolution in December 2016 in relation to share split (1/3577), ordinary and preference shares have been issued to existing shareholders for no additional consideration.

23. Share Capital (continued)

On 28 June 2019, the Annual General Meeting of Shareholders declared a dividend on ordinary shares in the amount of UZS 111,580 million and a dividend on preference shares in the amount of UZS 2,013 million.

On 22 June 2018, the Annual General Meeting of Shareholders declared a dividend on ordinary shares in the amount of UZS 56,979 million and a dividend on preference shares in the amount of UZS 2,013 million.

On 23 June 2017, the Annual General Meeting of Shareholders declared a dividend on ordinary shares in the amount of UZS 23,675 million and a dividend on preference shares in the amount of UZS 2,013 million. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

The Group distributes profits as dividends or transfers to reserves on the basis of financial statements prepared in accordance with local legislation.

Preference shares. Preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Bank's liquidation.

The preference shares give the holders the right to participate in general shareholders' meetings without voting rights, except in instances where decisions are made in relation to reorganization and liquidation of the Bank, and where changes and amendments to the Bank's charter which restrict the rights of preference shareholders are proposed. Minimum annual dividends on preference shares are fixed at 25% of the nominal value and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividends are paid.

Preference shares are accounted for as a compound financial instrument having both a liability component and an equity component. The liability component is initially determined as the present value of future minimum dividend payments discounted at the Bank's incremental borrowing rate and the rest of the sale proceeds are classified as equity component.

The dividends declared on preference shares cannot be less than those declared for ordinary shares. When dividends declared above minimum amount, the excess of the dividends is recognised in equity (as discretionary payment on the equity component).

The dividend expense on preference shares are accounted in the statement of profit or loss as a part of interest expense.

On 14 March 2017, the Bank made additional issue of preference shares in the amount of UZS 896 million (closed issue to existing shareholders) as a distribution of retained earnings.

Share capital reserve*.* On 22 November 2016, the President of the Republic of Uzbekistan issued Decree PP-2660, which granted the Bank a relief from payment of income tax and property taxes for the period from 1 January 2017 until 31 December 2021. According to the above decree, funds saved from such tax relief are directed to the share capital of the Bank as a contribution of the Ministry of Finance of Uzbekistan. These funds are accumulated in a special share capital reserve as they represent an equity contribution to be made from the Ministry of Finance of the Republic of Uzbekistan when a new share issue is registered. Usage of these reserves to increase the share capital of the Bank constituted UZS 60,718 million, UZS 27,898 million and nil in 2019, 2018 and 2017, respectively.

As at 31 December 2019, the outstanding balance of this reserve amounted to UZS 90,656 million (31 December 2018: UZS 60,873 million; 31 December 2017: UZS 31,428 million).

Share subscription reserve. As at 31 December 2018, share subscription reserve includes the stock subscription by the UFRD in the amount of UZS 124,723 million in accordance with the Presidential Decree PD #4005 dated 6 November 2018. These funds should be used to finance projects to develop fishery industry as necessary.

As at 31 December 2017, share subscription reserve includes the following: (i) stock subscription by the Ministry of Finance in the amount of UZS 97,790 million in accordance with Agreements # 08-02-36-13/84 dated 18 March 2017, #1 dated 15 September 2017 and # 08-02-36-13/179 dated 28 September 2017 and (ii) stock subscription by the UFRD in the amount of UZS 11,687 million in accordance with Presidential Decree PD #3066 dated 16 June 2017.

24. Interest Income and Expense

In millions of Uzbekistan Soums	**2019**	**2018**	**2017**
Interest income			
Loans and advances to customers	1,868,410	1,201,264	568,392
Debt securities of the Government of the Republic of Uzbekistan	44,351	187	-
Due from other banks	40,023	22,920	14,100
Total interest income	**1,952,784**	**1,224,371**	**582,492**
Interest expenses			
Borrowings from government, state and international financial institutions	455,496	307,978	129,286
Customer accounts	446,906	265,941	150,991
Other borrowed funds	8,017	-	-
Due to other banks	5,196	2,318	1,804
Debt securities in issue	1,944	1,117	2,830
Total interest expense	**917,559**	**577,354**	**284,911**
Net interest income before provision for credit losses	**1,035,225**	**647,017**	**297,581**

Interest income from loans and advances to customers include interest income earned from State owned enterprises in the amount of UZS 275,637 million, UZS 233,716 million and UZS 153,258 million in 2019, 2018 and 2017, respectively.

Interest income accrued on individually impaired loans during 2019, 2018 and 2017 amounted to UZS 14,206 million, UZS 2,092 million and UZS 2,907 million, respectively.

25. Fee Commission Income and Expense

In millions of Uzbekistan Soums	2019	2018	2017
Fee and commission income:			
Settlement transactions	198,704	178,285	175,948
Conversion operations	23,958	23,438	18,063
Cash transactions	18,586	1,520	883
Guarantees and letters of credit	7,509	7,450	7,377
Other	6,668	5,494	2,930
Total fee and commission income	**255,425**	**216,187**	**205,201**
Fee and commission expense:			
Cash collection services	23,960	26,892	22,938
Settlement transactions	15,520	4,178	4,558
Conversion operations	6,944	6,838	5,565
Cash transactions	256	123	1,332
Other	1,068	315	113
Total fee and commission expense	**47,748**	**38,346**	**34,506**
Net fee and commission income	**207,677**	**177,841**	**170,695**

26. Other Operating Income

In millions of Uzbekistan Soums	2019	2018	2017
Other non-interest income	10,810	6,203	3,416
Fines received	7,410	2,594	1,687
Income from rental of POS terminals	6,711	4,083	3,650
Insurance operations income	3,541	-	-
Income from services provided	2,264	1,225	1,448
Gain from disposal of premises and equipment	391	487	705
Total other operating income	**31,127**	**14,592**	**10,906**

27. Administrative and Other Operating Expenses

In millions of Uzbekistan Soums	Notes	2019	2018	2017
Staff costs		434,766	312,205	249,495
Depreciation and amortisation	14	32,693	24,193	14,684
Security services		32,682	22,314	18,034
Stationery and supplies		18,662	15,563	10,942
Charity and sponsorship		13,648	12,700	9,291
Repair and maintenance of property and equipment		12,596	12,636	7,697
Membership fees		10,042	2,323	12,515
Software maintenance		9,802	5,657	5,028
Postage, telephone and fax		6,741	6,345	3,894
Rent expenses		5,003	4,515	3,183
Insurance operating expenses		4,226	-	-
Business trip and travel expenses		4,215	3,252	2,482
Taxes other than income tax		4,086	58,012	39,989
Utilities		3,971	2,749	2,175
Representation and entertainment		3,089	2,318	989
Advertising and publicity		2,978	2,677	2,119
Fuel		2,341	1,773	1,339
Penalties incurred		1,267	305	142
Insurance		1,168	245	38
Professional services		907	5,427	690
Other operating expenses		14,518	8,349	6,637
Total administrative and other operating expenses		**619,401**	**503,558**	**391,363**

According to the Presidential Decree #5468 dated 29 June 2018 “On the concept of improvement of tax policy of the Republic of Uzbekistan”, significant changes occurred in tax rates:

- Mandatory contributions to the State trust funds levied on the turnover (revenue) of legal entities at 3.2% was cancelled starting from 1 January 2019;
- Property tax reduced from 5% to 2%.

28. Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In millions of Uzbekistan Soums	2019	2018	2017
Current tax charge	88,855	56,880	26,134
Deferred tax credit	(17,173)	(8,551)	(564)
Income tax expense	**71,682**	**48,329**	**25,570**
Deferred tax charge / (credit) through OCI	150	(38)	-
Income tax expense through PL and OCI	**71,832**	**48,291**	**25,570**

In accordance with the Presidential Decree #UP-5468 dated 29 June 2018 “On the concept of improvements of tax policy of the Republic of Uzbekistan”, the corporate income tax for banks was substantially enacted at 20% with effective date from 1 January 2019.

28. Income Taxes (Continued)

In accordance with the Presidential Decree #PP-3454 dated 29 December 2017, the corporate income tax and infrastructure development tax were combined. As at 31 December 2017, the corporate income tax rate for 2018 was enacted at 22%. Previously, the income tax rate was comprised of corporate income tax (15%) and infrastructure development tax (8%) with tax base for infrastructure development tax being accounting profit after corporate income tax charge. Effectively, statutory income tax rate was 21.8%.

(b) Reconciliation between tax expense and profit or loss multiplied by applicable tax rate

The effective statutory income tax rate was 20%, 22% and 21.8% in 2019, 2018 and 2017, respectively.

In millions of Uzbekistan Soums	**2019**	**2018**	**2017**
Profit before tax	**410,700**	**226,034**	**306,521**
Theoretical tax charge at the applicable statutory rate - 20% (2018: 22%; 2017: 21.8%)	82,140	49,727	66,822
- Non deductible expenses (employee compensation, representation and other non-deductible expenses)	8,377	6,452	3,730
- Tax rate difference	(23,592)	(16,823)	(5,398)
- Tax exempt income	(36)	(228)	(39,584)
- Change of tax rate from 21.8% to 22%	-	5,844	-
- Other temporary differences	4,793	3,357	-
Income tax expense	**71,682**	**48,329**	**25,570**
Deferred tax charge / (credit) through OCI	150	(38)	-
Income tax expense through PL and OCI	**71,832**	**48,291**	**25,570**

"Tax rate differences" comprises of tax effects from application of tax incentive in the form of reduced of standard income tax rate when the banks increase the share of long-term loans to customers in their total loan portfolio.

On September 2017, the official rate of UZS was devalued from 4,210.35 per dollar to 8,100 representing 92% decrease, which resulted in significant unrealized foreign exchange gains. Tax exempt income mostly comprise of foreign exchange gains that were tax exempt from 5 September 2017 to July 2018 on the basis of the Presidential Decree # 5177 on "On priority measures for liberalization of monetary policies" dated 2 September 2017.

28. Income Taxes (Continued)

(c) Deferred tax analysed by type of temporary differences

Differences between IFRS and Uzbekistan statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for their tax bases. The tax effect of the movements on these temporary differences is detailed below. For calculation of deferred tax assets and liabilities enacted tax rate of 20 % was used for 2019 (2018: 20 %; 2017: 22%).

In millions of Uzbekistan Soums	31 December 2019	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	Credited/ (charged) directly to equity	31 December 2018	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	1 January 2018	IFRS 9 Effect	31 December 2017	Credited/ (charged) to profit or loss	31 December 2016
Tax effect of deductible/(taxable) temporary differences												
Cash and cash equivalents	(84)	(94)	-	-	10	(12)	-	22	22	-	-	-
Due from other banks	1,279	508	-	-	771	(891)	-	1,662	1,662	-	-	-
Loans and advances to customers	51,281	20,006	-	6,894	24,381	3,204	-	21,177	14,431	6,746	(14)	6,760
Debt securities of the Government of the Republic of Uzbekistan	225	33	-	-	192	192	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	56	-	(150)	-	206	-	38	168	168	-	-	-
Investment securities available for sale	-	-	-	-	-	-	-	-	(654)	654	654	-
Investment in associates	67	67	-	-	-	-	-	-	-	-	-	-
Premises, equipment and intangible assets	1,103	237	-	-	866	(875)	-	1,741	-	1,741	1,383	358
Other financial assets	(208)	(212)	-	-	4	3,302	-	(3,298)	1	(3,299)	(3,299)	-
Other non-financial assets	249	20	-	-	229	(114)	-	343	-	343	80	263
Due to other banks	(33)	(33)	-	-	-	-	-	-	-	-	-	-
Customer accounts	(200)	(200)	-	-	-	-	-	-	-	-	-	-
Borrowings from government, state and international financial institutions	3,130	960	-	-	2,170	(541)	-	2,711	-	2,711	2,262	449
Other financial liabilities	(403)	(5,066)	-	-	4,663	4,244	-	419	21	398	398	-
Other non-financial liabilities	989	947	-	-	42	42	-	-	-	-	(900)	900
Net deferred tax asset	**57,451**	**17,173**	**(150)**	**6,894**	**33,534**	**8,551**	**38**	**24,945**	**15,651**	**9,294**	**564**	**8,730**
Recognised deferred tax asset	58,379	17,951	-	6,894	33,534	5,253	38	28,243	15,650	12,593	3,863	8,730
Recognised deferred tax liability	(928)	(778)	(150)	-	-	3,298	-	(3,298)	1	(3,299)	(3,299)	-
Net deferred tax asset	**57,451**	**17,173**	**(150)**	**6,894**	**33,534**	**8,551**	**38**	**24,945**	**15,651**	**9,294**	**564**	**8,730**

29. Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share are calculated as follows:

In millions of Uzbekistan Soums	2019	2018	2017
Profit for the year attributable to ordinary shareholders	336,884	175,692	276,765
Profit for the year attributable to preference shareholders	2,134	2,013	4,186
Net profit for the year	**339,018**	**177,705**	**280,951**
Weighted average number of ordinary shares (in thousands)	1,263,400,473	937,990,098	466,921,119
Basic and diluted earnings per ordinary share in UZS	**0.27**	**0.19**	**0.59**

30. Dividends

All dividends are declared in Uzbekistan Soums. Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to the legislation of Uzbekistan.

In millions of Uzbekistan Soums	Notes	2019	2018	2017
Dividends payable at 1 January		**478**	**359**	**149**
Dividends declared during the period		111,580	56,979	23,675
Dividends paid during the period		(111,457)	(56,860)	(23,465)
Dividends payable at 31 December	22	**601**	**478**	**359**
Dividends per share declared during the year, UZS		**0.04**	**0.06**	**0.03**

The Bank distributes profits as dividends on the basis of financial information prepared in accordance with local legislation. According to the information provided to the CBU, retained earnings under national accounting standards as at 31 December 2019 include distributable profits of UZS 430,058 million (unaudited) (31 December 2018: UZS 250,162 million (unaudited); 31 December 2017: UZS 278,908 million (unaudited)) for the year then ended.

31. Segment Reporting

The Group's management has restated its prior year segment reporting to more accurately reflect the structure of the Bank's internal organisation and how the key business decisions including those on resource allocation are made.

The Group's operations are single reportable segment.

The Group provides mainly banking services in the Republic of Uzbekistan. The Group identifies the segment in accordance with the criteria set in IFRS 8 "Operating Segments" and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker ("CODM") has been determined as the Group's Chairman of the Management Board. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The Management has determined a single operating segment being banking services based on these internal reports.

32. Financial Risk Management

The risk management function is carried out in respect of financial risks (credit, market, and liquidity risks), operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk. Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of the Group's internal credit rating system, which assigns each counterparty a risk rating. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

		Group's internal ratings scale:
Standard	1	Timely repayment of these loans is not in doubt. The borrower is a financially stable company, which has an adequate capital level, high level profitability and sufficient cash flow to meet its all existing obligations, including present debt. When estimating the reputation of the borrower such factors as the history of previous repayments, marketability of collateral (movable and immovable property guarantee) are taken into consideration.
Sub-standard	2	"Sub-standard" loans are loans, secured with a reliable source of secondary repayment (guarantee or collateral). On the whole, the financial situation of borrower is stable, but some unfavourable circumstances or tendencies are on the present, which raise doubts on the ability of the borrower to repay on time. "Standard" loans with insufficient information in the credit file or missed information on collateral could be also classified as "sub-standard" loans.
Unsatisfactory	3	Unsatisfactory loans have obvious deficiencies, which make for doubtful repayment of the loan on the conditions, envisaged by the initial agreement. As for "unsatisfactory" loans, the primary source of repayment is not sufficient and the Group has to seek additional loan repayment sources, which in case of non-repayment is a sale of collateral
Doubtful	4	Doubtful loans are those loans, which have all the weaknesses inherent in those classified as "unsatisfactory" with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable
Loss	5	Loans classified as "loss" are considered uncollectible and have such little value that their continuance as bankable assets of the Group is not warranted. This classification does not mean that the loans have absolutely no likelihood of recovery, but rather means that it is not practical or desirable to defer writing off these essentially worthless assets even though partial recovery may be effected in the future and the Group should make efforts on liquidation of such debts through selling collateral or should apply all forces for its repayment

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

32. Financial Risk Management (Continued)

Some other specific control and mitigation measures are outlined below.

(a) Collateral. The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- state guarantee
- cash deposit
- real estate
- residential property
- equipment and inventory
- motor vehicle
- letter of surety
- insurance policy
- future cash flows

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Concentration of risks of financial assets with credit risk exposure. The Group’s management focuses on concentration risk:

- The maximum risk to single borrower or group of affiliated borrowers shall not exceed 25 percent of the Group's tier 1 capital (with the exception of loans, the allocation of which is allowed on the basis of specific government decrees, guaranteed by the Government of the Republic of Uzbekistan, funded by the Fund for the Reconstruction and Development of the Republic of Uzbekistan and cash collateralized loans) in accordance with the CBU requirements;
- Total amount of unsecured credits to single borrower or group of affiliated borrowers shall not exceed 5 percent of Group's tier 1 capital;
- Total amount of all large credits shall not exceed Group's tier 1 capital by more than 8 times; and
- Total loan amount to related party shall not exceed Group's tier 1 capital.

The Group’s maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market risks.

The following tables present the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets, the maximum exposure equals the carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on, or in the case of commitments, if the loan amount was called on. The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security and not the fair value of such collateral.

32. Financial Risk Management (Continued)

in millions of Uzbekistan Soums	**31 December 2019** Maximum exposure and net exposure after offset	Collateral pledged
Cash and cash equivalents	2,144,249	-
Due from other banks	845,018	-
Loans and advances to customers	19,152,848	19,152,848
Debt securities of the Government of the Republic of Uzbekistan	131,149	-
Financial assets at fair value through other comprehensive income	6,572	-
Other financial assets	5,210	-
Commitments and contingencies	121,474	90,960

in millions of Uzbekistan Soums	**31 December 2018** Maximum exposure and net exposure after offset	Collateral pledged
Cash and cash equivalents	965,148	-
Due from other banks	508,224	-
Loans and advances to customers	17,269,176	17,269,176
Debt securities of the Government of the Republic of Uzbekistan	154,610	-
Financial assets at fair value through other comprehensive income	5,784	-
Other financial assets	1,211	-
Commitments and contingencies	2,742,398	224,256

in millions of Uzbekistan Soums	**31 December 2017** Maximum exposure and net exposure after offset	Collateral pledged
Cash and cash equivalents	958,991	-
Due from other banks	1,249,251	-
Loans and advances to customers	10,325,160	10,325,160
Investment securities available for sale	5,821	-
Other financial assets	17,515	-
Commitments and contingencies	2,412,727	153,723

32. Financial Risk Management (Continued)

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements.

Currency risk. The Group takes on exposure to the effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In respect of currency risk, the management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group measures its currency risk by:

- Net position on each currency should not exceed 10% of Group’s total equity (31 December 2018: 5%; 31 December 2017: 10%);
- Total net position on all currencies should not exceed 15% of Group’s total equity (31 December 2018: 10%; 31 December 2017: 20%).

The Group also measures its currency risk by matching financial assets and liabilities denominated in same currency and analyses the effect of appreciation/depreciation of that currency against Uzbekistan Soums to the profit and loss of the Group.

The CBU sets a number of requirements for foreign currency position. As at 31 December 2019, the Bank has a long position in respect of one currency above statutory requirements as a result of the actions taken to satisfy the requirements of the Presidential decree #PP-4487 dated dated 9 October 2019. As at 31 December 2019, the CBU had granted the waiver not to account for the effects of this decree in the calculation of the net currency position for regulatory purposes.

Taking into account changes in exchange rates the management believes this does not bear significant risks. The CBU may take measures to regulate the foreign currency position in accordance with the established order on the foreign currency position.

The table below summarises the Group’s exposure to foreign currency exchange rate risk as at 31 December 2019:

In millions of Uzbekistan Soums	UZS	US Dollars	Euros	Other	Total
Monetary financial assets					
Cash and cash equivalents	951,060	1,112,793	492,373	73,947	**2,630,173**
Due from other banks	751,221	93,295	502	-	**845,018**
Loans and advances to customers	14,070,693	4,929,426	839,637	-	**19,839,756**
Debt securities of the Government of the Republic of Uzbekistan	131,149	-	-	-	**131,149**
Other financial assets	3,605	479	1,126	-	**5,210**
Total monetary financial assets	**15,907,728**	**6,135,993**	**1,333,638**	**73,947**	**23,451,306**
Monetary financial liabilities					
Due to other banks	95,333	189,200	-	-	**284,533**
Customer accounts	5,357,172	2,375,134	137,345	66,068	**7,935,719**
Debt securities in issue	14,850	-	-	-	**14,850**
Borrowings from government, state and international financial institutions	7,853,832	2,423,588	1,252,901	-	**11,530,321**
Other borrowed funds	425,905	-	-	-	**425,905**
Other financial liabilities	2,157	50,314	579	-	**53,050**
Total monetary financial liabilities	**13,749,249**	**5,038,236**	**1,390,825**	**66,068**	**20,244,378**
Net balance sheet position	**2,158,479**	**1,097,757**	**(57,187)**	**7,879**	

32. Financial Risk Management (Continued)

The table below summarises the Group’s exposure to foreign currency exchange rate risk as at 31 December 2018:

In millions of Uzbekistan Soums	UZS	US Dollars	Euros	Other	Total
Monetary financial assets					
Cash and cash equivalents	353,620	788,961	157,528	15,253	**1,315,362**
Due from other banks	409,946	94,534	3,744	-	**508,224**
Loans and advances to customers	10,811,760	6,279,407	507,045	-	**17,598,212**
Debt securities of the Government of the Republic of Uzbekistan	154,610	-	-	-	**154,610**
Other financial assets	1,139	57	15	-	**1,211**
Total financial assets	**11,731,075**	**7,162,959**	**668,332**	**15,253**	**19,577,619**
Monetary financial liabilities					
Customer accounts	5,340,485	1,527,433	212,740	10,028	**7,090,686**
Debt securities in issue	9,934	-	-	-	**9,934**
Borrowings from government, state and international financial institutions	5,022,706	5,371,527	663,140	-	**11,057,373**
Other financial liabilities	12,571	929	-	-	**13,500**
Total financial liabilities	**10,385,696**	**6,899,889**	**875,880**	**10,028**	**18,171,493**
Net balance sheet position	**1,345,379**	**263,070**	**(207,548)**	**5,225**	

The table below summarises the Group’s exposure to foreign currency exchange rate risk as at 31 December 2017:

In millions of Uzbekistan Soums	UZS	US Dollars	Euros	Other	Total
Monetary financial assets					
Cash and cash equivalents	181,437	864,523	284,262	43,869	**1,374,091**
Due from other banks	256,027	839,286	153,938	-	**1,249,251**
Loans and advances to customers	5,144,022	4,948,173	470,985	-	**10,563,180**
Other financial assets	17,476	37	2	-	**17,515**
Total financial assets	**5,598,962**	**6,652,019**	**909,187**	**43,869**	**13,204,037**
Monetary financial liabilities					
Due to other banks	-	160	-	-	**160**
Customer accounts	3,228,632	2,098,537	284,115	37,149	**5,648,433**
Debt securities in issue	12,797	-	-	-	**12,797**
Borrowings from government, state and international financial institutions	1,728,518	4,055,348	520,008	-	**6,303,874**
Other financial liabilities	9,862	-	-	-	**9,862**
Total financial liabilities	**4,979,809**	**6,154,045**	**804,123**	**37,149**	**11,975,126**
Net balance sheet position	**619,153**	**497,974**	**105,064**	**6,720**	

The above analysis includes only monetary assets and liabilities. Financial assets at fair value through other comprehensive income (IAS 39 - Investment securities available for sale) are non-monetary assets and are not considered to give rise to any material currency risk.

32. Financial Risk Management (Continued)

During 2019, 2018 and 2017 changes of the possible movement of currency rates were associated with the decrease or increase in the volatility of the exchange rate.

The following table presents sensitivities of profit or loss and equity to maximum observed changes in exchange rates during the respective years for respective currencies applied at the reporting date relative to the functional currency of the Group, with all other variables held constant:

	31 December 2019	**31 December 2018**	**31 December 2017**
In millions of Uzbekistan Soums	**Impact on profit or loss**	**Impact on profit or loss**	**Impact on profit or loss**
US Dollars strengthening by 20% (2018: 7%; 2017: 122%)	219,551	18,415	607,528
US Dollars weakening by 20% (2018: 7%; 2017: 122%)	(219,551)	(18,415)	(607,528)
Euro strengthening by 20% (2018: 13%; 2017: 131%)	(11,437)	(26,981)	137,634
Euro weakening by 20% (2018: 13%; 2017: 131%)	11,437	26,981	(137,634)

The exposure calculated only for monetary balances denominated in currencies other than the functional currency of the Group. Impact on equity would be the same as impact on the consolidated statement of profit or loss and other comprehensive income.

Interest rate risk*.* The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk management Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability and reports on them to the Management.

32. Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In millions of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Total interest bearing financial assets	**1,501,317**	**5,196,011**	**6,995,518**	**7,853,640**	**21,546,486**
Cash and cash equivalents	1,054,943	-	-	-	**1,054,943**
Due from other banks	1,910	101,945	107,915	308,868	**520,638**
Loans and advances to customers	434,600	5,094,066	6,766,318	7,544,772	**19,839,756**
Debt securities of the Government of the Republic of Uzbekistan	9,864	-	121,285	-	**131,149**
Total interest bearing financial liabilities	**4,328,292**	**2,824,575**	**4,156,775**	**5,511,923**	**16,821,565**
Due to other banks	284,533	-	-	-	**284,533**
Customer accounts	1,420,603	1,227,715	1,584,292	417,883	**4,650,493**
Debt securities in issue	2,350	9,000	3,500	-	**14,850**
Borrowings from government, state and international financial institutions	2,618,993	1,587,860	2,515,972	4,722,959	**11,445,784**
Other borrowed funds	1,813	-	53,011	371,081	**425,905**
Net interest sensitivity gap at 31 December 2019	**(2,826,975)**	**2,371,436**	**2,838,743**	**2,341,717**	**4,724,921**

In millions of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Total interest bearing financial assets	**123,715**	**3,891,604**	**5,913,265**	**8,051,480**	**17,980,064**
Cash and cash equivalents	47,638	-	-	-	**47,638**
Due from other banks	1,000	5,000	173,604	-	**179,604**
Loans and advances to customers	75,077	3,792,469	5,679,186	8,051,480	**17,598,212**
Debt securities of the Government of the Republic of Uzbekistan	-	94,135	60,475	-	**154,610**
Total interest bearing financial liabilities	**2,357,541**	**2,558,643**	**5,017,984**	**5,117,781**	**15,051,949**
Customer accounts	1,232,833	953,738	1,030,875	767,196	**3,984,642**
Debt securities in issue	84	1,250	8,600	-	**9,934**
Borrowings from government, state and international financial institutions	1,124,624	1,603,655	3,978,509	4,350,585	**11,057,373**
Net interest sensitivity gap at 31 December 2018	**(2,233,826)**	**1,332,961**	**895,281**	**2,933,699**	**2,928,115**

32. Financial Risk Management (Continued)

In millions of Uzbekistan Soums	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Total interest bearing financial assets	**92,402**	**1,423,353**	**4,436,362**	**4,866,350**	**10,818,467**
Due from other banks	40,709	98,800	108,216	7,562	**255,287**
Loans and advances to customers	51,693	1,324,553	4,328,146	4,858,788	**10,563,180**
Total interest bearing financial liabilities	**1,016,247**	**2,056,538**	**3,049,713**	**3,491,006**	**9,613,505**
Due to other banks	160	-	-	-	**160**
Customer accounts	973,089	1,731,840	591,544	200	**3,296,674**
Debt securities in issue	197	7,100	5,500	-	**12,797**
Borrowings from government, state and international financial institutions	42,801	317,598	2,452,669	3,490,806	**6,303,874**
Net interest sensitivity gap at 31 December 2017	**(923,845)**	**(633,185)**	**1,386,649**	**1,375,344**	**1,204,962**

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The Group assesses the reasonably possible changes in interest rates in UZS and foreign currencies separately, in which financial assets and liabilities are denominated due to the different volatility of interest rates.

The impact on profit before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2019, 2018 and 2017. The management of the Group believes income tax not to have a substantial effect for the purpose of interest rate risk management.

The impact on income before tax based on asset and liability values as at 31 December 2019, 2018 and 2017 is as follows:

	31 December 2019		**31 December 2018**		**31 December 2017**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:						
Loans to customers	22,164	(22,164)	10,566	(10,566)	14,119	(14,119)
FINANCIAL LIABILITIES:						
Borrowings from government, state and international financial institutions	34,521	(34,521)	30,076	(30,076)	12,935	(12,935)
Net impact on income before tax	**(12,357)**	**12,357**	**(19,510)**	**19,510**	**1,184**	**(1,184)**

32. Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	31 December 2019		
In % p.a.	**UZS**	**USD**	**Euro**
Assets			
Cash and cash equivalents	-	EONIA - 0.5	0-8
Due from other banks	0-22	0-7	-
Loans and advances to customers	0-36	2.25-14	3-11
Debt securities of the Government of the Republic of Uzbekistan	15-16	-	-
Liabilities			
Due to other banks	17-19	5-6	-
Customer accounts	0-22	0-7	0-7
Debt securities in issue	9-17	-	-
Borrowings from government, state and international financial institutions	0-25	Libor 6 months+1 -Libor 6 months +5.26	(Euribor+1.7)-7
Other borrowed funds	3	-	-

	31 December 2018		
In % p.a.	**UZS**	**USD**	**Euro**
Assets			
Cash and cash equivalents	0-17	-	0% - EONIA - 0.5%
Due from other banks	0-18	-	-
Loans and advances to customers	0-38	2-12	3.95-10
Debt securities of the Government of the Republic of Uzbekistan	16	-	-
Liabilities			
Due to other banks	3-15.5	-	-
Customer accounts	0-20	0-7	5-7
Debt securities in issue	9-14	-	-
Borrowings from government, state and international financial institutions	1-20	2-(Libor+4)	(Euribor+1.7)-7

	31 December 2017		
In % p.a.	**UZS**	**USD**	**Euro**
Assets			
Due from other banks	5-14	-	-
Loans and advances to customers	0-22	2.3-10	4.4-10
Liabilities			
Due to other banks	6.5-13.5	-	-
Customer accounts	0-20	0-7	5-7
Debt securities in issue	9	-	-
Borrowings from government, state and international financial institutions	0-20	(Libor+2)-6	(Euribor+1.7)-7

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency or the Group has the respective assets and liabilities in corresponding currency with zero interest rate.

32. Financial Risk Management (Continued)

Other price risk. The Group has no material exposure to equity price risk.

The Group is exposed to prepayment risk through providing fixed loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current profit or loss and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

Geographical risk. The geographical concentration of the Group's financial assets and liabilities at 31 December 2019 is set out below:

In millions of Uzbekistan Soums	Uzbekistan	OECD	Non OECD	Total
Financial assets				
Cash and cash equivalents	1,705,885	841,918	82,370	2,630,173
Due from other banks	770,236	14,994	59,788	845,018
Loans and advances to customers	19,839,756	-	-	19,839,756
Debt securities of the Government of the Republic of Uzbekistan	131,149	-	-	131,149
Financial assets at fair value through other comprehensive income	6,572	-	-	6,572
Other financial assets	5,210	-	-	5,210
Total financial assets	**22,458,808**	**856,912**	**142,158**	**23,457,878**
Financial liabilities				
Due to other banks	284,533	-	-	284,533
Customer accounts	7,935,719	-	-	7,935,719
Debt securities in issue	14,850	-	-	14,850
Borrowings from government, state and international financial institutions	9,166,341	1,872,972	491,008	11,530,321
Other borrowed funds	425,905	-	-	425,905
Other financial liabilities	53,050	-	-	53,050
Total financial liabilities	**17,880,398**	**1,872,972**	**491,008**	**20,244,378**
Net position in on-balance sheet financial instruments	**4,578,410**	**(1,016,060)**	**(348,850)**	**3,213,500**
Credit related commitments (Note 34)	**457,166**	**-**	**-**	**457,166**

32. Financial Risk Management (Continued)

The geographical concentration of the Group’s financial assets and liabilities at 31 December 2018 is set out below:

In millions of Uzbekistan Soums	Uzbekistan	OECD	Non OECD	Total
Financial assets				
Cash and cash equivalents	961,664	351,335	2,363	1,315,362
Due from other banks	456,831	49,173	2,220	508,224
Loans and advances to customers	17,598,212	-	-	17,598,212
Debt securities of the Government of the Republic of Uzbekistan	154,610	-	-	154,610
Financial assets at fair value through other comprehensive income	5,784	-	-	5,784
Other financial assets	1,211	-	-	1,211
Total financial assets	**19,178,312**	**400,508**	**4,583**	**19,583,403**
Financial liabilities				
Customer accounts	7,090,686	-	-	7,090,686
Debt securities in issue	9,934	-	-	9,934
Borrowings from government, state and international financial institutions	9,814,070	920,831	322,472	11,057,373
Other financial liabilities	13,500	-	-	13,500
Total financial liabilities	**16,928,190**	**920,831**	**322,472**	**18,171,493**
Net position in on-balance sheet financial instruments	**2,250,122**	**(520,323)**	**(317,889)**	**1,411,910**
Credit related commitments (Note 34)	**3,781,276**	**-**	**-**	**3,781,276**

The geographical concentration of the Group’s financial assets and liabilities at 31 December 2017 is set out below:

In millions of Uzbekistan Soums	Uzbekistan	OECD	Non OECD	Total
Financial assets				
Cash and cash equivalents	896,113	432,522	45,456	1,374,091
Due from other banks	661,645	587,606	-	1,249,251
Loans and advances to customers	10,563,180	-	-	10,563,180
Investment securities available for sale	5,821	-	-	5,821
Other financial assets	17,515	-	-	17,515
Total financial assets	**12,144,274**	**1,020,128**	**45,456**	**13,209,858**
Financial liabilities				
Due to other banks	160	-	-	160
Customer accounts	5,648,433	-	-	5,648,433
Debt securities in issue	12,797	-	-	12,797
Borrowings from government, state and international financial institutions	5,583,197	623,889	96,788	6,303,874
Other financial liabilities	9,862	-	-	9,862
Total financial liabilities	**11,254,449**	**623,889**	**96,788**	**11,975,126**
Net position in on-balance sheet financial instruments	**889,825**	**396,239**	**(51,332)**	**1,234,732**
Credit related commitments (Note 34)	**3,857,682**	**-**	**-**	**3,857,682**

32. Financial Risk Management (Continued)

Credit related commitments are presented on gross basis, i.e. inclusive commitments collateralized by cash deposits.

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held. OECD includes mainly Japan, Switzerland, Austria, USA and Germany. Non-OECD includes mainly China and Russia.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The Group calculates the liquidity ratio monthly in accordance with the requirement of the Central Bank of Uzbekistan.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

32. Financial Risk Management (Continued)

The daily liquidity position is monitored by the Treasury Department and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Risk management Department.

The table below shows liabilities as at 31 December 2019 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows. These undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The undiscounted maturity analysis of financial instruments at 31 December 2019 is as follows:

In millions of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	287,238	-	-	-	**287,238**
Customer accounts	4,816,211	1,471,223	1,844,496	521,284	**8,653,214**
Debt securities in issue	2,825	9,565	4,016	-	**16,406**
Borrowings from government, state and international financial institutions	2,868,431	1,844,407	3,540,678	5,938,960	**14,192,476**
Other borrowed funds	1,813	-	103,505	402,163	**507,481**
Other financial liabilities	53,050	-	-	-	**53,050**
Letters of credit	172,410	160,010	-	-	**332,420**
Guarantees	15,210	20,919	58,103	-	**94,232**
Undrawn loan commitments	30,514	-	-	-	**30,514**
Total potential future payments for financial obligations	**8,247,702**	**3,506,124**	**5,550,798**	**6,862,407**	**24,167,031**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

32. Financial Risk Management (Continued)

The undiscounted maturity analysis of financial instruments at 31 December 2018 is as follows:

In millions of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Customer accounts	4,408,483	1,094,312	1,146,058	797,884	**7,446,737**
Debt securities in issue	348	2,022	9,456	-	**11,826**
Borrowings from government, state and international financial institutions	1,239,700	1,773,941	4,337,037	4,690,394	**12,041,072**
Other financial liabilities	13,500	-	-	-	**13,500**
Letters of credit	294,170	386,699	208,489	-	**889,358**
Guarantees	83,860	23,877	266,039	-	**373,776**
Undrawn loan commitments	2,518,142	-	-	-	**2,518,142**
Total potential future payments for financial obligations	**8,558,203**	**3,280,851**	**5,967,079**	**5,488,278**	**23,294,411**

The undiscounted maturity analysis of financial instruments at 31 December 2017 is as follows:

In millions of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	160	-	-	-	**160**
Customer accounts	3,365,097	1,788,152	624,339	219	**5,777,807**
Debt securities in issue	201	7,801	6,095	-	**14,097**
Borrowings from government, state and international financial institutions	44,050	327,126	3,275,997	2,845,818	**6,492,991**
Other financial liabilities	9,862	-	-	-	**9,862**
Letters of credit	219,821	1,216,839	49,857	1,546	**1,488,063**
Guarantees	10,712	41,268	25,573	73	**77,626**
Undrawn loan commitments	2,259,004	-	-	-	**2,259,004**
Commitment to buy foreign currency and sell UZS	12,666	16,971	-	-	**29,637**
Commitment to buy UZS and sell foreign currency	1,433	1,919	-	-	**3,352**
Total potential future payments for financial obligations	**5,923,006**	**3,400,076**	**3,981,861**	**2,847,656**	**16,152,599**

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

32. Financial Risk Management (Continued)

The Group monitors remaining contractual maturities, which may be summarised as follows at 31 December 2019:

In millions of Uzbekistan Soums	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	2,630,173	-	-	-	2,630,173
Due from other banks	322,907	104,444	108,775	308,892	845,018
Loans and advances to customers	434,600	5,094,066	6,766,318	7,544,772	19,839,756
Debt securities of the Government of the Republic of Uzbekistan	9,864	-	121,285	-	131,149
Financial assets at fair value through other comprehensive income	6,572	-	-	-	6,572
Other financial assets	5,210	-	-	-	5,210
Total financial assets	**3,409,326**	**5,198,510**	**6,996,378**	**7,853,664**	**23,457,878**
Liabilities					
Due to other banks	284,533	-	-	-	284,533
Customer accounts	4,705,829	1,227,715	1,584,292	417,883	7,935,719
Debt securities issued	2,350	9,000	3,500	-	14,850
Borrowings from government, state and international financial organisations	2,618,993	1,587,860	2,540,801	4,782,667	11,530,321
Other borrowed funds	1,813	-	53,011	371,081	425,905
Other financial liabilities	53,050	-	-	-	53,050
Total financial liabilities	**7,666,568**	**2,824,575**	**4,181,604**	**5,571,631**	**20,244,378**
Net liquidity gap based on contractual maturities	**(4,257,242)**	**2,373,935**	**2,814,774**	**2,282,033**	**3,213,500**
Cumulative liquidity gap at 31 December 2019	**(4,257,242)**	**(1,883,307)**	**931,467**	**3,213,500**	**-**

As at 31 December 2019, the Group had a cumulative liquidity deficit up to one year of UZS 1,883,307 million of which UZS 309,386 million was attributable to a non-compliance with the cost-to-income ratio stipulated in the Subsidiary Loan Agreements, as detailed in Note 20.

The State and ADB confirmed they have no objection to the Group’s Action Plan to rectify the non-compliance with cost-to-income ratio and, as at 31 December 2019, ADB had not requested the acceleration of the State’s debt obligations and the State had in turn not sought prepayment of the Bank’s debt obligations as a consequence of past and/or ongoing non-compliance with the above financial covenant under the terms of the Subsidiary Loan Agreements.

Subsequent to the reporting date, due the effects of the pandemic on the Uzbek economy and banking sector, the Bank estimates that it might need to take additional measures to ensure compliance with the cost-to-income ratio. In addition, the Bank monitors its non-performing loans ratio impacted by various measures adopted by the State to combat the negative impact of pandemic (including postponement of payments of borrowers facing financial difficulties until 1 October 2020 and a moratorium on enforcement measures in relation to assets of the borrowers negatively impacted by the pandemic). The amendments to the Action Plan covering these two covenants are being discussed and agreed with ADB and the Ministry of Finance. The Management does not anticipate that the State will exercise its right to demand prepayment or apply any sanctions and believes that such non-compliance is not expected to adversely affect the Group’s financial performance, and in particular its liquidity position.

32. Financial Risk Management (Continued)

Although the Group does not have the right to use the mandatory deposits held in the Central bank of Uzbekistan for the purposes of funding its operating activities, the Management classifies them as demand deposits in the liquidity gap analysis on the basis that their nature is inherently to fund sudden withdrawal of customer accounts.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The Management believes that in spite of a substantial portion of customer accounts being on demand, the fact that significant portion of these customer accounts are of large state controlled entities which are either the Group’s shareholders or its entities under common control and the past experience of the Group, indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Subsequent to the reporting date, due the effects of the pandemic on the Uzbek economy and banking sector, the State has announced and adopted various measures to combat its negative impact. Among the measures taken by the CBU, the following had direct and indirect impact on the Bank’s liquidity:

- The commercial banks were provided with additional liquid resources as a result of easing the requirements for mandatory reserves with CBU. This measure has allowed the Bank to enjoy additional liquidity in the amount of UZS 258,000 million;
- The CBU made available for the commercial banks a credit line collateralized with mortgage loans and/or loans classified as “standard”. The Bank did not take advantage of this mechanism due to sufficiency of liquidity;
- For regulatory and statutory purposes, the commercial banks were allowed not to reduce the quality classification of the loans restructured as a result of pandemic, which in turn allowed the banks not to increase their statutory impairment allowances;
- The CBU postponed the introduction of more stringent liquidity requirements (in particular, liquidity coverage ratio – LCR) from mid 2020 to 2021;
- Quarterly contributions to the State Deposit Insurance Fund have been reduced from 0.25% to 0.05%.

In addition, during the pandemic related lockdown, the usage of cash by the population of Uzbekistan has significantly reduced which led to a reduced withdrawal of cash from the bank accounts. The lockdown has also encouraged many legal entities to revise their salary payment methods by switching to debit cards. From the Q2 2020, the Bank has managed to attract new corporate clients to cooperate on their salary programs, which allowed increasing the Bank’s short-term liquidity.

Also, subsequent to the reporting date, the Bank has carried out several stress tests with different scenarios in order to assess the possible effect of the pandemic on the Bank's liquidity. As the result of these tests, the initial business plan was softened and the expected volume of new loans was reduced. Actual performance of the Bank in the first 8 months of 2020 has not shown a significant deterioration against the revised plan.

As part of liquidity risk management, the Group maintains a contingency plan, periodically reviewed and adjusted, to be able to withstand any unexpected outflow of customers and to respond to financial stress. The contingency plan is developed primarily on the basis of the Group’s ability to access the State resources due to its state ownership and strategic importance to the national banking system of the Republic of Uzbekistan.
As at 31 December 2019, the contingency plan of the Group consisted of the following:

- Attraction of long-term deposits of State funds under the Ministry of Finance – Pension Fund, State Deposit Insurance Fund and others;
- Attraction of budgetary funds up to one year through weekly electronic bidding platform run by the State Treasury under the Ministry of Finance;
- Utilization of the CBU’s short-term liquidity loans;
- Attraction of funds through repo facility with the CBU using the Bank’s government bond portfolio;

32. Financial Risk Management (Continued)

- Attraction of funds through swap line with the CBU to attract UZS liquidity in return for USD on short-term basis.
- Attraction of deposits from inter-bank money markets within the limits set by the local commercial banks.

The Management of the Group is of the view that through their contingency plans the Group will be able to attract resources sufficient to cover any potential negative liquidity gap as at 31 December 2019, 2018 and 2017.

Remaining contractual maturities at 31 December 2018:

In millions of Uzbekistan Soums	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	1,315,362	-	-	-	1,315,362
Due from other banks	231,341	123,257	153,626	-	508,224
Loans and advances to customers	75,076	3,792,470	5,679,186	8,051,480	17,598,212
Debt securities of the Government of the Republic of Uzbekistan	-	94,135	60,475	-	154,610
Financial assets at fair value through other comprehensive income	5,784	-	-	-	5,784
Other financial assets	1,211	-	-	-	1,211
Total financial assets	**1,628,774**	**4,009,862**	**5,893,287**	**8,051,480**	**19,583,403**
Liabilities					
Customer accounts	4,337,209	955,406	1,030,875	767,196	7,090,686
Debt securities issued	84	1,250	8,600	-	9,934
Borrowings from government, state and international financial organisations	1,199,553	1,603,655	3,881,788	4,372,377	11,057,373
Other financial liabilities	13,500	-	-	-	13,500
Total financial liabilities	**5,550,346**	**2,560,311**	**4,921,263**	**5,139,573**	**18,171,493**
Net liquidity gap based on contractual maturities	**(3,921,572)**	**1,449,551**	**972,024**	**2,911,907**	**1,411,910**
Cumulative liquidity gap at 31 December 2018	**(3,921,572)**	**(2,472,021)**	**(1,499,997)**	**1,411,910**	**-**

32. Financial Risk Management (Continued)

Remaining contractual maturities at 31 December 2017:

In millions of Uzbekistan Soums	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,374,091	-	-	-	1,374,091
Due from other banks	460,801	672,271	108,614	7,565	1,249,251
Loans and advances to customers	51,692	1,324,553	4,328,146	4,858,789	10,563,180
Investment securities available for sale	5,821	-	-	-	5,821
Other financial assets	17,515	-	-	-	17,515
Total financial assets	**1,909,920**	**1,996,824**	**4,436,760**	**4,866,354**	**13,209,858**
Liabilities					
Due to other banks	160	-		-	160
Customer accounts	3,324,849	1,731,840	591,544	200	5,648,433
Debt securities issued	197	7,100	5,500	-	12,797
Borrowings from government, state and international financial organisations	42,766	317,598	3,180,580	2,762,930	6,303,874
Other financial liabilities	9,862	-	-	-	9,862
Total financial liabilities	**3,377,834**	**2,056,538**	**3,777,624**	**2,763,130**	**11,975,126**
Net liquidity gap based on contractual maturities	**(1,467,914)**	**(59,714)**	**659,136**	**2,103,224**	**1,234,732**
Cumulative liquidity gap at 31 December 2017	**(1,467,914)**	**(1,527,628)**	**(868,492)**	**1,234,732**	**-**

32. Financial Risk Management (Continued)

Net Debt Reconciliation

The table below sets out an analysis and movements in the debt for each of the years presented. The debt items are those that are reported within financing activities in the consolidated statement of cash flows.

	Liabilities from financing activities					
	31 December 2018	Financing cash inflows/ (outflow)	Effect of exchange rate changes	Interest accrued	Other changes	31 December 2019
Debt securities in issue	9,934	4,850	-	66	-	14,850
Borrowings from government, state and international financial institutions	11,057,373	4,458,725	1,066,008	9,593	(5,061,378)	11,530,321

Other changes include the impact of extinguishment of borrowings from UFRD and conversion of borrowings from UFRD into equity (Note 20).

	Liabilities from financing activities					
	31 December 2017	Financing cash inflows/ (outflow)	Effect of exchange rate changes	Interest accrued	Other changes	31 December 2018
Debt securities in issue	12,797	(2,750)	-	(113)	-	9,934
Borrowings from government, state and international financial institutions	6,303,874	4,556,753	136,190	60,556	-	11,057,373

	Liabilities from financing activities					
	31 December 2016	Financing cash inflows/ (outflow)	Effect of exchange rate changes	Interest accrued	Other changes	31 December 2017
Debt securities in issue	28,652	(15,600)	-	(255)	-	12,797
Borrowings from government, state and international financial institutions	1,989,580	1,907,884	2,416,003	(10,711)	1,118	6,303,874

33. Management of Capital

The Group manages regulatory capital as Bank's capital. The Group's objectives when managing capital are to comply with the capital requirements set by the CBU, and to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the CBU is monitored monthly with reports outlining their calculation reviewed and signed by the Chairman and Chief Accountant.

Under the current capital requirements set by the CBU, banks have to maintain ratios of (actual ratios given below are unaudited):

- Ratio of regulatory capital to risk weighted assets ("Regulatory capital ratio") above a prescribed minimum level of 13% (31 December 2018: 12.5%, 31 December 2017: 12.5%). Actual ratio as at 31 December 2019: 25.6% (31 December 2018: 13%, 31 December 2017: 15.8%).
- Ratio of Group's tier 1 capital to risk weighted assets ("Capital adequacy ratio") above a prescribed minimum level of 10% (31 December 2018: 9.5%, 31 December 2017: 9.5%). Actual ratio as at 31 December 2019: 19.2% (31 December 2018: 10.4%, 31 December 2017: 11.8%).
- Ratio of Group's tier 1 capital to total assets less intangibles ("Leverage ratio") above a prescribed minimum level of 6.0% (31 December 2018: 6.0%, 31 December 2017: 6.0%). Actual ratio as at 31 December 2019: 12.2% (31 December 2018: 6.0%, 31 December 2017: 6.6%).

Total capital is based on the Group's reports prepared under Uzbekistan Accounting Legislation and related instructions and comprises:

In millions of Uzbekistan Soums	**31 December 2019 (unaudited)**	**31 December 2018 (unaudited)**	**31 December 2017 (unaudited)**
Tier 1 capital	3,064,443	1,194,933	900,760
Tier 2 capital	1,021,481	308,199	312,419
Less: deductions from capital	-	-	(12,166)
Total regulatory capital	**4,085,924**	**1,503,132**	**1,201,013**

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, preference shares, retained earnings excluding current year profit and less intangible assets. The other component of regulatory capital is Tier 2 capital, which includes current year profit.

34. Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Uzbekistan tax and customs legislation is subject to varying interpretations. Also, changes to regulation can occur frequently. Management's interpretation of legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Uzbekistan tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, as at 31 December 2019, no provision for potential tax liabilities had been recorded (31 December 2018: no provision, 31 December 2017: no provision). The Group estimates that it has no potential obligations from exposure to other than remote tax risks (31 December 2018: no obligations, 31 December 2017: no obligations).

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In millions of Uzbekistan Soums	**31 December 2019**	**31 December 2018**	**31 December 2017**
Letters of credit	332,420	889,358	1,488,063
Guarantees	94,232	373,776	77,626
Undrawn loan commitments	30,514	2,518,142	2,259,004
Commitment to buy foreign currency and sell UZS	-	-	29,637
Commitment to buy UZS and sell foreign currency	-	-	3,352
Total gross commitments and contingencies	**457,166**	**3,781,276**	**3,857,682**
Less – Cash held as security against letters of credit and guarantees	(334,234)	(1,038,563)	(1,444,955)
Less – Provision for expected credit losses (Note 7)	(1,458)	(315)	-
Total net commitments and contingencies	**121,474**	**2,742,398**	**2,412,727**

As at 31 December 2019, 2018 and 2017, guarantees were pledged with collateral in the amount of UZS 90,908 million, UZS 224,256 million and UZS 153,723 million, respectively.

34. Contingencies and Commitments (Continued)

The total outstanding contractual amount of undrawn credit lines, import letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

In millions of Uzbekistan Soums	**31 December 2019**	**31 December 2018**	**31 December 2017**
USD	245,214	3,346,423	3,528,546
EUR	110,128	255,165	264,934
UZS	39,198	175,080	33,736
Other	62,626	4,608	30,466
Total	**457,166**	**3,781,276**	**3,857,682**

35. Non-Controlling Interest

The following table provides information about regional fishery entities the subsidiary company "Ipoteka Sarmoya" has invested in that has non-controlling interest that is material to the Group.

In millions of Uzbekistan Soums	**2019**	**2018**	**2017**
Information about subsidiary:			
Place of business (and country of incorporation if different)	Uzbekistan	Uzbekistan	Uzbekistan
Proportion of non-controlling interest	47.5%	45.2%	49.0%
Proportion of non-controlling interest's voting rights held	47.5%	45.2%	49.0%
Loss attributable to non-controlling interest	(201)	(12,398)	(1,398)
Accumulated non-controlling interest in the subsidiary	(2,628)	(1,199)	9,474
Summarised financial information:			
Current assets	10,028	6,752	27,136
Non-current assets	25,813	16,868	10,210
Current liabilities	(9,444)	(8,255)	(13,978)
Non-current liabilities	(31,930)	(18,018)	(4,033)
Revenue	6,039	5,904	602
Loss	(423)	(27,429)	(2,853)
Total comprehensive loss	(423)	(27,429)	(2,853)

36. Fair Value of Financial Instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial assets and financial liabilities measured at fair value on a recurring basis

The fair value of the financial assets at fair value through other comprehensive income were determined as the present value of future dividends by assuming dividend growth rate of zero per annum. The Management built its expectation based on previous experience of dividends received on financial assets at fair value through other comprehensive income over multiple years, and accordingly calculated the value of using the average rate of return on investments. Management believes that this approach accurately reflects the fair value of these securities. These unquoted equity instruments were measured as Level 3.

Financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

As at 31 December 2019 and 2018, the fair value of financial assets and financial liabilities except for those shown below approximate their carrying value.

		Fair value				
Financial Assets/Liabilities as at 31 December 2019	**Carrying value**	**Fair value**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
Due from other banks	845,018	849,177	Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value
Loans and advances to customers	19,839,756	16,059,775	Level 2	Valuation model based on DCF. Future cash flows are estimated based on average interest rates (from observable Statistical bulletin of the CBU)	Not applicable	The greater the discount - the smaller the fair value
Customer accounts	7,935,719	7,945,204	Level 2	Valuation model based on DCF. Future cash flows are estimated based on average interest rates (from observable Statistical bulletin of the CBU)	Not applicable	The greater the discount - the smaller the fair value
Borrowings from government, state and international financial organisations	11,530,321	11,616,502	Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value

36. Fair Value of Financial Instruments (Continued)

Financial Assets/Liabilities as at 31 December 2018	Carrying value	Fair value	Fair value Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Due from other banks	508,224	505,041	Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value
Loans and advances to customers	17,598,212	14,874,108	Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value
Customer accounts	7,090,686	7,111,062	Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value
Borrowings from government, state and international financial organisations	11,057,373	12,527,095	Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value

As at 31 December 2019, the Group determined fair value for some of its financial assets and liabilities using the discounted cash flow model by applying CBU statistical bulletin, which became open to public starting 2019. Such financial instruments were categorised as Level 2.

For those financial instruments, where interest rates were not directly available in the CBU's Statistical bulletin, the Management uses discounted cash flow model by applying market interest rates based on the rates of the deals concluded towards the end of the reporting period, thereby, categorizing such instruments as Level 3.

Due to the absence of an active market or observable inputs for instruments with characteristics similar to the Bank's financial instruments, the Management considered the latest rates as the most appropriate input from all available data for calculation of the fair value of financial assets and financial liabilities. Therefore, these long-term financial instruments that are not measured at fair value on a recurring basis, but where fair value disclosures are required, are categorised within Level 3.

37. Related Party Transactions

Parties are generally considered to be related, if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related with the Group party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group applies a disclosure exemption regarding Government-related entities, where the same Government has control or joint control of, or significant influence over, both the Group and the other entities disclosed as "other related entities – Government".

- "Entities with significant influence over the Group" – legal entities-shareholders which have a significant influence to the Group through Government;
- "Key management personnel" – members of the Management Board and the Council of the Bank.

As at 31 December 2019, 2018 and 2017 the outstanding balances with related parties were as follows:

	31 December 2019		31 December 2018		31 December 2017	
In millions of Uzbekistan Soums	**Related party balances**	**Total category as per the financial information caption**	**Related party balances**	**Total category as per the financial information caption**	**Related party balances**	**Total category as per the financial information caption**
ASSETS						
Debt securities of the Government of the Republic of Uzbekistan	**131,149**	**131,149**	**154,610**	**154,610**	**-**	**-**
- entities with significant influence over the Group	*131,149*	-	*154,610*	-	-	-
LIABILITIES						
Customer accounts	**966,422**	**7,935,719**	**59,648**	**7,090,686**	**17,677**	**5,648,433**
- entities with significant influence over the Group	*966,422*	-	*59,648*	-	*17,677*	-
Borrowings from government, state and international financial institutions	**8,096,225**	**11,530,321**	**8,669,253**	**11,057,373**	**4,640,262**	**6,303,874**
- entities with significant influence over the Group	*8,096,225*	-	*8,669,253*	-	*4,640,262*	-
Other borrowed funds	**425,905**	**425,905**	**-**	**-**	**-**	**-**
- entities with significant influence over the Group	*425,905*	-	-	-	-	-

37. Related Party Transactions (Continued)

The income and expense items with related parties for the year ended 31 December 2019, 2018 and 2017 were as follows:

	2019		2018		2017	
In millions of Uzbekistan Soums	**Related party transactions**	**Total category as per the financial information caption**	**Related party transactions**	**Total category as per the financial information caption**	**Related party transactions**	**Total category as per the financial information caption**
Interest income	**44,351**	**1,952,784**	**187**	**1,224,371**	**-**	**582,492**
- entities with significant influence over the Group	*44,351*	-	*187*	-	-	-
- key management personnel	-	-	-	-	-	-
Interest expense	**(257,081)**	**(917,559)**	**(171,542)**	**(577,354)**	**(75,558)**	**(284,911)**
- entities with significant influence over the Group	*(257,081)*	-	*(171,542)*	-	*(75,558)*	-
- key management personnel	-	-	-	-	-	-
Administrative and other operating expenses	**3,865**	**(619,401)**	**(1,879)**	**(503,558)**	**1,552**	**(391,363)**
- entities with significant influence over the Group	-	-	-	-	-	-
- key management personnel	*3,865*	-	*(1,879)*	-	*1,552*	-
Share results of associates	**(62)**	**(276)**	**59**	**(60)**	**-**	**-**
- associates	*(62)*	-	*(59)*	-	-	-

Key management compensation is presented below:

In millions of Uzbekistan Soums	**2019**	**2018**	**2017**
Short-term benefits:			
- Salaries and other short term benefits	3,092	1,503	1,242
- Social security costs	773	376	310
Total key management personnel compensation	**3,865**	**1,879**	**1,552**

38. Subsequent Events

On 11 March 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak, which have impacted global business operations.

In June 2020, S&P Global Ratings revised Uzbekistan's rating outlook from stable to negative. The decision was made due to rapid rise in the country's external and fiscal debt, partly due to USD 1 billion in additional government spending in response to the coronavirus pandemic.

The Group have implemented remote work arrangements and restricted business travel effective mid-March, and to date, these arrangements have not materially affected the bank's ability to maintain business operations, including the operation of financial reporting systems, internal control over financial reporting, and disclosure controls and procedures.

However, after introduction of quarantine measures in March 2020, the production and economic activity in Uzbekistan has declined which as a consequence has resulted in an increased number of requests from the Bank's borrowers to restructure their loans. Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

By end of August 2020, due to quarantine restrictions and consequences of the COVID-19 pandemic, the Group has carried out the following activities to support its customers:

- provided holidays till end of Q3 2020 for repayment of interest and/or principal on loans with outstanding balance of nearly 37% of the total loan portfolio which comprise nearly 45% of the loans to legal entities and nearly 25% of the loans to individuals as at 30 August 2020. As at the same date, the amount of principal, the repayment of which the Group has extended beyond Q3 2020, was UZS 1,362 billion (10.4%) and UZS 115 billion (1.3%) of the loans to legal entities and individuals, respectively;

- expanded offering of banking products through digital and distance channels, which were previously provided exclusively at the Bank's branches.

As at 30 June 2020, these changes in the economic environment have significantly impacted the operations of the Group through increased charges for ECL and further effects of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Uzbekistan economy. The Group continues to monitor the situation and intend to adapt strategies as needed to continue to drive the business and meet obligations.

On 1 May 2020, a collapse occurred in the earth-filled dam of Sardoba Reservoir in Uzbekistan, causing flooding near the town of Sardoba, Sirdaryo region. As a result, the Group has classified the loans with outstanding amount of UZS 27 billion negatively affected by the dam collapse as Stage 3.

On 22 June 2020, the Group signed a loan agreement with the International Finance Corporation (IFC) for the amount of USD 35 million. Subject to satisfying certain prescribed conditions, IFC may be entitled to partially or fully convert this credit line into the ordinary shares of the Bank.

According to the decision of the Council dated 15 June 2020, the Bank has invested UZS 20 billion into the capital of newly founded mortgage company JSC "Mortgage Refinancing Company of Uzbekistan".

38. Subsequent Events (Continued)

In 2020, as planned in the “Strategy for reforming of the banking system of the Republic of Uzbekistan for 2020 to 2025” the government has started to transfer the non-core assets of the commercial banks out from their balance sheets in order to improve their operational and financial efficiency.

According to Decree of the Cabinet of Ministers # 362 dated 5 June 2020, the Bank started the process of divestment from the following entities since July 2020:

Name	Ownership 31 December 2019	Industry
Bank's direct interest in subsidiaries:		
Ipoteka Sarmoyasi LLC	100%	Investment
Bank's indirect interest in subsidiaries via IpotekaSarmoyasi LLC		
O'zbekbaliqsanoat LLC	100%	Fishery
Qaraqalpaqbaliqsanoat LLC	51%	Fishery
Andijonbaliqsanoat LLC	51%	Fishery
Buxorobaliqsanoat LLC	100%	Fishery
Jizzaxbaliqsanoat LLC	51%	Fishery
Qashqadaryobaliqsanoat LLC	51%	Fishery
Navoiybaliqsanoat LLC	51%	Fishery
Namanganbaliqsanoat LLC	51%	Fishery
Samarqandbaliqsanoat LLC	51%	Fishery
Surxandaryobaliqsanoat LLC	51%	Fishery
Sirdaryobaliqsanoat LLC	100%	Fishery
Toshkentbaliqsanoat LLC	51%	Fishery
Farg'onabaliqsanoat LLC	51%	Fishery
Xorazmbaliqsanoat LLC	51%	Fishery
Baliqchilikilmiymarkazi LLC	100%	Scientific development
Keramikaquyosh LLC	100%	Manufacturing
Tozaquyoshmateriallari LLC	100%	Developing innovation technologies
SBTECH LLC	100%	Developing innovation technologies
SIDPAC LLC	100%	Developing innovation technologies
The financial assets at fair value through other comprehensive income		
Chilonzor buyum savdo kompleksi JSC	14.36%	Trade
Qo'qon neftegaz parmalash ishlari JSC	11.56%	Oil & Gas
O'zagrolizing JSC	0.65%	Leasing
Qurilish-Lizing LLC	6.61%	Leasing
O'zMed-Lizing JSC	16.67%	Leasing
Qo'yliq dehqon bozori OAJ	9.32%	Trade

In April and September 2020, the CBU reduced the refinancing rate from 16% to 15% and from 15% to 14%, respectively.

Except this and events related to COVID-19 pandemic (Note 2), which were accounted for as a non-adjusting event for the purpose of this consolidated financial statements, the Management is not aware of any other material events subsequent to the reporting date.