

IMPORTANT NOTICE

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THE ATTACHED DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE NOTES (THE "**NOTES**") REFERENCED IN THE ATTACHED DOCUMENT MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND AS PERMITTED BY, THE US SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF NOTES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Confirmation of your Representation: In order to be eligible to view the attached document or make an investment decision with respect to the Notes, investors must comply with the following provisions. You have been sent the following document on the basis that you have confirmed to the Issuer and the Joint Bookrunners named herein, being the senders of the attached document, that you are a person that is outside the United States (within the meaning of Regulation S under the Securities Act) and that you are (a) a relevant person (as defined below) if in the United Kingdom; or (b) outside the United Kingdom (and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in such jurisdictions). By accepting this e-mail and accessing the attached document, you shall be deemed to have made the above representation and to have consented to delivery of such document by electronic transmission.

In addition, in the United Kingdom, the attached document is being distributed only to and is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (b) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order; and (c) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended ("**FSMA**")) in connection with the issue or sale of any securities of the Issuer or any member of its Group (as defined herein) may otherwise lawfully be communicated or caused to be communicated (all such persons together referred to as "**relevant persons**"). Any investment or investment activity to which the document relates is available only in the United Kingdom to relevant persons and will be engaged in only with such persons.

This document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

Manufacturer target market (MiFID II product governance) is eligible counterparties and professional clients only (all distribution channels). No PRIIPs key information document has been prepared as the Notes will not be made available to retail investors in the European Economic Area or in the United Kingdom.

Neither this electronic transmission nor the attached document constitutes or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful. This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Joint Bookrunners, the Trustee, the Principal Paying Agent, the Paying Agents (each as defined herein), nor any person who controls any of them, nor any director, officer, employee or agent of any of them, nor any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between this document distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

No representation or warranty, expressed or implied, is made or given by or on behalf of the Joint Bookrunners, the Trustee, the Principal Paying Agent, the Paying Agents, nor any person who controls any of them, nor any director, officer, employee or agent of any of them, nor any affiliate of any such person, as to the accuracy, completeness or fairness of the information or opinions contained in this document and such persons do not accept responsibility or liability for any such information or opinions.



JOINT-STOCK COMMERCIAL MORTGAGE BANK “IPOTEKA-BANK”

(incorporated in the Republic of Uzbekistan)

U.S.\$300,000,000 5.50 per cent. Notes due 2025
Issue Price 100 per cent.

Joint-stock commercial mortgage bank “Ipoteka-bank” (the “**Issuer**”), a bank incorporated under the laws of the Republic of Uzbekistan, is issuing an aggregate principal amount of the U.S.\$300,000,000 5.50 per cent. Notes due 2025 (the “**Notes**”). The Notes will be constituted by, subject to, and have the benefit of a trust deed to be dated 19 November 2020 (as may be amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the “**Trustee**”) for the benefit of Noteholders (as defined in the “*Terms and Conditions of the Notes*”).

Interest on the Notes will accrue from 19 November 2020 (the “**Closing Date**”) and will be payable semi-annually in arrear on 19 May and 19 November of each year (each an “**Interest Payment Date**”), commencing on 19 May 2021 (the “**Interest Commencement Date**”).

The Notes mature on 19 November 2025 the (“**Maturity Date**”) but may be redeemed before then at the option of the Issuer in whole but not in part, at any time prior to the date falling three month prior to the Maturity Date, but on one occasion only, on giving not less than 30 nor more than 60 days’ irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium (as defined in the “*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at Make Whole*”). The Issuer may also redeem the Notes in whole, but not in part, at their principal amount together with any accrued and unpaid interest, if the Issuer has or will become obliged to pay certain additional amounts as further described under “*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for tax reasons*”. The Notes are also subject to redemption, in whole or in part, at their principal amount, together with any accrued and unpaid interest and additional amounts (if any), at the option of the Issuer at any time on or after the date falling three months prior to the Maturity Date. See “*Terms and Conditions of the Notes—Redemption and Purchase—Optional Redemption at Par*”. If a Change of Status (as defined in the “*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at the option of Noteholders upon a Change of Status*”) occurs, the Issuer shall, at the option of a holder of any Note, redeem or purchase such Note on the Change of Status Put Date (as defined in the “*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at the option of Noteholders upon a Change of Status*”) at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to (but excluding) the Change of Status Put Date. See “*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at the option of Noteholders upon a Change of Status*”.

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (the “**Financial Conduct Authority**”) for the Notes to be admitted to the official list of the Financial Conduct Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market.

Investing in the Notes involves risks. See “Risk Factors” starting on page 7 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

The Notes are expected to be rated BB- by S&P Global Ratings Europe Limited (“**S&P**”) and BB- by Fitch Rating Ltd. (“**Fitch**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. S&P is established in the European Union and Fitch is established in the United Kingdom. Each of S&P and Fitch is registered under the Regulation (EC) No. 1060/2009, as amended (the “**CRA Regulation**”). This list is available on the ESMA website (<http://www.esma.europa.eu/page/list-registered-and-certified-CRAs>).

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) and, subject to certain exceptions, may not be offered or sold within the United States.

The Notes will be offered and sold in registered form and without interest coupons attached in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Notes will be represented by beneficial interests in an unrestricted global note (the “**Global Note**”), in registered form and without interest coupons attached. The Global Note will be deposited with a common depositary for Euroclear Bank SA/NA (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”) and registered in the name of a nominee of such common depositary on or about the Closing Date.

The Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive, registered, form, without interest coupons. See “*Summary of the Provisions relating to the Notes when in Global Form*”. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. It is expected that delivery of the Global Note will be made on or about the Closing Date. Except as described herein, definitive certificates for Notes will not be issued in exchange for beneficial interests in the Global Note.

Sole Global Coordinator and Joint Bookrunner

J.P. Morgan

Joint Bookrunners

MUFG

**Raiffeisen Bank
International**

**Société Générale
Corporate & Investment Banking**

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus (the “**Prospectus**”) comprises a prospectus for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council dated 14 June 2017 (the “**Prospectus Regulation**”) and for the purpose of giving information with regard to the Issuer and its consolidated subsidiaries taken as a whole (the “**Group**”) and the Notes, which, according to the particular nature of the Issuer, the Group and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Group, the rights attaching to the Notes and of the reasons for the issuance and its impact on the Issuer and the Group. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.

No person is authorised to give any information or to make any representation in connection with the offer or sale of the Notes other than as contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by the Issuer, the Trustee, the Principal Paying Agent and the Paying Agents or any Joint Bookrunner. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the business and affairs of the Issuer or the Group since the date hereof or that there has been no adverse change in the financial position of the Issuer or the Group since the date hereof or that the information contained in it is correct as at any time subsequent to the date on which it is supplied. No representation or warranty, express or implied, is made by any Joint Bookrunner or the Trustee, the Principal Paying Agent and the Paying Agents as to the accuracy or completeness of such information. None of the Joint Bookrunners, the Trustee or the Principal Paying Agent and the Paying Agents accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer or the Notes. Each of the Joint Bookrunners, the Trustee and the Principal Paying Agent and the Paying Agents accordingly disclaims all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

This Prospectus does not constitute an offer to sell, or a solicitation to subscribe for or purchase, by or on behalf of the Issuer, any Joint Bookrunner or any other person, any of the Notes in any jurisdiction where it is unlawful for such person to make such offer or solicitation. The distribution of this Prospectus and the offer and sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe such restrictions. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under “*Subscription and Sale*”.

No action has been or will be taken to permit a public offering of the Notes or the distribution of this Prospectus (in any form) in any jurisdiction where action is required for such purposes.

None of the Issuer, the Joint Bookrunners, the Trustee, the Principal Paying Agent and the Paying Agents, or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. The contents of this Prospectus should not be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal adviser, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Notes.

To the fullest extent permitted by law, the Joint Bookrunners accept no responsibility whatsoever for the Notes, the Trust Deed or the Paying Agency Agreement (each as defined herein) (including the effectiveness thereof) or the contents of this Prospectus or for any other statement made or purported to be made by a Joint Bookrunner or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each Joint Bookrunner accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it

might otherwise have in respect of the Notes, the Trust Deed, the Paying Agency Agreement, this Prospectus or any such statement.

In connection with the Offering of the Notes, the Joint Bookrunners and any of their affiliates, acting as investors for their own accounts, may purchase Notes and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Notes and other securities of the Issuer or related investments in connection with the Offering of the Notes or otherwise. Accordingly, references in this Prospectus to the Notes being issued, offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or acquisition, placing or dealing by, the Joint Bookrunners and any of their affiliates acting as investors for their own accounts. The Joint Bookrunners do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Recipients of this Prospectus are authorised to use it solely for the purpose of considering an investment in the Notes and may not reproduce, forward or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Notes.

Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe any such restrictions. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer and the Joint Bookrunners are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. None of the Issuer, the Trustee, the Principal Paying Agent and the Paying Agents, the Group or the Joint Bookrunners or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Such investors should consult their legal advisers regarding such matters.

The Joint Bookrunners and their respective affiliates may have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders).

Prior to making any decision as to whether to invest in the Notes, prospective investors should read this Prospectus. In making an investment decision, prospective investors must rely upon their own examination of the Issuer and the Group and the terms of this Prospectus, including the risks involved. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes and, in particular, the information contained or incorporated by reference in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, the merit and risks of an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic considerations, interest rate volatility and other factors that may affect its investment and its ability to bear the applicable risks.

If investors are in any doubt about the contents of this Prospectus, investors should consult a stockbroker, bank manager, solicitor, accountant or other financial adviser.

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Fund of Guarantee of Citizens' Deposits in Banks of the Republic of Uzbekistan.

This Prospectus has been approved by the Financial Conduct Authority, as competent authority under the Prospectus Regulation. The Financial Conduct Authority only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer that is the subject of this Prospectus. Such approval should not be considered as an endorsement of the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability in investing in the Notes.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

Solely for the purpose of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **"distributor"**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA AND U.K. RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**"EEA"**) or in the United Kingdom (**"U.K."**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the **"IDD"**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the **"PRIIPS Regulation"**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the U.K. has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the U.K. may be unlawful under the PRIIPS Regulation.

NOTICE TO THE UNITED KINGDOM INVESTORS

This Prospectus is directed solely at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the **"Order"**), (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order and (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended (**"FSMA"**)) in connection with the issue or sale of any securities of the Issuer or any member of its Group may otherwise lawfully be communicated or caused to be communicated (all such persons in (i) to (iv) above being **"relevant persons"**). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

NOTICE TO PROSPECTIVE INVESTORS IN SINGAPORE

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **"SFA"**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **"CMP Regulations 2018"**), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in Monetary Authority of Singapore (the **"MAS"**) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

STABILISATION

In connection with the issue of the Notes, J.P. Morgan Securities plc (the “**Stabilising Manager**”) or any person acting on behalf of the Stabilising Manager may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

CERTAIN INFORMATION CONTAINED IN THIS PROSPECTUS

In this Prospectus, the Issuer relies on and refers to publicly available information released by official and unofficial sources other than the Issuer. These sources include, but are not limited to, the Central Bank of Uzbekistan (the “**CBU**”), research reports, analyst reports, press releases, securities filings and industry publications, including the State Committee of the Republic of Uzbekistan on Statistics and the International Monetary Fund (the “**IMF**”). Although the Issuer believes that this information is reliable, it has not independently verified this information and cannot guarantee its accuracy and completeness. In addition, some of the information contained in this Prospectus has been derived from official data published by the Government of the Republic of Uzbekistan (the “**Government**”). Official statistics and other data published by Uzbekistan federal, regional and local governments are substantially less complete or transparent than those of Western countries. Official statistics may also be compiled on the basis of methodologies different from those used in Western countries. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced. As far as the Issuer is aware and is able to ascertain from information published by the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus includes market data and industry forecasts and projections that have been obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers’ expertise in the industry, and there is no assurance that any of the forecasts or projections will be achieved. Similarly, the Issuer believes that the surveys and market research others have performed are reliable, but the Issuer has not independently verified this information.

In addition, the Issuer has included its own estimates, assessments, adjustments and judgements in preparing some market information, which have not been verified by an independent third-party. Market information included herein is, therefore, unless otherwise attributed exclusively to a third-party source, subjective to a certain degree. Market information or that market information prepared by other sources may differ materially from the market information included herein.

The Issuer’s website is <https://www.ipotekabank.uz/en/>. The contents of the Issuer’s website or any other websites referred to in this Prospectus do not form any part of the content of this Prospectus.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language, Uzbek, in order that the correct technical meaning may be ascribed to them under applicable law.

LIMITATIONS ON ENFORCEMENT OF ARBITRAL AWARDS AND JUDGMENTS

Substantially all of the Issuer's directors and executive officers reside in Uzbekistan. All or a substantial portion of their and the Group's assets are located in Uzbekistan. As a result, it may not be possible for you to:

- effect service of process outside Uzbekistan upon substantially all of the Issuer's directors and executive officers; or
- enforce non-Uzbek court judgments (save for judgments of court in those jurisdictions with which Uzbekistan has special international treaty) obtained against the Issuer or substantially all of its directors and executive officers in non-Uzbek courts in any action.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English law, as applicable.

The United Kingdom is not party to a treaty on mutual recognition and enforcement of judgments with the Republic of Uzbekistan and even if an applicable international treaty is in effect, the recognition and enforcement in Uzbekistan of a foreign judgment will in all events be subject to exceptions and limitations provided for in the laws of the Republic of Uzbekistan. In the absence of such agreements, the courts of Uzbekistan may recognise and enforce a foreign judgment on the basis of the principle of reciprocity. The Uzbek legislation does not include clear rules on the application of the principle of reciprocity. Thus, there can be no assurance that the courts of Uzbekistan will recognise and enforce a judgment rendered by courts of a jurisdiction with which Uzbekistan has no agreement on the basis of the principle of reciprocity.

The Trust Deed will be governed by English law and will provide the option for disputes, controversies and causes of action brought by any party thereto against the Issuer to be settled by arbitration in accordance with the LCIA Rules in London, England. The Republic of Uzbekistan and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the "**New York Convention**"). However, an Uzbek court may refuse the recognition and enforcement of foreign arbitral awards in full or part if one of the following grounds exists:

- a party to the arbitration agreement is in any way incapable by the law applicable to it or the arbitration agreement is invalid under the chosen governing law, and in the absence of such governing law — according to the law of the country where a foreign arbitral award has been rendered;
- a party against which a foreign arbitral award is rendered has not been timely and duly notified about the proceedings, their time and place or due to other reasons could not provide its explanations;
- a foreign arbitral award is rendered in a dispute not provided for or not subject to the terms of the arbitration agreement or arbitration clause in the contract, or contains rulings on matters beyond the scope of the arbitration agreement or arbitration clause in the contract, unless rulings on matters covered by the arbitration agreement either by such agreement or reservation may be separated from those not covered by such agreement or reservation;
- a composition of the arbitration body or the arbitration process did not comply with the agreement of the parties or, in the absence thereof, did not comply with the law of the country where the arbitration took place;
- a foreign arbitral award is not final for the parties or cancelled, or suspended by the competent authority of the state where it was rendered, or of the country the laws of which are being applied;
- a dispute was resolved by an incompetent foreign court or arbitration.

The court may also refuse to recognise and enforce a foreign arbitral award if:

- enforcement of a foreign arbitral award will contradict the "public policy" of the Republic of Uzbekistan;
- the subject matter of the dispute may not be subject to arbitration under the laws of the Republic of Uzbekistan;
- the statute of limitations for the enforcement of a foreign arbitral award has expired.

Recognition and enforcement of foreign arbitral awards in Uzbekistan may still be difficult, in particular, if the enforcement of a foreign arbitral award conflicts with the “public policy” of Uzbekistan. The laws of Uzbekistan do not provide any clear guidelines for determining what the “public policy” of Uzbekistan actually is. The ambiguity of the “public policy” concept may be used by Uzbek courts to deny recognition and enforcement of foreign arbitral awards rendered against Uzbekistan or threatening its interests.

In addition, an Uzbek court will ignore any dispute resolution agreement of the parties if it finds that under the Uzbekistan legislation it has exclusive jurisdiction over such disputes.

Although Uzbek law recognises choice of law principles for contractual obligations, the choice of foreign law will not exclude the application of mandatory rules of Uzbek law which cannot be derogated from by the agreement of the parties. According to Uzbek law, regardless of the choice of law applicable to the relations of the parties, certain mandatory rules of Uzbek law still shall be applied.

In Uzbekistan, upon receipt of a foreign arbitral award, the party seeking to enforce the award must submit an application for the recognition and enforcement of the foreign arbitral award to the relevant economic courts in the Republic of Uzbekistan. The court will review the award to ensure there are no grounds (as discussed above) to refuse recognition and enforcement. Upon a finding that the foreign arbitral award is satisfactory, the court will adapt a ruling on recognition and enforcement and issue a writ of execution, which must be submitted to the Bureau of Mandatory Enforcement within three years of the court’s ruling on the foreign arbitral award.

As a condition for admissibility in evidence of any documents, the courts of Uzbekistan will require the submission of such documents either (i) as originally executed counterparts, or (ii) as duly notarised copies. In addition, in case of an official document issued outside Uzbekistan, unless a valid international agreement of Uzbekistan provides otherwise, such official document will be admissible in evidence by a court of Uzbekistan if (i) such official document is legalised by an Uzbek consul in the country of its issuance and a duly certified Uzbek language translation of such official document is notarised by an Uzbek notary or (ii) the apostil is affixed to such official document by the competent authority of the country of its issuance subject to the Convention Abolishing the Requirement of Legalisation for Foreign Public Documents dated 5 October 1961 and a duly certified Uzbek language translation of such official document is notarised by an Uzbek notary.

See *“Risk Factors—Risks Related to Republic of Uzbekistan—Enforcement of judgements or arbitral awards against the Bank can be difficult”*.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact contained in this Prospectus, including, without limitation, those regarding the Group's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets in which the Group participates or seeks to participate, and any statements preceded by, followed by or that include the words "believes", "expects", "aims", "intends", "plans", "will", "may", "anticipates" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements include, among other things, statements concerning:

- overall business conditions;
- the impact of COVID-19 pandemic;
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- economic and political conditions in Uzbekistan;
- the timing, impact and other uncertainties of future actions;
- inflation, interest rate fluctuations, foreign currency and exchange rate fluctuations and other capital market conditions in Uzbekistan;
- the condition and performance of the economy, including the Uzbekistan's banking sector;
- the effects of, and changes in, the policy of the Government and the CBU including on interest rate limits and mandatory dividend requirements;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in Uzbekistan;
- the Bank's ability to maintain or increase market share for its products and services and control expenses;
- the Bank's ability to meet its funding obligations and develop and maintain additional sources of financing;
- the Bank's ability to continue to diversify its client base;
- the impact of the growth of the Bank's loan portfolio on its revenue potential and overall asset quality;
- technological changes; and
- the Bank's ability to manage the risks associated with the aforementioned factors.

The forward-looking statements included in this Prospectus involve known and unknown risks, uncertainties and other factors which may cause the Group's actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which the Group will operate in the future. You should be aware that a number of important factors provided above could cause the industry's or the Group's own actual results or performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

This list of important factors is not exhaustive. Additional factors that could cause actual results, performance or achievements to differ materially include those discussed under "*Risk Factors*". When considering forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as at the date on which they are made, and the Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in their expectations with regard thereto or

any change in events, conditions or circumstances on which any such statement is based. The Issuer does not make any representation or warranty that the results anticipated by such forward-looking statements will be achieved.

PRESENTATION OF FINANCIAL INFORMATION

Presentation of Financial Information

The Group's financial information set forth herein has, unless otherwise indicated, been extracted from the Group's unaudited interim condensed consolidated financial information for the period ended 30 June 2020 and 2019 prepared in accordance with IAS 34 Interim Financial Reporting ("**IAS 34**") (the "**Interim Financial Information**") and the Group's audited consolidated financial statements for the years ended 31 December 2019, 2018 and 2017 (the "**Annual Financial Statements**" and, together with the Interim Financial Information, the "**Financial Statements**"), set forth on pages F-2 through F-155 of this Prospectus.

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board.

The Uzbek soum is the functional currency of the Bank and the presentation currency for the Financial Statements. The Financial Statements and financial information included elsewhere in this document have, unless otherwise noted, been presented in Uzbek soums.

Significant Accounting Policies and New Accounting Standards

The Group has applied IFRS 9, Financial Instruments ("**IFRS 9**") using the modified retrospective approach, which means the adoption of IFRS 9 from 1 January 2018 with no restatement of comparative periods and such comparative period being presented as previously reported 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.

As a result of the adoption of the above accounting standards, certain information for the years ended 31 December 2019, 2018 and 2017 in the Annual Financial Statements is not directly comparable. The year ended 31 December 2019 and 2018 Annual Financial Statements were prepared in accordance with IFRS 9. The year ended 31 December 2017 Annual Financial Statements were prepared in accordance with IAS 39, Financial Instruments: Recognition and Measurement, which were the standards applicable at that time.

The Group has applied IFRS 16, Leases ("**IFRS 16**") using the modified retrospective approach, which means adoption from 1 January 2019 with no restatement of comparative periods (namely, the comparative periods shall be presented as previously reported under IAS 17 and related interpretation). The implementation of IFRS 16 has no material impact on the amount of disclosure in the Group's consolidated financial information.

See "*Financial Review—Significant Accounting Policies and New Accounting Standards*", Note 5 to the Annual Financial Statements and Note 4 to the Interim Financial Information for more information on IFRS 9 and IFRS 16.

Independent Auditors

The Annual Financial Statements prepared in accordance with IFRS and included in the Prospectus have been audited by "Deloitte & Touche" Audit Organisation LLC ("**Deloitte**"), as stated in their report appearing herein. The Interim Financial Information has been reviewed by Deloitte. The Interim Financial Information was prepared in accordance with IAS 34 as stated in the review report appearing herein. With respect to such Interim Financial Information, Deloitte has reported that it applied limited procedures in accordance with the professional standards for review of such information, however, its report states that it did not audit and does not express an opinion on such interim financial information. Accordingly, the degree of reliance upon their reports on such information should be restricted in light of the limited nature of the review procedures applied.

The address of Deloitte is 75 Mustakillik Avenue, Tashkent 100000, Republic of Uzbekistan. Deloitte has a licence authorising audit of companies registered by the Ministry of Finance of the Republic of Uzbekistan under registration number 00776 dated 5 April 2019 and a certificate authorising audit of banks registered by the CBU under registration number 3 dated 14 October 2013.

Following the General Meeting of Shareholders on 30 September 2020, the Bank approved the appointment of KPMG of International Business Center, 11th floor, block A, 107-B Amir Temur Street, Tashkent 100084,

Republic of Uzbekistan, as independent auditor for the Bank for the financial year ending 31 December 2020 (such appointment being subject to signing of a contract between the Bank and KPMG).

Certain Definitions and Currencies

In this Prospectus, all references to:

- “**the Group**” and “**the Bank**” are to the Joint-stock commercial mortgage bank “Ipoteka-bank” and its consolidated subsidiaries taken as a whole;
- “**CBU**” are to the Central Bank of Uzbekistan;
- “**CIS**” are to the Commonwealth of Independent States and its member states as at the date of this Prospectus, being Russia, Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan;
- “**EU**” are to the European Union;
- “**Listing Rules**” are to the rules of the Financial Conduct Authority relating to admission of to the Official List.
- “**US**” are to the United States of America;
- “**UFRD**” are to Uzbekistan’s Fund for Reconstruction and Development.

In this Prospectus, the following currency terms are used:

- “**UZS**”, “**Uzbek soums**” or “**soums**” means the lawful currency of the Republic of Uzbekistan;
- “**U.S.\$**” or “**U.S. Dollar**” means the lawful currency of the United States; and
- “**EUR**”, “**Euro**” “**euro**” or “**€**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

References in the Prospectus to “billions” are to thousands of millions.

Exchange Rate

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Uzbek soum and the U.S. dollar, based on the official exchange rate quoted by the CBU. Fluctuations in the exchange rates between the Uzbek soum and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

Year	Uzbek soum per U.S.\$1.00			
	High	Low	Average	Period end
2015.....	2,809.98	2,424.23	2,573.48	2,809.98
2016.....	3,231.48	2,816.47	2,968.90	3,231.48
2017.....	8,120.07	3,239.62	5,140.29	8,120.07
2018.....	8,339.55	7,783.05	8,069.05	8,339.55
2019.....	9,537.55	8,336.25	8,851.36	9,507.56
2020 (up to and including 9 November 2020)	10,371.76	9,500.54	9,999.15	10,366.86

Source: CBU

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Key Performance Indicators

The key performance indicators (“**KPIs**”) or alternative performance measures (“**APMs**”) described below have been derived from management estimates, are not part of the Bank’s Financial Statements or the Bank’s accounting records, and have not been audited or otherwise reviewed by outside auditors, consultants or experts. Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric’s components and calculation method.

This Prospectus includes certain financial measures that are not measures of performance specifically defined by IFRS. These include return on average assets, return on average equity, cost-to-income ratio, net interest margin, total liquid assets and NPL ratio. The KPIs disclosed in this Prospectus should not, however, be considered as an alternative to, in isolation from or as substitutes for financial information reported under IFRS. The KPIs disclosed in this Prospectus are not measures specifically defined by IFRS and the Group’s use of these measures may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology of similar measures by other companies in its industry.

Please see “*Selected Financial Information—Selected Key Performance Indicators calculated based on the IFRS Financial Statements*” and “*Selected Financial Information—Capital Adequacy Ratios*”.

Translations

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. All translations in this Prospectus are direct and accurate translations of the original text.

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OVERVIEW OF THE BANK

This overview highlights certain information concerning the business of the Bank and the Notes. It does not contain all information that may be important to an investor in the Notes or an investment decision in relation to the Notes. This overview should be carefully read in conjunction with, and is qualified in its entirety by reference to, the more detailed information in this Prospectus, including the Financial Statements. Investors should also consider the matters set forth in “Risk Factors” before deciding to invest in the Notes. Certain statements in this Prospectus include forward-looking statements which also involve risk and uncertainties as described under “Cautionary Statement Regarding Forward-Looking Statements”.

Overview

The Bank was established by the Decree of the President of the Republic of Uzbekistan dated 16 February 2005, No. DP-10 “On measures for housing construction and further development of the housing market”. The Bank’s registered and head office is located at Shahrizabz Street 30, 100000 Tashkent, the Republic of Uzbekistan. The telephone number of the registered and head office of the Bank is +998 (78) 150-11-22. As at the date of this Prospectus, the Bank has the following long-term ratings: BB- (stable outlook) from Fitch, B1 (stable outlook) from Moody’s and BB- (negative outlook) from S&P.

The Bank is one of the leading universal banks in the Republic of Uzbekistan according to the CBU. Its principal areas of activity include commercial banking, retail banking, securities operations, foreign currency operations and trade financing. According to the CBU, as at 1 September 2020, the Bank ranked as the fourth largest commercial bank in Uzbekistan by total assets and loan portfolio size, with an 8.1 per cent. and 8.6 per cent. market share, respectively. The Bank offers a comprehensive range of banking services, including state, corporate and retail lending with a particular focus on mortgage lending, deposit-taking, cash handling, international money transfers, documentary operations, guarantees, foreign exchange operations and other products. According to the CBU, the Bank is the largest mortgage lender in Uzbekistan accounting for approximately 25.4 per cent., 28.9 per cent. and 29.3 per cent. of the sector’s total outstanding residential mortgage loan portfolio as at 31 December 2019, 1 July 2020 and 1 September 2020, respectively. The Bank conducts its banking operations from its head office in Tashkent and had 39 branches, 99 mini-banks and 44 banking centres (including mortgage centres) and other sales points providing a range of banking services located across Uzbekistan as at 30 June 2020. See “Business—Distribution Network”.

In addition to its commercial banking activities, the Bank has historically operated as a state financing vehicle on the basis of funding provided by state agencies, such as the State Fund for the Reconstruction and Development of the Republic of Uzbekistan (“**UFRD**”) and the Ministry of Finance of the Republic of Uzbekistan (the “**Ministry of Finance**”), for subsidised financing of investment projects in certain key industries (primarily being the manufacturing (which includes the mining sector), construction, trading and services, transport and communication and retail sectors) and has otherwise in its day-to-day operations relied on funding provided by the Government in the form of predominantly subsidised loans, deposits, capital injections and state guarantees, as well as funding received as borrowings from international financial institutions (“**IFIs**”). Since 2018, as part of the ongoing economic reforms in Uzbekistan, the Bank has been undergoing a transitional reform of its banking organisation (namely, by moving away from being dependent on state control and funding to more of a market-orientated commercial structure). Under this transition strategy, the Government has been gradually decreasing its influence on the business and loan portfolio of the Bank, as well as narrowing the scope of state support financing available to the Bank to specific state-sponsored funds or programmes, such as JSC “Mortgage Refinancing Company of Uzbekistan” (the “**MRCU**”) or the State Fund for Support of Entrepreneurs’ Activity, and reducing the number of state guarantees that borrowers of the Bank have benefitted from and which the Bank has received as credit support. See “Business—Competitive Strengths—History of strong Government support”. Following such a strategic transition, the Bank intends to reduce the share of state ownership to less than 50 per cent. by the end of 2022 (see “Business—Structural Reform and Privatisation”) and expects to rely less on state subsidised financing in its funding base and instead to rely to a larger extent on funding from other sources, such as customer accounts, the MRCU, interbank lending markets and international capital markets. Furthermore, the Bank is seeking to diversify its loan portfolio and expand its client base to further benefit from higher margins on loans attributable to the key sectors of Uzbekistan’s economy, such as the construction sector and residential mortgage market, as well as to further increase its client base amongst MSMEs and retail customers, including private entrepreneurs and other sectors, on more commercial and market-orientated

terms, while maintaining and developing its existing strong position in the manufacturing (which includes the mining sector), trade and services and agricultural sectors.

As at 30 June 2020, the Bank's total assets amounted to UZS 25,727,858 million. Total gross loans and advances to customers amounted to UZS 21,686,611 million as at 30 June 2020, with corporate loans, residential mortgage loans and small business loans accounting for 30.3 per cent., 33.0 per cent. and 30.8 per cent. of total gross loans, respectively. As at 30 June 2020, the Bank's total equity constituted UZS 3,847,387 million. For the year ended 31 December 2019 and six months ended 30 June 2020, the Bank generated a net profit of UZS 339,018 million and UZS 238,445 million, respectively.

Competitive Strengths

The Bank's management believes that the Bank has a number of competitive advantages, including the following:

- *History of strong Government support;*
- *Established position in the banking market and growing business volumes;*
- *Strong franchise and access to an extensive retail customer base;*
- *Comprehensive banking network;*
- *Focus on sound asset quality; and*
- *Developed corporate governance and experienced management with a deep understanding of the local market.*

Strategy

The following represent the key elements of the Bank's strategy:

- *Structural modernisation of the Bank;*
- *Diversification of banking activities with a focus on the private sector and retail customers;*
- *Development of IT infrastructure to improve customer services;*
- *Customer-centric sales models and reengineered business processes for improved efficiency;*
- *Further development of risk management and credit policies; and*
- *Further development of high-quality corporate governance, qualified personnel, an entrepreneurial corporate culture and efficient HR management systems.*

Risk Factors

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment decision with respect to the Notes, see "*Risk Factors*" and "*Cautionary Statement Regarding Forward-Looking Statements*". Prospective investors in the Notes should carefully consider the risks and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that the risks described in this Prospectus are not the only risks the Bank faces. The Bank has described only the risks it considers to be material. However, there may be additional risks that it currently considers immaterial or of which it is currently unaware.

OVERVIEW OF THE OFFERING

The following overview contains basic information about the Notes and is not intended to be complete. For a more complete understanding of the Notes, please refer to the Terms and Conditions of the Notes (“Conditions”). Capitalised terms not defined in this section have the meanings given to them in the Conditions.

Issuer	Joint-stock commercial mortgage bank “Ipoteka-bank”.
Sole Global Coordinator and Joint Bookrunner	J.P. Morgan Securities plc.
Joint Bookrunners	MUFG Securities EMEA plc, Raiffeisen Bank International AG and Société Générale.
Notes Offered	U.S.\$300,000,000 aggregate principal amount of 5.50 per cent. Notes due 2025.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Issue Price	100 per cent.
Closing Date	19 November 2020.
Maturity Date	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 19 November 2025.
Interest Rate	The Notes bear interest at the rate of 5.50 per cent. per annum payable in equal instalments semi-annually in arrear on 19 May and 19 November in each year, commencing on 19 May 2021.
Risk Factors	An investment in the Notes involves a high degree of risk. See “ <i>Risk Factors</i> ”.
Use of Proceeds	The Issuer will use the proceeds received from the issue and sale of the Notes for general banking business. For more information, see “ <i>Use of Proceeds</i> ”.
Form	The Notes will be in registered form, without interest coupons attached, in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will be issued in the form of a Global Note, in registered form and without interest coupons attached. The Global Note will be deposited with the common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of such common depositary. Ownership interests in the Global Note will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.
Ranking of the Notes	The Notes constitute direct, general, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may arise by mandatory operation of law and subject to Condition 4, at all times rank at least equally with all other present and

Negative Pledge and Covenants	future unsecured and unsubordinated obligations of the Issuer. Conditions contain restrictions on or impose requirements to be complied with when conducting certain activities of the Issuer and its subsidiaries, including, without limitation: (a) limitation on the incurrence of security interest; (b) requirement for the maintenance of capital adequacy and financial ratios; (c) requirement for the provision of certain financial information; (d) limitation on prepayment of subordinated debt and paying dividends on or redeeming or repurchasing share capital or making other distributions; (e) limitations on engaging in mergers and consolidations; (f) limitation on asset sales; (g) limitation on engaging in affiliate transactions; (h) requirement for the maintenance of authorisations; and (i) limitation on change of business. There are significant exceptions to the requirements contained in these covenants, as more fully described in Condition 4 and Condition 5.
Events of Default	If an Event of Default occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer that the Notes are, and that they shall immediately become, due and repayable at their principal amount together with accrued interest, as more fully described in Condition 10.
Optional Redemption for Taxation Reasons	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice, at the principal amount thereof together with accrued and unpaid interest to (but excluding) the date fixed by the Issuer for redemption, if the Issuer is or would be required to pay additional amounts (as defined in the Conditions) (subject to certain conditions) as a result of any change in, or amendment to, the laws or regulations of the Republic of Uzbekistan, occurring on or after the Issue Date as more fully described in Condition 7(b).
Make-Whole call option	The Issuer may, at its option, redeem the Notes, in whole but not in part, at any time prior to the date falling three months prior to the Maturity Date, on giving not less than 30 and not more than 60 days irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium, plus any accrued and unpaid interest, up to but excluding the date of redemption, as more fully described in Condition 7(c).
Optional Redemption at Par	The Issuer may, at any time on or after the date falling three months prior to the Maturity Date, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders, redeem the Notes in whole or in part, at the principal amount thereof, together with interest accrued

	and unpaid and additional amounts (if any) to but excluding the Par Optional Redemption Date (as defined in the Conditions), as more fully described in Condition 7(d).
Redemption of Residual Amount Outstanding at the Option of the Issuer	If 80 per cent. or more of the aggregate principal amount of the Notes then outstanding shall have been redeemed on the Change of Status Put Date in accordance with the provisions of Condition 7(h), the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders redeem all, but not some only, of the Notes that remain outstanding at the principal amount thereof, together with interest and additional amounts (if any) accrued but unpaid to but excluding the date of such redemption, as more fully described in Condition 7(e).
Optional Redemption by the Noteholders upon a Change of Status	If a Change of Status occurs, the holder of each Note will have the option to require the Issuer to redeem that Note on the Change of Status Put Date at 100 per cent. of its principal amount together with interest accrued to (but excluding) Change of Status Put Date, as more fully described in Condition 7(h). "Change of Status" means the occurrence of both (x) a Change of Control and (y) an Adverse Ratings Event whereby the rating of the Issuer or any Rated Security is withdrawn or downgraded by any Rating Agency by reason of such Change of Control, as more fully described in Condition 7(h).
Withholding Tax	All payments in respect of interest and principal on the Notes will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Republic of Uzbekistan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been required, as more fully described in Condition 9.
Listing of Notes	Application has been made to the Financial Conduct Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market. The Market is a regulated market for the purposes of MiFID II.
Ownership Restrictions	Neither Euroclear nor Clearstream, Luxembourg, will monitor compliance with any transfer or ownership restrictions.
Governing Law and Arbitration	The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with any of them shall be governed by and construed in accordance with English law and contain provisions for arbitration in London, England.
Selling Restrictions	United States, United Kingdom, EEA, Uzbekistan, Singapore and any other jurisdiction relevant to the Offering. See " <i>Subscription and Sale</i> ".
Ratings	It is expected that the Notes will be rated BB- by Fitch and BB- by S&P. S&P is established in the European Union and Fitch is established in the United Kingdom. Each of Fitch and S&P is registered under the CRA Regulation.

Security Identification	ISIN: XS2260457754
	Common Code: 226045775
Legal Entity Identifier	213800UWVX5JSNXJS434

RISK FACTORS

An investment in the Notes involves risks. Accordingly, prospective investors should carefully consider the risks described below, as well as the other information in this Prospectus, before making an investment decision. The risks and uncertainties below are not the only ones the Bank faces. Additional risks and uncertainties not presently known to the Bank, or that the Bank currently believes are immaterial, could also impair the business operations of the Bank. Factors which the Bank believes are specific to the Bank, the Bank and/or the Notes and material for an informed investment decision with respect to investing in the Notes are described below. In each category below the Bank sets out the most material risks, in its assessment, taking into account the negative impact of such risks on the Bank and the Bank and the probability of their occurrence. If any of the following risks actually materialises, the Bank's business, results of operations and financial condition could be materially and adversely affected and it could affect the Bank's ability to meet its obligations under the Notes.

The risks below have been classified into the following categories:

- (i) *Risks related to the Bank's business and the banking industry in Uzbekistan;*
- (ii) *Risks related to the Bank's strategy;*
- (iii) *Risks related to the Bank's legal, regulatory, compliance and governance frameworks;*
- (iv) *Risk related to the Republic of Uzbekistan; and*
- (v) *Risks related to the Notes.*

Risks Related to the Bank's business and the banking industry in Uzbekistan

The COVID-19 pandemic has had, and will likely continue to have, a significant effect upon the economy of Uzbekistan, which consequently may adversely affect the Bank's business, financial condition and results of operations

Impact of the COVID-19 pandemic

The outbreak of COVID-19, which emerged in East Asia in December 2019, has spread globally and has been declared by the World Health Organisation to be a global pandemic. The COVID-19 pandemic has since caused stock markets worldwide to lose significant value and impacted economic activity worldwide. Since then, there has been a sharp decrease in global economic growth rate and business activities due to the measures adopted by the governments to mitigate the impact of the COVID-19 pandemic. The decrease in business activities and a decrease in household income may result in a significant decrease in demand for banking products, as well as decrease the quality of the bank's loan portfolio. A number of governments have revised gross domestic product ("GDP") growth forecasts for 2020 downward in response to the economic slowdown caused by the spread of the COVID-19 pandemic, and it is possible that the COVID-19 pandemic will cause a prolonged global economic crisis, recession or depression despite monetary and fiscal interventions by governments and central banks globally. The COVID-19 pandemic has also resulted in restrictions on travel and transportation and prolonged closures of workspaces and business. All of these factors may have a material adverse impact on the Bank's business, results of operations, financial condition and prospects. See "*Financial Review—Factors Affecting the Financial Statements—Impact of COVID-19*" for further information.

The COVID-19 pandemic has had, and is likely to continue to have, an adverse effect on the level of economic activity in Uzbekistan. The first confirmed case of COVID-19 in Uzbekistan was announced on 15 March 2020. As of the date of this Prospectus, the country has had approximately 70,000 confirmed cases and approximately 600 deaths.

While the COVID-19 pandemic has already impacted the Bank's non-performing loans (the "NPLs"), the full impact of the COVID-19 pandemic on the Bank's business will depend on a range of factors, which the Bank is not able to accurately predict as at the date of this Prospectus, including the duration and scope of the pandemic, the impact on economic activity and the measures adopted by governments

to mitigate the impact of the COVID-19 pandemic. The Bank's management is closely monitoring the development of the COVID-19 pandemic and its impact on the Bank's business and, in particular, the adequacy of the Bank's expected credit loss measurements as more information becomes available to support an update of its measurements by incorporating alternative economic scenarios (which may result in a material adjustment to the Bank's judgments and assumptions for subsequent reporting periods). (See "*Financial Review—Factors Affecting the Financial Statements—Impact of COVID-19*" for information of the recorded impacts of the COVID-19 pandemic on the Bank's business). Depending on the length of duration and severity of the impact of the COVID-19 pandemic, it is reasonable to assume that the COVID-19 pandemic will continue to have a negative and possibly prolonged impact on banking systems globally and in Uzbekistan and on the Banks's general business operations, which could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

Although the number of cases recorded in Uzbekistan remains comparatively low, the COVID-19 pandemic has had a significant effect on the country's economy and is expected to adversely affect operations in certain industries and cause companies within these industries to incur additional costs or prevent them from carrying out their core activities and initiatives. As in many other countries, the Government responded to the pandemic by mandating restrictions upon international and domestic travel, restricting business activities and instituting social distancing rules. On 23 March 2020, the Government announced a lockdown, closing all province borders and forcing all non-essential businesses to temporarily shut down. This lockdown was lifted as part of a general easing of restrictions in late May and early June. On 8 July 2020, the Government reinstated significant restrictions on the movement of vehicles and closed non-food shopping malls, markets, parks, cafes, restaurants and entertainment venues in response to a surge of new cases in the country. These restrictions were lifted on 15 August 2020.

In response to the pandemic, the Government has provided significant fiscal stimulus in order to support the economy. The Government has provided support for the country's energy networks, air transport and tourism, manufacturing (which includes the mining sector) and other industries, as well as other key sectors of the economy, and has provided significant funding for the health service to deal with the increased demand resulting from the pandemic. The Government also implemented measures to ensure the timely payment of wages of public sector employees, pensions, scholarships and allowances. In addition, the Government has introduced significant tax reductions and deferrals so as to alleviate financial pressure on businesses and households.

As at 30 June 2020, the Bank conducts all of its banking operations from its 39 branches, 99 mini banks and 44 banking centres (including mortgage centres) located throughout Uzbekistan and generates substantively all of its revenue from the domestic market. As a result, the Bank is highly vulnerable to downturns in the domestic economy. Even in spite of the measures introduced by the Government and the CBU, the COVID-19 pandemic has had a significant effect upon the Uzbekistan economy, reducing exports and remittances, straining public finances and forcing small businesses across the country to close at various points. Exports out of Uzbekistan dropped by 21.8 per cent. during the first quarter of 2020 as compared to a decrease of 8.9 per cent. during the same period in 2019 and by 11.9 per cent. during the second quarter of 2020 as compared to a growth of 17.7 per cent. during the same period in 2019. According to the IMF's World Economic Outlook published in April 2020, the IMF expects 1.8 per cent. and 7.0 per cent. real GDP growth in Uzbekistan in 2020 and 2021, respectively, supported by new investment opportunities and structural reforms directed to further diversify the economy, as well as by projected recovery from the COVID-19 outbreak. According to the Asian Development Bank's Outlook Update published in September 2020, the Asian Development Bank (the "**ADB**") expects 0.5 per cent. and 6.5 per cent. GDP growth in Uzbekistan in 2020 and 2021, respectively.

In April 2020, the CBU devalued the soum against the U.S. dollar twice in three days by a total of 5.5 per cent. in response to significant downward pressure on the soum as a result of the measures taken in response to the COVID-19 pandemic and falling energy prices and remittances. According to the CBU, remittances into Uzbekistan also dropped by 5.4 per cent. as at 1 September 2020 as compared to the same period of 2019. On 5 June 2020, S&P changed Uzbekistan's ratings outlook to negative from

stable, citing expectations of a significant rise in the country's external debt and fiscal deficit over the next 12 months, partly due to more than U.S.\$1 billion additional Government spending in response to the COVID-19 pandemic. S&P projected the country's current account deficit to rise to 10 per cent. of GDP in 2020, from 6 per cent. in 2019, due to declines in gas exports, tourism revenue and remittances from abroad. Following the sovereign downgrade, on 10 June 2020, S&P changed the Bank's outlook to negative from stable, citing the negative impact that the potential deterioration of the sovereign's creditworthiness can have on the Bank's credit profile as a largely state-owned bank.

The impact of the COVID-19 pandemic on Uzbekistan's economy therefore poses a number of interrelated risks to the business and financial condition of the Bank. In line with global economic trends, the financial performance of the Bank has been affected by these trends, and could be materially adversely affected in the future, by a continuation of the aforementioned challenging economic conditions and uncertainty. The demand for the Bank's products and services has already been impacted and may continue to be impacted significantly by the COVID-19 pandemic. A substantial proportion of the Bank's business involves providing credit and other financial services to large corporates in the manufacturing (which includes the mining sector) and construction industry, which continued to operate notwithstanding the mandatory quarantine measures imposed by the Government. For example, as at 30 June 2020, 11.9 per cent. of the Bank's loan portfolio was concentrated with two state-owned mining companies. There can be no assurance that such exposures would not be negatively impacted by macroeconomic challenges arising out of any protracted COVID-19-induced restrictions. This also applies for medium, small and micro-sized enterprises ("MSMEs") and individuals, who constitute a significant share of the Bank's total loan portfolio.

As at the date of this Prospectus, the Bank expects the negative effects of the COVID-19 pandemic to continue with respect to its NPL levels and primarily impact its profitability in 2020, in particular with respect to the growth of its loan portfolio, deposits and volume of money transfers as well as increased provisioning charges. The extent to which the COVID-19 pandemic impacts the Bank's business, results of operations, and financial condition, as well as the Bank's regulatory capital and liquidity ratios going forward, will depend on future developments, which, as at the date of this Prospectus, are highly uncertain and cannot be predicted. These developments may include, but are not limited to, the duration and spread of COVID-19, its severity, actions taken to contain the virus or treat its impact (including any potential re-introduction of restrictive measures or implementation of new measures), the extent and effectiveness of economic stimulus taken to contain the virus or treat its impact and how quickly and to what extent normal economic and business activity can resume.

Throughout the COVID-19 pandemic, and as at the date of this Prospectus, most of the Bank's branches and centres were not and have not been subject to any closures as a result of the COVID-19 pandemic. Moreover, as a result of widespread lockdowns across various economic sectors of Uzbekistan, the Government encouraged commercial banks to maintain banking services for legal entities and individuals in order to meet their day-to-day need to access funds and banking services. While there have been certain short-term disruptions as a result of the Government's responses to the COVID-19 pandemic in Uzbekistan, the Bank is able to continue operations through the implementation of strict safety and hygiene requirements and the use of remote technology by the Bank's employees and clients for day-to-day banking activities. However, there are likely to be heightened operational risks as the Bank responds to the pandemic, including in the areas of cyber-related attacks, fraud, people, technology and operational resilience such as those associated with increased remote working, the implementation of new processes, pressure on customer support areas, disruptions to infrastructure and technology services and/or failures of third parties to supply services to usual standards which could lead to increased errors or delays and/or customer detriment and could cause subsequent loss for the Bank. In the event these conditions persist, the Bank's business, financial condition, results of operations, liquidity and prospects are likely to be negatively affected.

Impact of the Central Bank of Uzbekistan's Measures relating to the COVID-19 pandemic

The CBU has also taken measures to respond to the economic effects of the pandemic. On 14 April 2020, the CBU cut the main policy rate from 16 per cent. to 15 per cent. and further reduced the rate to 14 per cent. on 11 September 2020. In accordance with Presidential Decree No. PF-5978 dated 3 April

2020 “On additional measures to support the population, economic sectors and business entities during the coronavirus pandemic”, the CBU and other Government institutions and agencies have among other things: (i) eased the requirements for mandatory reserves, and by so doing, provided commercial banks with additional liquidity valued at UZS 2.6 trillion (which, following amendments by the CBU to mandatory reserves calculations in September 2020, allowed the Bank to access approximately UZS 224 billion in aggregate of additional liquidity), (ii) introduced a special facility for providing liquidity to commercial banks for a period of up to three years, which is valued at UZS 2 trillion (though, as at the date of this Prospectus, the Bank has not accessed any funding under this facility due to its stable liquidity position and access to other funding sources (such as borrowings from IFIs)), (iii) implemented a moratorium with effect until 1 October 2020 in respect of any bankruptcy proceedings relating to enterprises that have experienced financial difficulties as a result of the restrictive measures introduced by the Government to counter the spread of COVID-19, (iv) introduced payment holidays deferring repayments of principal and interest accrued on loans by legal entities, individual entrepreneurs and natural persons experiencing financial difficulties until 1 October 2020, (v) deferred any income taxes payable by commercial banks on interest on loans accrued and deferred (due to the pandemic) by commercial banks until 1 October 2020, and (vi) waived any penalties and foreclosure measures on collateralised overdue loans borrowed by legal entities, individual entrepreneurs and natural persons whose activities were negatively affected by mandatory quarantine in Uzbekistan.

The abovementioned deferral of repayments of principal and/or interest until 1 October 2020 applied to loans with the outstanding balance of approximately UZS 8 trillion or nearly 37 per cent. of the Bank’s total loan portfolio (or nearly 45 per cent. of loans to legal entities and nearly 26 per cent. of loans to individuals) as at 30 June 2020. Under all of these loans, the payments of interest, principal or certain principal instalments were due before 1 October 2020. Upon the end of the abovementioned deferral period on 1 October 2020, the Bank rescheduled payments of principal or certain principal instalments due during the deferral period under these loans in the amount of UZS 1,377,739 million (in the case of loans to legal entities, which represented 10.4 per cent. of loans to legal entities) and UZS 144,216 million (in the case of loans to individuals, which represented 1.7 per cent. of loans to individuals) such that their due dates were extended beyond the third quarter of 2020. For the avoidance of doubt, all such loans continued to accrue interest on the outstanding principal amount as scheduled and are not subject to any further deferrals beyond 1 October 2020.

After 1 October 2020, the Bank did not and does not currently intend to grant a further deferral of payments on any loans (and, as at the date of this Prospectus, is not required to do so under the CBU regulations), save for a limited number of customers that continue to experience financial hardship as a result of the pandemic, and may in such circumstances also restructure such loans. See “*Business—COVID-19 Response*” for further information. As at 1 October 2020, through its monitoring functions the Bank has identified less than one per cent. of loans in its total outstanding loan portfolio that may be subject to such additional measures. In addition, it is likely that the Bank will be required to engage in negotiations with a significant number of its existing debtors, which may result in credit facilities being restructured and/or their tenors extended.

With a large number of the Bank’s corporate and individual clients suffering financially as a result of the pandemic, the Bank’s assessments of expected credit losses in its loan portfolio has been impacted, necessitating increases in provisions to account for such losses, particularly if businesses remain closed and as more customers draw on lines of credit or seek additional finance. See “*Financial Review—Factors Affecting the Financial Statements—Impact of COVID-19*” and “*Financial Review—Results of Operations for the Six Months Ended 30 June 2020 and 2019—Loan Portfolio – NPLs*” for further information. Such impairment losses are expected to increase at least until Uzbekistan recovers from the effects of the COVID-19-induced restrictions; however, the potential for domestic consumption remittances and energy prices remaining depressed for a significant period of time could considerably impact the impairment losses in the short- and medium-term, which in turn could have an adverse effect on the Bank’s business, financial condition, results of operations and prospects. There is also a risk that additional capital may be required by the Bank to absorb the impact of increased levels of credit risk and any increase in impairment levels over time. Higher impairment provisions could potentially reduce the Bank’s capital and its ability to engage in lending and other income-generating activities, any or all of

which may negatively impact the Bank's business, revenues, results of operations, financial condition and prospects.

The Bank recorded UZS 461 billion of NPLs as at 31 March 2020 (being before the imposition of the abovementioned deferral of repayments), or 2.3 per cent. of the Bank's total loan portfolio, which increased to UZS 584 billion as at 30 September 2020, or 2.6 per cent. of the Bank's total loan portfolio, in each case as calculated based on Uzbekistan GAAP. The Bank expects that the level of NPLs will increase by the end of 2020 when the cumulative impact of COVID-19 on the Uzbekistan economy and banking sector will become more pronounced. In light of the adverse economic impacts of the ongoing pandemic, the Bank further reassessed its expected credit losses and recorded a UZS 803,600 million provision for expected credit losses for the six months ended 30 June 2020 as compared to UZS 541,986 million for the year ended 31 December 2019.

The CBU additionally introduced further measures in its statement 213/1 dated 7 April 2020 "*On additional measures in the banking system based on the Presidential Decree No. PF-5978 dated 3 April 2020*" which provide relief to corporate and individual borrowers, as well as commercial banks. The relief measures for commercial banks including the Bank consists of: (i) a deferral of any distribution of dividends to a bank's shareholders pending receipt of a special instruction from the CBU, and (ii) allowing commercial banks to implement amendments to existing loan agreements with individuals or corporate customers as a result of the effects of the pandemic without adversely affecting such customers' asset quality classification under Uzbekistan GAAP, credit history and scoring indicator. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan—Implementation of COVID-19 related measures by the CBU*" for further details.

Whilst these measures are expected to help mitigate against the negative impact of COVID-19, the impact of these measures cannot be predicted. Among other things, these measures might, and in some cases, have already and will continue to, impose limitations on the Bank's ability to enforce its contracts (including in relation to the repayment of loans and enforcement of collateral), affect pricing in Uzbekistan's competitive banking industry, alter the decision-making process of the Bank and result in financial calculations that are not comparable to those of previous and later periods (including resulting in potentially significant and material changes in key financial metrics after such temporary measures expire) thereby making it more difficult for investors to assess financial results on a comparative basis. Further, and as a result of such measures, the Bank has experienced a significant increase in its levels of non-performing loans as calculated under IFRS (See "*—The Bank is required to comply with certain financial and other restrictive covenants*" and "*Financial Review*" for further information).

Uzbekistan's economy and banking sector have been undergoing significant changes and there can be no assurance that such reforms will be successful or that the Bank will successfully adapt to such changes.

In addition to its commercial banking activities, the Bank has historically operated as a financing vehicle (i) on the basis of funding provided by state agencies, such as the UFRD and the Ministry of Finance, for financing certain key industries (primarily being the manufacturing (which includes the mining sector) and construction sector) and (ii) by way of participation in specialised state funding facilities for issuing agricultural loans and mortgage loans to Uzbekistan's population. As part of its day-to-day operations, the Bank has also historically relied primarily on subsidised funding provided by the Government in the form of loans, deposits (including deposits from state-owned enterprises and budgetary organisations), capital injections and state guarantees.

Since early 2017, the Government has introduced a number of measures aimed at the liberalisation of Uzbekistan's economy and encouraging growth and foreign investment. These reforms include currency and trade liberalisation, reforms of the tax and state budget processes, the restructuring and privatisation of state-owned entities (including state-owned banks) and the reform of the agricultural and financial sectors. Since 2018, as part of ongoing economic reforms, the Uzbek banking sector has been undergoing a transitional reform such as moving away from a model based on state control and funding to a more market-orientated and commercial model. On 12 May 2020, the Presidential Decree No. DP-5992 "*On the strategy for reforming the banking system of the Republic of Uzbekistan for*

2020-2025” (“**Decree 5992**”) came into effect which provides for the main stages and roadmap for the implementation of certain privatisation and other reform measures relating to state-owned banks, including the privatisation of the Bank.

It is difficult to forecast how the abovementioned reforms will affect the economy of Uzbekistan and the banking sector in particular and no assurance can be given that such reforms will improve the efficiency of the country’s economy or its banking sector or that the regulatory system will not change in such a way that will increase the Bank’s expense or impair the Bank’s ability to provide a full range of banking services or to compete effectively, thus adversely affecting the Bank’s credit ratings, business, financial condition, results of operations and prospects. In addition, the transition of the banking industry in Uzbekistan towards a more market-orientated commercial model requires, and will continue to require, the Bank to adapt to the new competitive environment in which it is operating. Any failure to adapt to these changes and to maintain its competitive advantages could have a material adverse effect on the Bank’s business, results of operations, financial condition and prospects.

Expected privatisation of the Bank, strategic transition of the Bank’s business model to a more market-orientated commercial model and decrease of the Government support might have adverse impact on the Bank’s strategy and its financial performance

In line with the Decree 5992 and other related reform measures, the Government will, among other things, decrease its influence on the business and loan portfolio of the Bank, as well as reduce direct state financing available to the Bank and the state guarantees that borrowers of the Bank have benefitted from and which the Bank has received as credit support. See “*Business—Competitive Strengths—History of Strong Shareholder Support*”. As part of this strategic transition, the state intends to decrease its ownership of the Bank to less than 50 per cent. by the end of 2022 and to do so in cooperation with the IFC in order to achieve a successful transition of the Bank’s business model to a modernised framework that is compliant with best international practices, which in part will also include the IFC’s acquisition of shares in the Bank’s issued share capital pursuant to the terms of a convertible loan agreement (see “*Business—Structural Reform and Privatisation*” for further information) and investment from other potential stakeholders.

The strategic transition also envisages a reduction of state financing in its funding base thereby requiring the Bank to rely to a larger extent on funding from other sources, such as syndicated loans from foreign financial institutions, asset backed securities, customer deposits, the interbank lending market, the international capital markets and other analogous instruments and sources as well as funding provided by the State Fund for Support of Entrepreneurs Activity and the MRCU (which replaced previous state funding programmes conducted through the local banks) (see “*Business—Competitive Strengths—History of Strong Shareholders Support*”). Furthermore, the Bank is seeking to diversify its loan portfolio and expand its client base to further benefit from the higher margins from loans attributable to the key sectors of Uzbekistan’s economy, such as the construction sector and residential mortgage market, as well as continuing to build its client base amongst MSMEs and retail customers, including private entrepreneurs and other sectors, on commercial and market-orientated terms, while maintaining and developing its existing strength in the manufacturing (which includes the mining sector), trade and services and agricultural sectors.

In line with the broader programme of economic reform in Uzbekistan, many of the Bank’s existing corporate clients are undergoing either privatisations or similar transition processes, which are expected to result, among other things, both in these corporate clients experiencing volatility in their businesses, and in them having to obtain funding on more commercial (as opposed to concessionary) terms. There can be no assurance that following the transition of the Bank to a market-based pricing policy and the reduction of state support, long-term corporate clients of the Bank, who previously benefitted from state guarantees of their borrowings but are unlikely to do so going forward, will retain their low-risk credit profile. Equally, there can be no assurance that, following privatisation or a transition to more independent management, the credit profiles of such corporate clients will not be negatively affected or such existing corporate clients would not attract financing from, or place their deposits with, the Bank’s competitors offering better terms on banking products.

The transition of the Bank and the banking industry generally to a more market-orientated and commercial model will also likely result in increased competition for the Bank with other state-owned banks, foreign and private banks for the same client base. See “—*The Bank operates in a competitive industry*” below. In particular, expansion of the Bank’s client base to new industries and sectors holds an additional degree of operational and credit risk, as the Bank may not have sufficient knowledge, procedures and resources to adequately evaluate and measure creditworthiness of new types of customers, including retail customers and those in new sectors. That in turn, can have adverse impact on the overall assets quality of the Bank, lead to a potential strain on its financial position, including an increase in the level of provisions as well as a potential increase of its internal limits and NPL levels. See “*Risks Related to the Bank’s Strategy—The Bank may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion*” and “—*The Bank may not be able to accurately assess the credit risk of potential and current borrowers or maintain the quality of its loan portfolio*” below. Furthermore, as the transitional strategy of the Bank is in its early stages and is expected to take at least three years to complete given a number of internal, market and macroeconomic risks associated with such transition, there can be no assurance that the Bank will succeed in implementing all of the necessary stages of transformation or achieve the growth or profitability that it would expect. Any of these events could have a material adverse effect on the Bank’s business, results of operations, financial condition and prospects.

The Bank and some of its customers would be adversely affected if it and they did not continue to receive capital support from the Government

In terms of both funding and income, the Bank, and some of its principal state-owned corporate clients have been historically reliant on the various organs of the Uzbekistan state to a very significant extent. The Government has been, and remains, a very significant source of the Bank’s funding. As of 30 June 2020, funding from the Ministry of Finance and the UFRD together accounted for 35.9 per cent. of the Bank’s total funding. Equally, the Government is the ultimate controlling entity in respect of major clients of the Bank such as JSC “Uzmetkombinat” and Almalyk Mining and Metallurgical Plant.

As at 30 June 2020, the balance of the Bank’s funding from the Ministry of Finance, the UFRD and the CBU was UZS 7,889 billion. The Bank received UZS 1,831.8 billion and UZS 139.6 billion as funding in the form of capital injections from the Ministry of Finance and the UFRD in 2019 and 2018, respectively. Customer accounts and deposits represented the Bank’s second largest source of funding as at 30 June 2020, accounting for 36.3 per cent. of total funding.

As regards the Bank’s clients, historically, loans to large state-owned companies comprised the vast majority of the Bank’s loan portfolio. These loans, subsidised by the Government and guaranteed by the state, supported the quality of the Bank’s loan portfolio and reduced associated credit risks. Although loans to individuals (which comprise residential mortgage loans and consumer loans) (comprising 38.9 per cent. of the Bank’s total gross loan portfolio as at 30 June 2020) and small business loans (comprising 30.8 per cent. of the Bank’s total gross loan portfolio as at 30 June 2020) currently make up the majority of the Bank’s total gross loan portfolio, the Bank remains significantly exposed to state-owned companies, with such borrowers representing 14.6 per cent. of the Bank’s total gross loan portfolio as at 30 June 2020. See “*Business—Competitive Strengths—History of strong Government support*”. A material decrease in guaranteed loans subsidised by the Government may increase the Bank’s credit and interest rate risks. See “—*The Bank’s operations are subject to interest rate risk*” and “—*The Bank may not be able to accurately assess the credit risk of potential and current borrowers or maintain the quality of its loan portfolio*”.

As such, during the period under review, the Bank received substantial funding from the Government to fund loans to the Bank’s major clients. However, if the Government were to reduce or cease its funding of the Bank in the future or change the terms or basis of such funding, including the degree of subsidisation, or not make any further capital injections, in particular in light of the planned decrease of state ownership in the Bank, these events could have a material adverse effect of the Bank’s business, results of operations, financial condition and prospects. Furthermore, the absence of sufficient funding from the Government may hinder the Bank’s ability to implement its growth strategy successfully and in a timely manner. See “—*Risks Related to the Bank’s Strategy—The Bank may not be able to implement*

its strategy to grow its business, and may be subject to risks relating to its expansion". Similarly, any unplanned or unexpected reduction in state funding to any of the Bank's state-owned customers or radical shift in Government policy towards the Bank resulting in the loss of the state-owned customers may result in a decrease in operational volumes for the Bank or failure of such customers to serve their obligations under the existing loans and other arrangements with the Bank, which could in turn have a material adverse effect on the Bank's business, results of operations, financial condition and prospects. In addition, reduced support or participation from the Government may also adversely affect credit ratings of the Bank and/or the Bank's state-owned customers, hindering their ability to attract funding on the local and international capital markets at favourable terms, which could in turn have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank operates in a competitive industry

In recent years, Uzbekistan's banking sector has become increasingly competitive. According to the CBU, as at 30 June 2020, there were 31 commercial banks (including the Bank) operating in Uzbekistan. The Bank competes with a number of domestic banks including the National Bank of Uzbekistan (the "NBU"), Asaka Bank, Agrobank and SQB in the corporate banking segment, Hamkorbank, Kapitalbank and Ipakyo'li in the retail segment, and Microcreditbank and Agrobank in the retail and micro finance loans and corporate sector. As at 30 June 2020, the Bank was the fourth largest bank in Uzbekistan by total assets (according to the most recent published financial statements of banks in Uzbekistan). In addition, the mortgage market is highly competitive in Uzbekistan, with some competitors implementing aggressive pricing policies in order to retain or build their market share. Further, according to the CBU, as at 30 June 2020, there were five banks with foreign capital in Uzbekistan, which, following the liberalisation of the economy and transitional development of the banking sector, pose an increased competitive challenge for the local market. Although the Bank believes it continues to offer highly competitive products, there can be no assurance that the Bank's customers will not transfer a significant portion of their deposits and/or loans to one or more of the Bank's competitors or that the Bank will gain a significant share of new customers in the market.

Increased competition may have a negative impact on the Bank, particularly (in the light of the expected privatisation of the Bank) if the Bank's competitors possess greater financial resources (especially in the case of banks with significant foreign capital investment or banks which are branches or subsidiaries of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity or which, like the NBU, is not expected to be privatised and will retain majority state ownership) have access to lower-cost funding, provide a broader offering of products, or if the Bank's competitors merged to significantly enhance their financial resources, access to funding and product offerings. See "*Expected privatisation of the Bank, strategic transition of the Bank's business model to a more market-orientated commercial model and decrease of the Government support might have adverse impact on the Bank's strategy and its financial performance*". Consequently, an increase in competition could lead to significant pressure on the Bank's market share and has already led to, and may, in the future continue to lead to, increased pricing pressures on the Bank's products and services, which could in turn have a material adverse effect on the Bank's business results of operations, financial condition and prospects.

The Bank's corporate loan portfolio is concentrated

The Bank's loan portfolio remains significantly concentrated. As at 30 June 2020, the Bank's top ten borrowers accounted for 21 per cent. (representing UZS 4,607,103 million) of the gross total loan portfolio, as compared to 37 per cent. (representing UZS 7,473,199 million) as at 31 December 2019 and 53 per cent. as at 31 December 2018 (representing UZS 9,515,058 million). As of 30 June 2020, 39.2 per cent. of the loans granted to the Bank's top ten borrowers were covered by state guarantees.

The Bank's largest corporate customers include state-owned enterprises like JSC "Uzmetkombinat" and Almalyk Mining and Metallurgical Plant, which have long history of cooperation with the Bank mainly as a result of subsidised funding provided to these companies by the Government through the Bank. As at 30 June 2020, the Bank's top five corporate borrowers comprised JSC "Uzmetkombinat", Almalyk Mining and Metallurgical Plant, Navoi Mining and Metallurgical Plant, Sangzor Textile and Jizzax Kenteks who together accounted for 17.3 per cent. of the gross total loan portfolio (in each case

calculated in accordance with Uzbekistan GAAP). As at 31 December 2019 and 31 December 2018, the Bank's top five corporate borrowers accounted for 33.2 per cent. and 51.6 per cent. of the gross total loan portfolio, respectively (in each case calculated in accordance with Uzbekistan GAAP), such decrease being primarily a result of the effects of the 2019 UFRD Transfer (see "*Business—Structural Reform and Privatisation—2019 UFRD Transfer*"). As of 30 June 2020, 50.0 per cent. of the loans granted to these five borrowers were covered by state guarantees.

The Bank's most significant loan exposure is to Almalyk Mining and Metallurgic Plant, which accounted for 9.95 per cent. of the Bank's total loan portfolio and 51.8 per cent. of the Bank's total equity (in each case calculated in accordance with Uzbekistan GAAP), in each case as at 30 June 2020. However, a substantial part of this exposure is guaranteed by the Government, which reduces the level of risk to the Bank. As at 30 June 2020, the Bank's second and third largest exposures were to JSC "Uzmetkombinat" and Navoi Mining and Metallurgical Combinat, which both operate in the mining and metals industry, in each case accounting for 2.2 per cent. and 2.0 per cent. of the Bank's total loan portfolio and 11.4 per cent. and 10.2 per cent. of the Bank's total equity, respectively (in each case calculated in accordance with Uzbekistan GAAP).

The Bank aims to adhere strictly to the concentration limits set by the CBU for client exposures and regularly monitors the concentration in its loan portfolio and the financial performance of its largest borrowers. In recent years, the Bank has reduced the concentration of its loan portfolio. In particular, this was assisted by the transfer of several loans by the Bank to the UFRD's balance sheet in December 2019 in accordance with Presidential Decree No. 4487 (see "*Business—Structural Reform and Privatisation—2019 UFRD Transfer*" for further information); each of the transferred loans included credit exposure to Almalyk Mining and Metallurgic Plant, a large state-owned mining company, in the aggregate amount of UZS 3,707,454 million (calculated in accordance with IFRS) thereby reducing the Bank's exposure to this borrower from 28.8 as at 31 December 2018 to 9.95 per cent. and 11.7 per cent. of the Bank's total gross loan portfolio as at 30 June 2020 and 31 December 2019, respectively (in each case calculated in accordance with Uzbekistan GAAP). According to the CBU's concentration limits, the maximum exposure to a single borrower or a group of related borrowers for unsecured loan portfolio of commercial banks should not exceed 25 per cent. of a bank's Tier 1 Capital. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan—Mandatory Ratios*". As at 30 June 2020, the Bank was in compliance with each of the CBU's mandatory ratio or has otherwise obtained waivers from the CBU in respect of such requirements and ratios. (See "*Risk Management—Market Risk—Currency Risk*" in relation to the Bank's individual foreign currency position in U.S. Dollars and the Decree 4487 On-Loans).

The Bank is the most significant bank in the residential mortgage sphere. See "*—The Bank is exposed to credit risk as a consequence of its activities in the domestic residential mortgage sector*". In addition, the Bank has significant exposure to the manufacturing (which includes the mining sector) and construction sectors. The share of the manufacturing (which includes the mining sector) and construction sectors as a percentage of the Bank's total gross loan portfolio amounted to 42.3 per cent. as at 30 June 2020, 55.1 per cent. as at 31 December 2019 and 68.2 per cent. as at 31 December 2018. The Bank's financial condition is sensitive to volatility and downturns in the industry sectors in which its loans are concentrated. In addition, the Bank's retail sector growth strategy is based on, among other things, attracting employees of the Bank's large corporate and state-owned clients as retail customers, including those employed in the manufacturing (which includes the mining sector) and construction sectors. Should this strategy prove to be successful, the Bank may become more vulnerable to shocks and downturns in these industry sectors. Accordingly, the Bank's significant exposure to the manufacturing (which includes the mining sector) and construction sectors combined with any downturn or adverse trends in these sectors, could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank also aims to mitigate the risk of credit losses from large exposures by using collateral to minimise loss pursuant to default on its largest exposures, reducing guarantee exposures and maintaining a well-diversified loan book. There can be no assurance, however, that any such measures will be successful. In addition, microeconomic shocks (including as a result of the COVID-19 pandemic or

otherwise) or industry-specific fluctuations have affected at times, and may in the future adversely affect, the quality and price of collateral in respect of the Bank's loan portfolio. See "*—Collateral values may decline or may not be of such high credit value*" and "*Risks Related to Republic of Uzbekistan—The Bank may be adversely affected by changes in Uzbekistan's economic, political and other conditions*". Any loss of a key corporate borrower or deterioration in the quality of the Bank's corporate loan portfolio could, in turn, have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's operations are subject to foreign currency risk

As at 30 June 2020, 67.5 per cent. of the Bank's total net loans and advances to customers (after provision for expected credit losses) were denominated in soums and the remainder in foreign currencies. Foreign currency risk arises when the actual or forecasted assets in one currency are either greater or less than the liabilities in an alternative currency. This presents the risk that exchange rate fluctuations could cause the Bank's liabilities to increase relative to its assets. The Bank's reporting and operating currency is the soum. See "*—Financial Review—Factors Affecting the Financial Statements—Currency Fluctuations*" and "*Risk Management*".

Whilst the percentage of the Bank's total net loans and advances to customers (after provision for expected credit losses) denominated in foreign currencies decreased from 39 per cent. as at 30 June 2019 to 32.5 per cent. as at 30 June 2020, which was primarily a result of the abovementioned transfer of loans to the UFRD's balance sheet in December 2019 (see "*Business—Structural Reform and Privatisation—2019 UFRD Transfer*"), the Bank remains subject to the risk that its loan portfolio may deteriorate as a result of slower economic growth and depreciations of the soum against the U.S. dollar. As at 30 June 2020, the Bank's net open position in U.S. Dollars represented 20.1 per cent. of the Bank's regulatory capital and the Bank's total net (cumulative) open position in all currencies was 16.2 per cent. of the Bank's regulatory capital (whereas the CBU has set at a limit of 10 and 15 per cent., respectively for individual and cumulative foreign currency positions). As at 1 November 2020, the Bank's individual foreign currency positions in U.S. Dollars remained in excess of the CBU's limitations, which was primarily due to the Bank's regulatory obligation to comply with Presidential Decree No. 4487 dated 9 October 2019. The purpose of Presidential Decree No. 4487 was to increase the capitalisation of certain state-owned banks and improve the financial stability of the banking sector in Uzbekistan. See "*Risk Management—Market Risk—Currency Risk*" for further information about the Decree 4487 On-loans (as defined therein). The CBU is aware of the circumstances relating to the Decree 4487 On-loan and has issued a formal waiver to the Bank until 1 January 2021. As at 1 October 2020, the Bank's individual foreign currency position in U.S. Dollars and cumulative foreign currency position decreased to 13.3 per cent. (as compared to the CBU's maximum limit of 10 per cent.) and 12.3 per cent. (as compared to the CBU's maximum limit of 15 per cent.), respectively, as a result of repayments being made under the Decree 4487 On-loans. While the Bank's cumulative foreign currency position has been remedied, there can be no assurance that the Bank will remedy its individual foreign currency position in U.S. Dollars by 1 January 2021, in which case the Bank will need to request an extension of the CBU's existing waiver.

Furthermore, as at 30 June 2020, 29.9 per cent. of the Bank's customer accounts were denominated in foreign currencies. As a result, should the soum depreciate significantly against the U.S. dollar and other foreign currencies due to macroeconomic or political events, the Bank's customer accounts may increase in soum terms, which may have a material adverse effect on its business, financial condition, results of operations and prospects. For example, if the soum were to depreciate by 10 per cent., the Bank expects this would contribute to a 0.5 per cent. decrease of its Total Capital Adequacy Ratio to 16.5 per cent. on the basis of a 17.0 per cent. Total Capital Adequacy Ratio as at 30 September 2020 (in each case calculated on the basis of Uzbekistan GAAP and CBU standards).

In 2017, the CBU, with the intention to liberalise the currency market in Uzbekistan, devalued the soum against the U.S. dollar by approximately 92 per cent., causing a devaluation in the soum from UZS 4,210.35 per U.S.\$1 to UZS 8,100 per U.S.\$1. The soum has been further devalued since, most recently in April 2020, as outlined above, when the soum was devalued twice in three days in response to depreciatory pressure resulting from the impact of the COVID-19 pandemic. As at 9 November 2020,

the soum stood at 10,366.86 per U.S. Dollar. Any further depreciation may result in customers experiencing difficulty repaying their loans. In particular, should the share of loans in the Bank's portfolio that are issued on market terms with higher margins but not collateralised by state guarantees continue to increase in line with the Bank's strategy, the exchange rate risk of the portfolio will increase accordingly. The Bank's impairment charges and, in turn, the cost of credit risk may increase, even if a single large borrower defaults or a material concentration of smaller borrowers default. In addition, fluctuations of the soum against the U.S. dollar may cause the value of the Bank's loan portfolio to fluctuate. As a significant portion of the Bank's customers with foreign currency-denominated loans depends on soum-denominated income, any depreciation of the soum against the currency of the loan may result in customers facing difficulties repaying their loans. Equally, any further depreciation of the soum against the U.S. dollar or other foreign currencies, and any future devaluations in the currencies of Uzbekistan's neighbouring countries (including countries forming part of the CIS, and specifically, including Russia) may adversely affect the financial condition of the Bank and its balance sheet, as well as the Bank's ability to repay its debt denominated in currencies other than the soum, including amounts due under the Notes.

Notwithstanding any natural hedging strategies that are implemented by the Bank, such as lending funds in the same currency as which it borrows those funds, or otherwise granting foreign currency loans to projects that generate proceeds in the same foreign currency, any of these events could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to operational risk inherent in banking activities

The Bank is subject to the risk of incurring losses or undue costs due to the inadequacy or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets. The financial services industry is exposed to the risk of misconduct by employees, which could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines, as well as serious reputational or financial harm for the Bank. Remote working practice introduced as a result of COVID-19 pandemic created further challenges for the Bank's internal control system, including data protection, compliance monitoring and ensuring proper use of confidential information (See “—*The COVID 19 pandemic has had, and will likely continue to have, a significant effect upon the economy of Uzbekistan, which consequently may adversely affect the Bank's business, financial condition and results of operations*”). The proper functioning of banking systems, risk management, internal controls, accounting, customer service and other information technology systems, such as loan origination, are critical to the Bank's operations.

Although the management believes that the Bank's risk management policies and procedures are adequate and that the Bank is currently in compliance in all material respects with all laws, standards and recommendations applicable to it, any failure of the Bank's risk management system to detect unidentified or unanticipated risks, or to correct operational risks, or any failure of third parties to adequately perform key outsourced activities, such as card processing and the transportation of cash, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank faces liquidity and funding risk

Liquidity risk is inherent in banking operations and may be heightened by a number of factors, including a mismatch in the maturities and payment obligations in respect of the Bank's assets and liabilities, an over-reliance on, or an inability to access, a particular source of funding due to changes in credit ratings or market-wide phenomena, such as financial market instability. Historically, the Bank has had a relatively large liquidity gap regarding short-term funding, which is a typical feature of the banking sector in Uzbekistan. This was due to customer accounts representing a significant share of the Bank's

total liabilities. This position has however been more stable over recent years. As at 30 June 2020, customer accounts represented 36.1 per cent. of the Bank's total liabilities. At the same time, the Bank's liquidity buffer, comprising cash, short-term placements with the CBU and other banks remained modest and stood at UZS 2,911,565 million, or 11.3 per cent. of total assets, as at 30 June 2020 and UZS 2,630,173 million, or 11 per cent. of total assets, as at 31 December 2019 with the Bank's liquid assets being sufficient to cover 36.8 per cent. of customer accounts as at 30 June 2020 and 33.1 per cent. of customer accounts as at 31 December 2019.

Credit markets worldwide are currently experiencing, and may continue to experience, a reduction in liquidity and long-term funding as a result of global economic and financial factors linked to COVID-19. The availability of credit in emerging markets in particular, is significantly influenced by the level of investor confidence and, as such, any factors such as COVID-19 that affects investor sentiments have impacted, and could significantly continue to impact, the price or availability of funding for the Bank.

The Bank has several open credit lines with international financial organisations, including, but not limited to, the ADB, the European Bank for Reconstruction and Development ("**EBRD**"), Credit Suisse, Commerzbank, the China Development Bank, Raiffeisen Bank International, ODDO Bank, Export-Import Bank of Korea and others. The vast majority of funds received from domestic and international financial institutions have a project nature, with their maturities fully matched with placements, by tenor and amount. Funds from domestic and international financial institutions accounted for 22.3 per cent. of the Bank's total liabilities as at 30 June 2020. However, the Bank may face increased costs of funding and experience shortages in available liquidity should the Bank breach its covenants under its existing borrowing facilities. See "*The Bank is required to comply with certain financial and other restrictive covenants*" below.

Further, a significant portion of the Bank's funding is derived from customer deposits, accounting for 36.1 per cent. of the Bank's total liabilities as at 30 June 2020. According to Uzbekistan law, term deposits may be withdrawn by individual depositors at any time with a penalty (typically in the form of a lower interest rate). Accordingly, there can be no assurance that if unexpected withdrawals of deposits by the Bank's customers result in liquidity gaps, the Bank will be able to cover such gaps. In the event of any downturn in confidence in the Bank or the banking sector in Uzbekistan in general, customers could seek to withdraw their deposits and consequently the Bank may not have the necessary funds to meet its liabilities as they fall due, which will have a material adverse effect on its business, financial condition, results of operations and prospects.

The Bank manages its liquidity risk by, among other things, maintaining a diverse funding base comprising short-term sources of funding (including corporate and retail customer deposits and inter-bank borrowings) and longer-term sources of funding (including term corporate deposits, borrowing from international multi-development and international banks, sales and purchases of securities).

Historically, the Bank in its day-to-day operations has relied significantly on liquidity provided by the Government. See "*Business—Competitive Strengths—History of strong Government support*". In the future, the Bank intends to gradually decrease the level of state financing in its funding and liquidity base and instead rely to a larger extent on customer accounts, the interbank lending market and the international capital markets. However, these liquidity sources and the Bank's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Bank to provide liquidity become illiquid or devalue substantially, the Bank may be required, or may choose, to rely on other sources of funding to finance its operations and future growth. Only a limited amount of funding, however, is available in Uzbekistan's inter-bank market, and recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the cost of funding in Uzbekistan may significantly increase in the case of unfavourable financial market conditions, economic reforms implemented by the Government or other macroeconomic changes.

In particular, the Bank is significantly affected by movements in the CBU's main policy rate and the interest rates prevailing on the interbank money market and recourse to other funding sources may pose

additional risks, including the possibility that such other funding sources may be on less favourable terms. See “—*The Bank’s operations are subject to interest rate risk*”. In addition, the cost of funding in the Uzbek markets may significantly increase in the case of unfavourable financial conditions, a change in the methodology used for the calculation of inflation which contribute to the CBU’s main policy interest rate, economic reforms implemented by the Government or other macroeconomic or changes to calculation of statistical and macroeconomic data. On 28 June 2017, the CBU’s main policy interest rate (the “**refinancing rate**”) increased significantly from 9 per cent. to 14 per cent., largely with a view to controlling inflation rates, leading to a growth of interest rates on the interbank money market. With effect from 15 April 2020, the CBU set its refinancing rate to 15 per cent. and further decreased the rate to 14 per cent. on 11 September 2020. Following the increase in the refinancing rate, the average interest rate on the interbank money market grew from 13.1 per cent. in 2017 to 14.9 per cent. in 2018 and to 15.2 per cent. in 2019, thereby increasing the cost of funding for the Bank on the local inter-bank lending market. There can be no assurance that the cost of funds on the interbank lending market would not further increase and the availability of such funding sources would not diminish. See “*Financial Review—Factors Affecting the Financial Statements—Impact of COVID-19*” for further information.

Any failure on the part of the Bank to manage its liquidity risk and to secure timely access to funding on commercially reasonable terms may hinder the Bank’s ability to service its liabilities and could have a material adverse effect on the Bank’s business, financial condition, results of operations and prospects.

The Bank’s operations are subject to interest rate risk

The Bank faces interest rate risk resulting from movements in interest rates that affect income or the value of financial instruments. Instruments on both the asset and liability side may exhibit different sensitivities to changes in interest rates, including changes in long-term and short-term interest rates relative to one another. If, for example, interest rates were to rise, this could negatively affect the value of the Bank’s assets with longer tenors that may have relatively lower fixed interest rates locked up until maturity relative to possible liabilities with shorter tenors. As at 30 June 2020, variable interest rate borrowings constituted 19.8 per cent. of the Bank’s total borrowings whereas fixed-rate borrowings constituted 80.2 per cent. of the Bank’s total borrowings. As of 30 June 2020, 10.5 per cent. of the Bank’s loans to customers were at variable rates and 89.5 per cent. were at fixed rates.

In particular and to a certain extent, the Bank is affected by movements in the CBU’s refinancing rate which has substantially increased in 2017 and was adjusted in 2020 with a view of controlling inflation rates. There can be no assurance that the cost of funds on the interbank lending market would not further increase and the availability of such funding sources for the Bank would not diminish. See “—*The Bank faces liquidity and funding risk*”.

Moreover, changes in interest rates can influence not only the interest received on loans and the interest that is paid on deposits and borrowings, but such changes could also affect the Bank’s ability to originate loans and obtain deposits. An increase in interest rates generally will decrease the value of the Bank’s fixed rate loans and raise the Bank’s funding costs. In addition, an increase in interest rates may reduce overall demand for new loans, increase the risk of customer default and increase the Bank’s deposit costs, while general volatility in interest rates may result in a divergence between the Bank’s interest rate sensitive assets and liabilities, particularly given the Bank’s reliance on short-term liabilities to fund longer-term assets. Conversely, a decrease in the general level of interest rates could reduce customers’ time deposits with the Bank as well as reduce the interest received on the Bank’s investments. If any of the foregoing events occurs, the Bank’s earnings could be adversely affected, which could be heightened in the event of sudden material fluctuations or changes in interest rates in response to economic or other irregular conditions. If the Bank is unable for any reason to effectively reprice or adjust the rates on its interest earning assets in response to changes in rates on its interest bearing liabilities as a result of prevalent economic or market conditions, then the Bank’s interest income margins could be adversely affected. Although the Bank monitors interest rate fluctuations and its asset and liability matching in order to mitigate such interest rate risk, interest rate movements on both domestic and international markets may materially affect the Bank’s balance sheet and could have a material adverse effect on the Bank’s business, financial condition, results of operations and prospects.

The Bank may face counterparty, systemic or contagion risk from other financial institutions

Financial service institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Bank interacts on a daily basis. The Bank routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers and commercial banks, resulting in significant credit concentration. As a result, the Bank is exposed to counterparty risk and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. This could, in turn, have a material adverse effect on the Bank’s ability to raise new funds and have a material adverse effect on the Bank’s business, financial condition, results of operations and prospects.

Moreover, problems at certain financial institutions in Uzbekistan or in other countries could cause general market concerns over the health of financial institutions. Moreover, these problems could lead to reduced access to liquidity and funding for financial institutions and/or decline in the value of their debt or equity instruments, possibly including the Notes, such risk being sometimes referred to as “contagion effect”. A default by, or even concerns about the stability of one or more financial service institutions, including institutions to which the Bank may not have direct exposure, or which may not even be among its counterparties, could lead to further significant systematic liquidity problems, or losses or defaults by other financial institutions that could materially and adversely affect the Bank’s business, financial condition, results of operations and prospects.

The Bank is required to comply with certain financial and other restrictive covenants

The Bank is subject to certain financial and other restrictive covenants under the terms of its indebtedness that impose certain restrictions on the Bank. The Bank’s ability to meet its financial covenants and tests under the terms of its indebtedness are, to an extent, affected by events beyond the Bank’s control, such events may include, *inter alia*, macroeconomic and political shocks, sharp fluctuations in foreign currency exchange rates and commodity prices.

The Bank is currently not in compliance with a cost-to-income ratio covenant under the two loan agreements dated 5 April 2017 and 19 November 2018 between the Republic of Uzbekistan, the Rural Restructuring Agency and the Bank (the “**Subsidiary Loan Agreements**”) issued in connection with a programme between the Republic of Uzbekistan and the ADB and the project agreements with ADB. Under the Subsidiary Loan Agreements, the cost-to-income ratio which is calculated in accordance with the ADB methodology on the basis of IFRS, expressing the Bank’s operating and non-operating expenses as a ratio of operating and non-operating income must not exceed 75 per cent. The cost-to-income ratio calculated in accordance with the ADB methodology is ADB specific and differs from cost-to-income ratio calculated by the Bank as indicated in the “*Selected Financial Information— Selected Key Performance Indicators calculated based on the IFRS Financial Statements*”. As at 31 December 2019 and 30 June 2020, the Bank’s cost-to-income ratio calculated based on the ADB methodology under the Subsidiary Loan Agreements was 85.1 per cent. and 82.3 per cent., respectively. The growth of the Bank’s interest expense, operating expense and additional reserves for loan impairment in 2019 and 2020 (which in turn triggered the non-compliance with the covenant) was mainly due to the increased volumes of state, customer and IFI funding supporting asset growth, changes in the Bank’s risk-appetite policies and increased staff costs as a result of aligning remuneration of the Bank’s employees with prevailing market rates. The Subsidiary Loan Agreements are governed by Uzbek law and do not contain any event of default provisions. Therefore, no cross-default provisions under the Bank’s other outstanding indebtedness were triggered as a result of the non-compliance with this covenant. At the same time, the Subsidiary Loan Agreements provide for the right of the Republic of Uzbekistan to demand prepayment of the relevant loans in case of a non-compliance with covenants. This required the Bank to classify the loans under the Subsidiary Loan Agreements as “less than three months” loans in its Annual Financial Statements and Interim Financial Information as further disclosed in Note 3 to the Annual Financial Statements and Note 15 to the Interim Financial Information, respectively. As a result, the auditors’ report on the Annual Financial Statements of the Bank classified the going concern as a key audit matter. The Bank has prepared and agreed with the ADB and the Republic of Uzbekistan an action

plan (the “**Action Plan**”) to address the non-compliance by the end of 2024 and the Republic of Uzbekistan has agreed that it will not demand pre-payment of the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of the cost-to-income ratio covenant. The Bank believes that such non-compliance is not expected to adversely affect the Group’s financial performance, and in particular its liquidity position. See “*Financial Review—Factors Affecting the Financial Statements—Non-compliance with certain covenants in the Bank’s financing agreements*”.

In addition, the Bank monitors the impact of various measures adopted by the Republic of Uzbekistan to combat the negative impact of the COVID-19 pandemic (including deferral of repayment of interest and principal granted to 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) on its NPL ratio. See “*—Impact of the Central Bank of Uzbekistan’s Measures relating to the COVID-19 pandemic.*” In particular, the Action Plan agreed with ADB and the Republic of Uzbekistan addresses potential non-compliance with the NPL ratio under the Subsidiary Loan Agreements should any such non-compliance arise before the end of 2022.

The Bank endeavours to ensure compliance with all financial covenants applicable to it and, except as discussed above, the Bank is currently in compliance with the financial covenants in its loan agreements. However, the Bank’s management cannot give any assurance that the Bank will be able to meet the tests imposed by the financial and other restrictive covenants under the terms of its indebtedness or that it will be able to obtain consents to amend or waivers in respect of such covenants in the future. A failure by the Bank to comply with the restrictions and covenants in its existing or future debt and other agreements, may result in a default under the terms of those agreements. In the event of a default under these agreements, the parties may terminate their commitments to further lend to the Bank or accelerate the loans and declare all amounts borrowed due and payable triggering events of default in other finance agreements. Such events may also trigger an event of default under the Notes. If any of these events occurs, the Bank cannot give any assurance that available assets would be sufficient to repay in full all of the Bank’s affected indebtedness, or that the Bank would be able to secure alternative financing. Even if the Bank could obtain alternative financing, the Bank’s management cannot give any assurance that such financing would be on terms that are favourable or acceptable to the Bank.

The Bank may not be able to accurately assess the credit risk of potential and current borrowers or maintain the quality of its loan portfolio

Credit risk assessment is generally more difficult for Uzbekistan’s banks than for banks operating in certain other jurisdictions due to the scarcity of reliable information in Uzbekistan about potential borrowers. In respect of corporate borrowers, it is difficult to make long-term forecasts with respect to their financial positions because the financial performance of companies in Uzbekistan is generally more volatile and their credit quality is less predictable than those of similar companies in more mature markets and economies. Further, many potential corporate borrowers do not prepare audited accounts in accordance with IFRS and/or do not have extensive or externally verified credit histories. In addition, the availability of accurate and comprehensive financial and general credit information on MSMEs in Uzbekistan is even more limited, which makes it more difficult for the Bank to accurately assess the credit risk associated with such lending. The Bank periodically reviews its credit policies designed to manage this risk. The Bank’s Credit Committee sets counterparty limits by the use of a credit risk classification and scoring system and approves individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, including regular collateral inspections, potential losses and corrective actions needed to reduce risk, which may include obtaining additional collateral in accordance with underlying loan agreements. Over the last five years, the Bank has demonstrated lower credit losses than those of its peers. However, the more limited availability of reliable data and accurate forecasts in respect of corporate borrowers in Uzbekistan means that the Bank’s credit risk assessments are subject to a degree of vulnerability.

In extending retail loans, the Bank makes approval decisions on information derived from various sources, including data provided by the borrowers, as well as data provided by third parties (such as the Bureau of Credit Histories (the “**Bureau**”) and the borrower’s employer). However, the Bureau has been formed only recently and the information provided by the Bureau might not be complete, reliable or up-

to-date. Nevertheless, there is a risk that the Bank's procedures, controls and IT employed in loan origination and verification may generate errors, or the Bank's officers may fail to adhere to compliance procedures, which may lead to incorrect assessments of the level of risk of particular retail borrowers. The Bank may also be unable to accurately evaluate the current financial condition of each prospective borrower or independently assess information provided by prospective borrowers, and thus may be unable to determine the long-term economic outlook for each such borrower. Furthermore, the limited availability of recent and reliable credit information on retail and MSME borrowers constrains the Bank's ability to detect and prevent fraudulent activities by potential borrowers, including the use of false information in order to obtain loans, which could lead in decreased loan recovery for the Bank.

Notwithstanding the risk assessment procedures and systems that the Bank has in place, there can be no assurance that such procedures and systems, credit loss allowance and supporting collateral will be sufficient to protect the Bank against increased levels of defaults, losses or potential write-offs. Furthermore, the quality of the Bank's loan portfolio may deteriorate due to external factors beyond the Bank's control such as negative developments in Uzbekistan's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, as well as any failure of its risk management procedures or rapid expansion of its loan portfolio. See "*The Bank's risk management strategies and procedures are developing and may not be completely effective*".

Failure to properly assess the risk of potential borrowers or deterioration in the financial condition of a significant number of the Bank's corporate or retail customers and any future deterioration in the quality of the loan portfolio or increase in its loan impairment charges may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Collateral values may decline or may not be of such high credit value

As at 30 June 2020, the Bank held collateral against gross loans covering 100 per cent. of the value of total gross loans. The main forms of collateral are charges over real estate, corporate and state guarantees, inventory, deposits and securities, insurance policies and charges over vehicles. Downturns in the residential and commercial real estate markets and the insurance industry or a general deterioration of economic conditions in the industries in which the Bank's customers operate may result in asset illiquidity and a decline in the value of the collateral securing loans. In addition, declining or unstable prices of collateral in Uzbekistan may make it difficult for the Bank to accurately value the collateral it holds. If the fair value of the collateral that the Bank holds declines significantly, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans.

In addition, as part of its transition strategy to gradually decrease state support and expand the share of higher margin loans in its portfolio and the share of the Bank's loan portfolio covered by state guarantees (but not loans covered by other collateral) is expected to decrease in the future, which may lead to additional provisions and lower than expected recovery levels on loans. Furthermore, the Bank may face difficulties with enforcing security under Uzbekistan law, which may also lead lower than expected recovery levels on collateralised loans. See "*Risk Management—Collateral*". If any of these risks materialise, they could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to credit risk as a consequence of its activities in the domestic residential mortgage sector

A significant part of the Bank's business involves the extension of residential mortgages to retail clients in Uzbekistan. As at 30 June 2020, residential mortgage loans accounted for 33.0 per cent. of the Bank's total loan portfolio. According to the CBU, the Bank is the largest mortgage lender in Uzbekistan accounting for approximately 25.4 per cent., 28.9 per cent. and 29.3 per cent. of the sector's total outstanding residential mortgage loan portfolio as at 31 December 2019, 1 July 2020 and 1 September 2020, respectively, and is the main operator of the state-funded affordable housing programmes under which mortgage loans are extended at subsidised rates and on preferential terms for rural and urban areas

(as applicable). The Bank is one of six banks participating in the state-sponsored rural housing programme and is also one of three banks participating in the state-sponsored urban housing programme. Under those programmes, the Bank obtains cheap long-term funding from the Ministry of Finance for the purpose of providing mortgages to Uzbek citizens for acquiring rural and urban housing. The Government's intention is to gradually phase out these affordable housing programmes starting from 2020 in favour of a market-based system.

The Bank also obtains financing from third party funding programmes (including, for example, a programme established by the ADB and certain Uzbek banks) and IFIs on commercial terms for on-lending as part of its mortgage business. Further, the Bank, together with the state and certain other domestic commercial banks, holds ownership interests in the share capital of the MRCU, which operates a fund that is intended to finance the development of mortgage lending in Uzbekistan thereby replacing earlier state housing programmes operated through banks to stimulate the mortgage market in Uzbekistan. With effect from October 2020, the Bank will be entitled to source funding from the MRCU on favourable terms provided it on-lends such funds as mortgages for the Bank's customers, and the MRCU is provided with security over certain parts of the Bank's mortgage portfolio or specifically agreed alternative assets. See "*Business—Strengths—History of strong Government support*" for further information.

The Bank's participation in the residential mortgage market entails certain risks, which would be heightened if the Bank is no longer able to rely to the same extent on cheap long-term funding from the Government for providing mortgages. The Bank remains subject to the credit risk posed by lending to individual borrowers whose creditworthiness may be difficult to assess. See "*—The Bank may not be able to accurately assess the credit risk of potential and current borrowers or maintain the quality of its loan portfolio*". The Bank is therefore vulnerable to losses as a result of individual borrowers being unable to repay their obligations as they fall due. This risk is heightened in the present environment of uncertainty in the domestic and global economies. In addition, the Bank's mortgage loans are, by their nature, highly susceptible to downturns in the domestic real estate market. Such downturns could adversely affect the liquidity and value of the collateral on which the loans are secured. See "*—Collateral values may decline or may not be of such high credit value*". This risk is amplified by the Bank's significant exposure to the construction sector, which is expected to grow in the future due to increased demand in construction funding, and the rapidly expanding mortgage lending business of the Bank. The loans to the construction sector comprised 8.2 per cent. of the Bank's total loan portfolio as at 30 June 2020. Mortgage loans are also subject to prepayment risk, as they provide borrowers the right of early repayment at little or no additional cost. If any of these risks materialise, they could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's risk management strategies and procedures are developing and may not be completely effective

Although the Bank invests substantial time and effort in its risk management strategies and procedures, and is continuing to develop a modern and extensive risk management system and planned operational and internal control network, such strategies and procedures for risk management may nevertheless fail under certain circumstances, particularly when confronted with risks that it has not identified or anticipated. Further, there is no assurance that the Bank will succeed in the development and implementation of the updated risk management systems at a pace corresponding to the growth of the Bank's business and that any delays in such implementations will not limit the Bank's ability to develop and expand its business. In addition, the Bank's risk management methods may lack observations of historical market behaviour traditionally used as a base for risk management procedures due to limited availability of historic information. The Bank collects statistical information from CIS banking markets and analyses such information to assess its market risk exposures. See "*—The Bank is subject to operational risk inherent in banking activities*", "*—The Bank faces liquidity and funding risk*" and "*—The Bank's operations are subject to interest rate risks*". In developing its statistical models, the Bank may not identify or anticipate some circumstances and quantifications and may not take all risks into account. Moreover, there is no assurance that the Bank's risk management model will always be timely and efficient. If the Bank's measures to assess and mitigate risks prove insufficient or inaccurate, its

losses may be greater than expected and this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's IT systems require replacement to meet the growing needs of the business and may malfunction, fail to secure the Bank against hacking, or be insufficient to support future business expansion

The Bank is subject to cyber-security threats, such as data leakage, insider threat and privilege abuse, cyber intrusion, network attacks, and targeted advance email attacks. Although cyber-security threats have not materially affected the Bank's operations to date, it is expected that such threats will continue to increase, which will require the Bank to closely monitor such threats. According to the Centre of Cybersecurity State Unitary Enterprise, the Bank ranked sixth in information and cyber-security during the second quarter of 2020.

The Bank currently outsources its IT services to Technologic ASBT Ltd., an independent IT service provider. The Bank relies on a mono-vendor IT platform which is constructed on the basis of an automated banking system which is not suited to the complex transactions that it conducts on a day-to-day basis and is not dynamic or flexible enough to permit real-time updates to meet business or customer needs, particularly in light of the Bank's growth strategy in respect to its MSME and retail lines of business and development of new or upgraded banking products.

Consequently, at the beginning of 2020, the Bank began preparations (such as engaging foreign IT specialists) to replace its core banking software and has invested in replacing its technologies incrementally between 2021 to 2023, including centralising its information systems and controlling the operation of its hardware and software, taking into account international best practices. The Bank expects to launch its new internet banking services for use by its retail and corporate clients by April 2021. See "*Business—Information Technology*" and "*Business—Strategy—Development of IT infrastructure to improve customer service*". In addition, the planned implementation of the transition strategy of the Bank and introduction of the more sophisticated risk management systems to the Bank's IT systems and procedures are expected to require significant development of the Bank's IT capabilities, both for internal management of the Bank's operations and for the digital products and services for the Bank's clients. However, the Bank cannot provide any assurance that its IT systems will be sufficiently developed and will continue to function in a manner that pre-empts significant disruptions or temporary loss of functionality, and the possibility of a systems failure that may adversely affect its operational activities and financial performance cannot be eliminated. Moreover, due to the rapid pace of development of financial technology and systems, which may render certain existing technology, equipment and systems obsolete, there can be no assurance that Bank's IT systems will at all times be as modern or as efficient as systems used by other financial institutions and competitors.

Further, the Bank's ability to operate its business depends on its ability to protect the computer systems and databases it operates and uses to inhibit the intrusion of third parties who may attempt to gain access to the Bank's computer systems, networks or databases through the Internet or otherwise. Although the Bank believes that its computer systems, networks and databases are well protected from unauthorised access, given the potential technical and financial resources of intruders, full assurance cannot be given that its computer systems, networks and databases will not suffer from such attacks in the future.

Also, given the operational growth of the Bank in the reporting period, should the Bank's business volumes continue to grow at a rapid pace, it could lead to significant increases in the utilisation of its IT systems, to a point where capacity limits could be reached and the systems would be unable to adequately support further growth. A failure of the Bank's IT systems to adequately support its operations and the growth of its business and to enable it to monitor and manage its operations effectively, or any failure to modernise its IT systems to respond to such business or client needs in the near future, could result in a material adverse effect on its business, financial condition, results of operations and prospects.

Risks relating to financial reporting

As with many other banks in Uzbekistan and other CIS countries, the Bank's current system of internal financial reporting was not originally designed for the preparation of IFRS-based financial statements, leading to potential inaccuracies in the production of financial statements under IFRS. Preparation of the Bank's IFRS-based financial statements is a manual process that involves the transformation and reclassification of the Bank's statutory financial statements into IFRS through accounting adjustments, and requires an on-going review and update of applicable IFRS and related pronouncements that should be applied to the underlying Uzbekistan GAAP. This process is complicated, time-consuming and requires significant attention from the Bank's senior accounting personnel. Notwithstanding the above, the Bank has been preparing its annual financial statements in accordance with the IFRS reporting standards since 2005 and intends to continue doing so in the future in line with its continuing obligations in accordance with the Listing Rules as an Issuer with Notes listed on the Official List. Furthermore, the Bank targets to cure the following significant deficiencies: (i) the need for implementation of training and investing into qualifications of its IFRS reporting specialists, (ii) the need to implement additional internal controls and procedures to ensure appropriate input data is used for the calculation of expected credit losses on loans and advances to customers, (iii) the need to further improve reporting process and internal controls at subsidiary level and (iv) the requirement to implement certain IT solutions and practices. The Bank's management is taking several steps to address these matters and, in particular, improve its internal control and reporting procedures, including increasing operational effectiveness and the introduction of modern IT solutions. Any failure in the Bank's attempts to improve its internal control and reporting procedures, or any failure of its existing systems, may impact the Bank's operations, including its ability to report its financial performance in an accurate and timely manner, and consequently may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's insurance policies may not cover, or fully cover, certain types of losses

The Bank generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in Uzbekistan and applicable laws and regulations, including a comprehensive insurance policy with highly rated Uzbek insurance companies. The Bank seeks to insure against a range of risks, including fire, lightning, flooding, vandalism, cybercrimes, employee liability and employee fraud. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect the Bank's existing operations and create additional significant costs and liabilities and could, in turn, have a material adverse effect on the business, financial condition, results of operations and prospects.

The Bank depends on key management and qualified personnel

The current senior management team includes a number of individuals that the Bank believes contribute significant experience and expertise in the banking industry. The Bank's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to its business. Further, following the on-going transition to independent operations from state direction, client diversification and the active development of Uzbekistan's banking sector, there is currently an intense competition in Uzbekistan's banking industry for personnel with relevant expertise. There can be no assurance that the Bank will be able to successfully recruit and retain the necessary qualified personnel. Any loss or diminution in the services of members of its senior management team or an inability to recruit, train or retain necessary personnel could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects as well as impair its ability to achieve its strategic objectives.

Risks Related to the Bank's Strategy

The Bank may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion

The Bank aims to achieve long-term sustainable growth and profitability of its business by increasing the relative and absolute size of its business, mostly by increasing its loan portfolio, funding base and fee-generating businesses. There can be no assurance, however, that the Bank will be able to achieve its major strategic objectives, including increasing its revenue or profitability. The Bank's ability to achieve its strategic objectives may be adversely affected by negative trends in Uzbekistan's economy, the economies of neighbouring countries and the performance of the global economy, including as a result of the COVID-19 pandemic. See "*Risks Related to the Bank's Business and the banking industry in Uzbekistan—The COVID-19 pandemic has had, and will likely continue to have, a significant effect upon the economy of Uzbekistan which consequently may adversely affect the Bank's business, financial condition and results of operations*". See "*Risks Related to Republic of Uzbekistan—The Bank may be adversely affected by changes in Uzbekistan's economic, political and other conditions*".

The Bank's strategic focus has historically been on provision of subsidised investment financing and corporate banking services to state-owned strategic companies. Recently, in line with the Government's policy shift and the Bank's transition strategy, the Bank has sought to increase its presence in retail and MSME banking, and to increase the share of these sectors in its loan portfolio and deposit base. While the growth of the Bank's retail loan portfolio diversifies its overall loan portfolio, it also tends to increase the credit risk exposure in the loan portfolio, reflecting the high-risk nature of retail clients and respective lending products as well as the generally more limited information available to assess the credit worthiness of such borrowers. A greater degree of risk of default by such customers may result in an increase in overdue amounts and, consequently, in higher loan impairment provisions as well as negatively affecting the Bank's net interest income.

In addition, the predominant part of the Bank's loan portfolio has historically contained a low degree of risk and was covered by state guarantees. Thus, with such increased exposure to credit risk as the Bank seeks to further expand its business to both MSME and retail customers and the ceasing of state guarantees, the Bank's risk management, internal control and operational capabilities may not be sufficient for such growth in the Bank's business under such strategy. The ability of the Bank to grow its customer base and expand its loan portfolio will depend on, amongst other things, the successful implementation of its credit policies and provisioning procedures, especially in retail lending, as well as the availability of affordable funding and maintaining its capital adequacy. Should the Bank fail to successfully implement such policies and procedures or maintain its capital adequacy or should affordable funding not be available, this may have material adverse consequences to its business, results of operations, financial condition and prospects. See "*—Risks Related to the Bank's Business and the banking industry in Uzbekistan—The Bank's risk management strategies and procedures are developing and may not be completely effective*".

Furthermore, the level of trust in the Uzbekistan banking system from the population is currently low, and growth of the Bank's retail portfolio is dependent on increasing consumer understanding and acceptance of credit products, particularly in smaller population centres outside of Tashkent. Sustainable development of consumer finance in Uzbekistan is dependent on economic stability and growth, increases in consumers' average disposable income, and levels of consumer spending, which are linked to stable economic development of Uzbekistan. Therefore, external shocks or downturns in Uzbekistan's economy generally as a result of COVID-19 or otherwise and the banking and consumer finance sectors in particular may hinder the Bank's ability to implement its growth strategy, which may in turn have material adverse consequences to its business, results of operations, financial condition and prospects. See "*—Risks Related to the Bank's Business and the banking industry in Uzbekistan—The COVID-19 pandemic has had, and will likely continue to have, a significant effect upon the economy of Uzbekistan which consequently may adversely affect the Bank's business, financial condition and results of operations*". See "*—Risks Related to Republic of Uzbekistan—The Bank may be adversely affected by changes in Uzbekistan's economic, political and other conditions*".

In addition, the Bank's strategic objectives are based, in part, on the expectation that Uzbekistan's banking sector will continue to grow in general and with respect to retail and MSME banking in particular. There can be no assurance that these expectations will be met, which could, in turn, adversely affect the Bank's ability to achieve its objectives.

Notwithstanding the strategic aims, the Bank's overall goal is profitability and accordingly, it may not fulfil certain growth strategic goals if doing so would result in a negative impact on profitability. There can also be no assurance that the anticipated growth in retail and MSME loans will offset any deterioration in the quality of the Bank's loan portfolio. Furthermore, the Bank's expansion strategy is expected to be financed by attracting more deposits, additional borrowings and possibly additional capital, as well as cash flows provided by operations. However, external financing and the cost of such financing are dependent on numerous factors, many of which are outside of the Bank's control. The Bank cannot provide any assurance that it will be able to arrange any such external financing on commercially reasonable terms, if at all, and the Bank's inability to access such funding at favourable rates could adversely affect its ability to implement its strategy. If any of these risks materialise, they could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank's strategy is determined by the Government as its major shareholder. Interests of the Bank's shareholders or management may conflict with those of the Noteholders

As at the date of this Prospectus, the Ministry of Finance acting on behalf of the Government, through its own stake and that held by the UFRD, ultimately controls a stake exceeding 90 per cent. of the voting shares and the charter capital of the Bank. Currently, representatives of the UFRD, and the Ministry of Finance hold four out of the nine seats on the Bank's Supervisory Board. Certain of the Bank's directors and officers also serve as directors or officers of governmental agencies that regulate the Bank's business. See "Management".

The Government is therefore able to determine the outcome of all material matters concerning the Bank that may be decided by the shareholders and can appoint the Bank's directors and management. Accordingly, the Government could cause the Bank to pursue transactions or to make large dividend payments (such as mandatory dividend payments representing at least 50 per cent. of the Bank's net profits as envisaged by Article 19 of the Law "On the State Budget of the Republic of Uzbekistan for 2020" No. 589 dated 9 December 2019 and Presidential Resolution No. PP-4679 dated 15 April 2020 (See "Business—Dividend Policy")) or other distributions or payments to shareholders that are designed to implement the policy of the Government rather than benefit the Bank or the Noteholders, even though such transactions may involve increased risk for the Bank and, consequently, for the Noteholders. Although the Bank retains autonomy to determine day-to-day commercial matters, its overall strategy and, therefore, indirectly the focus of its loan portfolio, is prescribed by the Government. The interests of the Bank's shareholders and management may, in some circumstances, conflict with the interests of the Noteholders and any such conflict could have a material adverse effect on the Noteholders' investment in the Notes.

Historically, through its loan book, the Bank assisted the Government in financing mining projects as well as infrastructural and development projects for the Government in the construction and manufacturing sectors. The Bank continues to issue loans to state-owned companies operating in those sectors using funding provided by the Government in the form of loans to the state agencies. Such loans typically have low margins and interest rates below market rates, thus affecting the Bank's net profit. Since the Bank is expected to continue such activities in the future to a certain extent, Conditions 5(e) and 5(f) of the Notes provide for significant exceptions that permit the Bank to enter into such transactions with entities that are agencies of the Republic of Uzbekistan or persons that are otherwise controlled by an agency of the Republic of Uzbekistan.

Since 2018, in line with the general reform of the banking sector in Uzbekistan, the Government has been gradually decreasing its influence on the business and loan portfolio of the Bank, as well as reducing the state support financing available to the Bank. See "Business—Competitive Strengths—History of strong Government support". Nevertheless, following the implementation of the Bank's

transition strategy and decrease of the state financial support provided to the Bank and decrease the state's share in the share capital of the Bank (see "*Business—Structural Reform and Privatisation*"), it may still be directed by the state as (and for as long as it remains to be) its major shareholder to invest in subsidiaries or to provide lending to companies and projects which are not commercially viable or at below market rates. Notwithstanding the Government's established of the "Entrepreneurs Fund of Uzbekistan" which provides subsidies for processing projects in order to cease the foregoing practices, the Government may still require the Bank to engage in business practices in a way not necessarily consistent with the best interests of the Noteholders and which may negatively affect the Bank's net interest income, all of which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Risks Related to the Bank's Legal, Regulatory, Compliance and Governance Framework

The Bank is subject to substantial regulation and oversight, and future changes in regulations or relevant policies are unpredictable

As a registered commercial bank and participant of the financial market in the Republic of Uzbekistan, the Bank is subject to regulation and supervision by the CBU, the financial market regulator. If regulations change or the Bank expands or alters the structure of its business, the Bank may become subject to additional rules and regulations, which may affect its operations. In November 2019, a new law, "*On banks and banking activity*", was adopted by the Government. This law introduced changes to, *inter alia*, licencing requirements for banks, and reporting and transparency rules. The new law also supplemented the list of financial operations permitted to be conducted by banks, including new services such as trust management of property and assets, purchase and sale of refined precious metals and operations with derivative financial instruments, whilst also restricting banks' involvements in the charter capital of non-financial companies. In accordance with the Cabinet of Ministers Decree No. 362 dated 5 June 2020, in July and August 2020, the Bank transferred all of its non-financial subsidiaries to related Government agencies. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan —Recent and Expected Banking Reforms*". Likewise, Presidential Decree No. 4487 was passed into law in October 2019, mandating Uzbek Banks to reduce their share of low-margin loans and increase their share capital. In response to this, in December 2019 the Bank transferred a book of low-margin loans representing more than 10 per cent. of its then-total assets to the UFRD in return for the conversion of the loans previously advanced by the UFRD to the Bank into the Bank's share capital (see "*Business—Structural Reform and Privatisation—2019 UFRD Transfer*"). In addition, the Government adopted a new tax code effective from the 1 January 2020 (the "**New Tax Code**"), with the intention of decreasing the overall tax burden, simplifying tax rules and improving tax administration. Of particular importance to the banking sector, the New Tax Code introduces transfer pricing regulation for the first time in Uzbekistan, stating that, *inter alia*, transactions between related parties in an amount exceeding UZS 5 billion (and in some cases UZS 500 million) must be on market terms. In a similar vein, the New Tax Code imposes limitations on the deductibility by Uzbek Banks of "controlled debt" for its corporate income tax purposes. Controlled debt is debt owed to a related party. Both such measures will therefore be of particular relevance to the Bank's business and results of operations and could materially adversely affect the Bank's interest margins in respect of the business it carries out with the Government or Government-controlled entities.

In addition, pursuant to the minutes of the Banking Supervision Committee of the CBU No. 226/1 dated 5 June 2020, the CBU suggested limits on interest rates for retail loans at 9 per cent. above the base rate and for corporate and individual entrepreneur loans at 6 per cent. above the base rate, in each case from 1 July 2020 until 1 January 2021 and the implementation of such rates being subject to the discretion of each commercial bank, provided that any loans issued with rates above such limits are subjected to increased risk weighting. The CBU further suggested limits on interest rates for retail deposits at 3 per cent. above the base rate and corporate deposits at 1 per cent. above the base rate, in each case from 1 July 2020 until 1 January 2021. The Bank did not lower the rates of its existing loans and deposits prior to 1 July 2020, but lowered the applicable rates for newly issued loans and newly attracted deposits after 1 July 2020 in line with the CBU's suggested limits. The Bank expects that these measures were intended to be directed at managing inflation, and it is not possible at this stage for the Bank to assess the

effect of these policy changes on its financial position. As at the date of this Prospectus, the Bank's interest rates on such loans are in compliance with the CBU's suggested limits which, in turn, permits the Bank to access the CBU's liquidity instruments, pay a reduced quarterly contribution to the State Deposit Insurance Funds (from 0.25 per cent. to 0.05 per cent.) and not to increase the risk weight for any loans issued during the abovementioned period.

Future changes in regulation are unpredictable and there is often a delay between the announcement of a change and the publication of detailed rules relating to such change. There can be no assurance that: the current regulatory environment in which the Bank operates will not be materially tightened; new or additional requirements or mandatory ratios will not be introduced, including as a result of a change in government in Uzbekistan; or the Bank will be able to comply with any or all resulting regulations. In addition, there can be no assurance that the current regulatory environment in which the Bank operates with respect to competition and anti-monopoly matters will not be subject to significant change in the future. If any of these risks materialise, they could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to certain regulatory ratios

The Bank, like all regulated financial institutions in Uzbekistan, is required to comply with certain capital adequacy and regulatory ratios based on Uzbekistan GAAP and set by the CBU. The current CBU capital regulation is based on a combination of Basel II and III guidelines, with material regulatory discretion exercised by the CBU reflecting the specifics of the local banking industry. The main mandatory capital ratios reportable by Uzbekistan's banks are the Total Capital Adequacy Ratio of 13 per cent., Tier I Capital Adequacy Ratio of 10 per cent. and the Leverage Ratio of 6 per cent. The Bank does not intend to report any capital adequacy ratios under Basel III standards and/or based on IFRS during the life of the Notes. Therefore, the Noteholders may face difficulties tracking the Bank's capital adequacy ratios. The main difference between the CBU and Basel III methodology arises out of estimation and classification methodology applied to risk-weighted assets ("**RWA**"). The Bank only uses CBU standards as of the date of this Prospectus as many of its clients have not been assigned a rating by external rating agencies as required by Basel III RWA calculation, and the Bank's internal comprehensive rating model is in development and has not yet been implemented. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan—Mandatory Ratios*" and "*Financial Review—Capital Management*".

As at 30 June 2020, the Bank was in compliance with all of the mandatory regulatory ratios set out by the CBU and calculated based on Uzbekistan GAAP (or has otherwise obtained waivers from the CBU in respect of such requirements and ratios (see "*Risk Management—Market Risk—Currency Risk*" in relation to the Bank's individual foreign currency position in U.S. Dollars and the Decree 4487 On-Loans)): the Bank's Total Capital Adequacy Ratio amounted to 19.1 per cent., Tier I Capital Adequacy Ratio amounted to 16.8 per cent. (in each case calculated on the basis of Uzbekistan GAAP and CBU standards) and Leverage Ratio amounted to 12.7 per cent. As at 31 December 2018 the Bank's Total Capital Adequacy Ratio and Tier I Capital Adequacy Ratio stood at 13.0 per cent. and 10.4 per cent (in each case calculated on the basis of Uzbekistan GAAP and CBU standards), respectively, and were close to reaching the minimum mandatory thresholds of 12.5 per cent. and 9.5 per cent., respectively. As a result of the 2019 UFRD Transfer, the Bank's Total Capital Adequacy increased to 25.6 per cent. and Tier I Capital Adequacy Ratio increased to 19.2 per cent. as at 31 December 2019 (in each case calculated on the basis of Uzbekistan GAAP and CBU standards). See "*Business—Structural Reform and Privatisation—2019 UFRD Transfer*". However, should the Bank be in breach of any regulatory ratios, the Bank may face a material adverse effect on its reputation, business, financial condition, results of operations and prospects. Furthermore, should the CBU increase the minimum prescribed limits for mandatory capital ratios, the Bank may be required to adjust its business mix to conform to more strict capital and liquidity standards, which may limit the Bank's ability to exercise its strategy and have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Furthermore, certain of the Bank's financing facilities contain covenants on maintenance of capital adequacy and certain other mandatory ratios above a prescribed minimum, which may exceed the regulatory thresholds. See "*Risks Related to the Bank's Business and the banking industry in*

Uzbekistan—The Bank is required to comply with certain financial and other restrictive covenants”. Failure of the Bank to comply with the contractual ratio levels may lead to breach of covenants under financial facilities, which in turn may cause acceleration of the Bank’s indebtedness and cross defaults, which could have a material adverse effect on the Bank’s business, financial condition, results of operations and prospects.

The Bank’s measures to prevent corruption, money laundering or terrorist financing may not be completely effective

The Bank considers itself in compliance with all applicable anti-corruption, anti-money laundering and anti-terrorist financing laws and regulations. The Bank has procedures and documents aimed at preventing corruption, money laundering and financing of terrorist activities, including a general anti-corruption, anti-money laundering policy and internal control procedures. During the last five years, the Bank has not been subject to any investigation with respect to its involvement in corruption, money laundering or terrorist financing. However, there can be no assurance that third parties will not attempt to use the Bank as a conduit for money laundering or terrorist financing without its knowledge, nor that the measures described above will be completely effective in pre-empting, identifying and/or terminating such activity. If the Bank fails to comply with anti-corruption, anti-money laundering or anti-terrorism financing laws or if it is otherwise associated with corruption, money laundering or terrorist financing, this could have a material adverse effect on its reputation, business, financial condition, results of operations and prospects.

Risks Related to Republic of Uzbekistan

The Bank may be adversely affected by changes in Uzbekistan’s economic, political and other conditions

The Bank’s operations are primarily located in, and the vast majority of its revenue is sourced from, Uzbekistan. The Bank’s results of operations are, and are expected to continue to be, significantly affected by financial and economic developments in or affecting Uzbekistan and, in particular, by the level of economic activity in the country, which currently is experiencing a contraction as a consequence of COVID-19 induced restrictions. See “—*Risks Related to the Bank’s Business and the banking industry in Uzbekistan—The COVID-19 pandemic has had, and will likely continue to have, a significant effect upon the economy of Uzbekistan which consequently may adversely affect the Bank’s business, financial condition and results of operations*”. The Bank’s results are also impacted by political, social and legal developments in the country. Significant movements in GDP, inflation, interest rates as well as unemployment, personal income and the financial situation of companies, have a material impact on the level of customer demand for the Bank’s products and services and a material adverse effect on the Bank’s business, financial condition, results of operations and prospects.

In 2017, the CBU, with the intention to liberalise the currency market in Uzbekistan, devalued the soum against the U.S. dollar by approximately 92 per cent., causing a devaluation in the soum from UZS 4,210.35 per U.S.\$1 to UZS 8,100 per U.S.\$1. The soum has been further devalued since, most recently in April 2020, as outlined above, when the soum was devalued twice in three days in response to depreciatory pressure resulting from the impact of the COVID-19 pandemic. As at 9 November 2020, the soum stood at 10,366.86 per U.S. Dollar. Given that the Government debt is denominated in foreign currency, Uzbekistan continues to be exposed to foreign exchange shocks. Any significant movements in foreign exchange rates may have a material impact on the level of customer demand for the Bank’s products and services and may have a material adverse effect on the Bank’s business, financial condition, results of operations and prospects.

Even prior to the outbreak of COVID-19, global and regional economic conditions had been characterised by significant uncertainty. Real GDP growth in Uzbekistan slowed down to 5.6 per cent. in 2019, 5.4 per cent. in 2018 and 4.5 per cent. in 2017, as compared to 6.1 per cent. in 2016, according to the State Committee of the Republic of Uzbekistan on Statistics. This slowdown was due to a weaker external economic environment, which was reflected in weaker remittances, lower net exports from Uzbekistan and lower foreign direct investments. As a consequence of COVID-19, according to the

IMF's World Economic Outlook published in April 2020, the IMF expects 1.8 per cent. and 7.0 per cent. real GDP growth in Uzbekistan in 2020 and 2021, respectively, supported by new investment opportunities and structural reforms directed to further diversify the economy, as well as by projected recovery from the COVID-19 outbreak. According to the ADB's Outlook Update published in September 2020, the ADB expects 0.5 per cent. and 6.5 per cent. GDP growth in Uzbekistan in 2020 and 2021, respectively. Uzbekistan therefore continues to face significant risks to its growth prospects, including risks associated with the exchange rates, financial stability, inflation and capital flight.

In particular, Uzbekistan's economy is subject to significant inflationary pressure. Uzbekistan's rate of inflation was equal to 15.25 per cent. in 2019, 14.3 per cent. in 2018 and 14.4 per cent. in 2017, in each case according to the State Committee of the Republic of Uzbekistan on Statistics. The inflation remained high in 2019 on the back of price liberalisation reforms implemented in the country in 2018, as well as factors stimulating investment and consumer demand, backed up by increased credit activity in the banking sector and high levels of Government spending. The CBU is pursuing a phased transition to inflation targeting, which will be followed by more radical measures intended to reduce inflation to single digits in the coming years. There can be no assurance that such a target will be achieved, particularly following the COVID-19 pandemic and the expansionary fiscal and monetary policies pursued by the Government and the CBU in response thereto. See *“—Risks Related to the Bank's Business and the banking industry in Uzbekistan—The COVID-19 pandemic has had, and will likely continue to have, a significant effect upon the economy of Uzbekistan which consequently may adversely affect the Bank's business, financial condition and results of operations”*. Heavy and sustained inflation could lead to market instability, financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any of these events could lead to decreased demand for the Bank's products and services and have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Further, Uzbekistan is relatively reliant on energy exports, which amounted to 14.5 per cent. of its total exports in the year ended 31 December 2019 according to the State Committee of the Republic of Uzbekistan on Statistics, and represented the second largest contributor to the country's total exports, after the services industry. The energy exports in 2020 were negatively impacted by significant import reductions of Uzbek gas by the Russian Federation and China due to economic slowdown caused by the COVID-19 pandemic. The country also has significant indirect exposure to energy prices insofar as it is reliant on its trading relationships with the Russian Federation and its neighbouring countries, and from remittances from the millions of Uzbek nationals employed in Russia, where oil and gas are responsible for more than half of the country's exports. Energy prices have been heavily affected by the COVID-19 pandemic. The OPEC reference basket price fell significantly to U.S.\$16.52 per barrel on 1 May 2020, before recovering to U.S.\$38.22 as at 30 June 2020 (but with further speculation that oil prices could fall still further). Equally, natural gas prices fell to U.S.\$1.42/MMBtu in June 2020, before recovering to above U.S.\$2.0/MMBtu in August 2020, albeit still well below the historic five year average. Although the Bank's direct exposure to the energy sector is relatively small, with loans to the oil and gas sector amounting to 0.1 per cent. of the Bank's total portfolio of loans to customers as of 30 June 2020, the effect which sustained low energy prices could have on the wider economy, and on Government revenues, could have a material adverse effect upon the Bank's business, results of operations, financial condition and prospects as a result of the Government, corporates and individuals' reduced spending power across the region, which could, in turn, affect the trade, manufacturing (which includes the mining sector) and construction, real estate, tourism, and banking sectors, in particular.

In addition, state-owned enterprises and entities represent a significant part of the Uzbek economy. Any decline in the financial performance of these businesses, regardless of the underlying reasons for such decline, could have a direct and indirect material adverse impact on the revenues and economy in general of Uzbekistan. That, in turn, could have a material adverse effect upon the Bank's business, results of operations, financial condition and prospects of the Bank.

In order to ensure the sustainable growth of Uzbekistan's economy, the Government has been implementing a wide range of economic, financial and banking system reforms, and reforms of the legal, tax and regulatory environment. However, despite some improvements over the recent years, the pace of implementation and eventual success of such reforms could be adversely impacted by weak institutions, risks of corruption and lack of transparency and accountability at the regulatory level. In addition, the Government's effort in conducting these reforms could be adversely impacted by tensions between the United States and the Russian Federation in the light of Uzbekistan's potentially joining the World Trade Organisation and the Eurasian Economic Union. Failure to successfully implement these reforms could have a material adverse effect on the economy of Uzbekistan and, in turn, a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Market turmoil and economic deterioration in Uzbekistan as a result of COVID-19 or otherwise may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of the Bank's customers in Uzbekistan. Despite a stable political environment in Uzbekistan during the current period of economic reforms, there is no guarantee that the ongoing reform process would not trigger social unrest in future (particularly given relatively low income per capital in Uzbekistan) and/or lead to losses of state-owned enterprises no longer shielded from market competition. Any significant changes in the political climate in Uzbekistan, including changes affecting the stability of the Government or involving a rejection or reversal of reform policies, may have a negative effect on the economy of Uzbekistan. Any uncertain and volatile global political conditions, such as Brexit, the upcoming Presidential Election in the United States of America, and the US-China trade disputes, as well as regional geopolitical developments, could also have substantial political and macroeconomic ramifications, which could, in turn, have a significant impact on the Uzbekistan's economy. If any of these risks materialise, they could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Uzbekistan's banking sector remains vulnerable to external shocks

In spite of the Government's reforms, Uzbekistan's banking sector remains concentrated, underdeveloped and vulnerable to macroeconomic shocks. As at the date of this Prospectus, the banking sector of the Republic of Uzbekistan consisted of 32 active banks, comprising five wholly state-owned banks, 16 joint-stock commercial banks (certain of which are partly state-owned), five banks with foreign capital and six private banks. As at 30 June 2020, there was a high level of concentration in the banking sector, with the wholly and partly state-owned banks holding 85 per cent. of all of the banking sector's total assets, 89 per cent. of the banking sector's total loans, 85 per cent. of the banking sector's capital and 72 per cent. of the banking sector's total deposits. In addition, a relatively large share of the banking sector's assets comprises loans to state-owned companies guaranteed by the state, exposing the sector to high loan concentration and to single borrower risk. Deterioration of the creditworthiness of the largest borrowers, which are also key enterprises in the economy, may lead to systemic shocks for the economy as a whole and the banking sector in particular.

In addition, as at 30 June 2020, the NPLs to total gross loans ratio ("**NPL ratio**") of the banking sector in Uzbekistan (based on CBU standards) amounted to 2.9 per cent. Following CBU regulatory requirements, banks in Uzbekistan are now required to employ external audit companies to implement IFRS 9 standard models for valuation and measurement of their assets. This has led to an increase in NPL ratios and respective provisions in the banking sector when compared with past results. During 2018, in order to comply with the IFRS financial instruments requirements, the Bank made a transition from an incurred credit loss model to an expected credit loss model for the purpose of loan impairment assessments. There is an increased risk of material revision of the Bank's expected credit losses under IFRS 9 due to the degree of judgement and inherent uncertainty in the assumptions underlying the COVID-19 related impairments. Due to this uncertainty surrounding the Bank's judgments, the estimates pertaining to these matters, and the impact of macroeconomic factors over which the Bank has no control, should the estimated values for such items prove substantially different to actual values, particularly because of significant and unexpected market movements, the Bank may experience unexpected losses and further provisions may be required in subsequent financial periods. See "*Financial Review—Factors Affecting the Financial Statements—Impact of COVID-19*" and "*Financial*

Review—Results of Operations for the Six Months Ended 30 June 2020 and 2019—Loan Portfolio – NPLs” for further information. Accordingly, there can be no assurance that the estimates and modelling by the Bank will prove accurate or be sufficient to cover actual losses or impairments as a result of COVID-19. Furthermore, risk management in Uzbekistan’s banking sector remains in a developmental stage and has not yet reached international standards across the board. Stress-testing and scoring systems, which have already been implemented based on IMF methodology, identified concentration as the main risk for state-owned banks. As at the date of this Prospectus, the maximum exposure to a single borrower or a group of related borrowers set by the CBU for the unsecured loan portfolio of commercial banks shall not exceed 25 per cent. of a bank’s Tier 1 capital. See “—*The Banking Sector and Banking Regulation in the Republic of Uzbekistan—Mandatory Ratios*”. As at the date of this Prospectus, the Bank was in compliance with the above mandatory ratios.

In 2017, following currency liberalisation, the banking sector also had a high level of loans denominated in U.S. dollars and other foreign currencies, giving rise to risks relating to currency fluctuations. The total volume of loans in the banking sector denominated in foreign currencies increased from UZS 68,838 billion in 2017 to UZS 93,527.0 billion in 2018 as a result of the devaluation. According to the CBU, as at 30 June 2020, foreign currency denominated loans constituted 49.8 per cent. of total loans in the banking sector and foreign currency denominated deposits amounted to 44.1 per cent. of the total deposit portfolio of the banking sector. The majority of these foreign currency denominated loans were long-term loans granted by the UFRD to state-owned enterprises for imports of equipment and machinery.

Therefore, the Uzbek banking sector remains concentrated, vulnerable, and susceptible to exchange rate fluctuations and there can be no assurance that the present turmoil in the global banking sector and the wider economy arising from or as a result of the ongoing outbreak of COVID-19 or any other future turmoil will not have a negative effect on Uzbekistan’s banking sector and on its participants. The economic consequences of the COVID-19 outbreak is expected to have significant effects on the Uzbekistan’s banking sector. Although the capitalisation of the banking sector would provide a certain element of protection against the risk of an economic downturn, banks may see an increase in non-performing loans in 2020 as the economy contracts and household and business income suffers. Moreover, a failure or default of any financial institution could lead to defaults by other institutions in certain agreements in effect. Concerns about, or a default by, one institution could prevent the Bank from raising new or additional funds in the capital markets and could also significantly reduce depositors’ confidence in the banking industry in general and in the Bank in particular. All of these events could have a material adverse effect on the Bank’s business, financial condition, results of operations and prospects and the trading price of the Notes.

Enforcement of judgements or arbitral awards against the Bank can be difficult

The Bank has not submitted to the jurisdiction of any foreign courts in connection with the Notes. The Conditions provide that arbitration will be the exclusive remedy in relation to any dispute relating to the Notes. If a Noteholder is granted a monetary award in any arbitration proceedings in relation to the Notes, it may attempt to enforce that award or bring proceedings on the award as a debt owing to it in Uzbekistan and attempt to obtain a judgment thereon. In addition, Uzbekistan and the United Kingdom are parties to the New York Convention and, accordingly, an arbitral award should generally be recognised and enforceable in Uzbekistan provided the conditions to enforcement set out in the New York Convention are met and subject to compliance with Uzbek law. See “*Limitations on Enforcement of Arbitral Awards and Judgments*” for more information on enforcing an arbitral award in Uzbekistan.

Uzbekistan’s courts may not enforce a judgment obtained in a court outside Uzbekistan (including the judgement on an arbitral award) unless there is a treaty in effect between the relevant country and Uzbekistan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Uzbekistan and the United Kingdom. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Uzbek law.

For example, an Uzbekistan court may refuse to recognise or enforce a foreign arbitral award or a foreign judgement thereon if its recognition or enforcement would be contrary to Uzbekistan public policy. As a result, it may be difficult to obtain recognition or enforcement of a foreign arbitral award or a foreign judgement thereon in respect of the Notes.

It may also be difficult to enforce a foreign arbitral award or a foreign judgement thereon in Uzbekistan due to a number of factors, including the lack of experience of Uzbek courts in international commercial transactions and certain procedural irregularities, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award or a foreign judgement thereon in Uzbekistan. In addition, the judicial system and judicial officials in the Republic of Uzbekistan may not be fully independent of external social, economic and political forces. Therefore, judicial decisions could be unduly influenced.

Corporate governance standards in Uzbekistan differ from those in Western jurisdictions

Uzbekistan complies with corporate governance standards applicable to publicly listed Uzbekistan companies, which are not of the same standard as those in the United Kingdom. Accordingly, there are fewer protections for investors than would otherwise be the case if the Bank was required to comply with corporate governance principles or standards applicable to public companies in the United Kingdom. Furthermore, should the Bank fail to comply with existing corporate governance standards applicable under Uzbek law, it could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Withholding Tax

Pursuant to the New Tax Code, principal, interest or premium payable under international bonds (such as the Notes) by an Uzbek legal entity to non-resident or resident legal entities or individuals is not subject to any withholding tax in Uzbekistan.

If interest payments in respect of any Notes become subject to Uzbekistan withholding tax, the Bank shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such withholding been required as more fully described in Condition 9. The New Tax Code does not permit contractual provisions imposing on residents of the Republic of Uzbekistan an obligation to bear expenses in relation to tax obligations of foreign natural persons who are non-resident of the Republic of Uzbekistan (the “**Non-Uzbek natural persons**”). Whilst tax gross-up provisions of Condition 9 are expressed to impose on the Bank an obligation to pay additional amounts rather than to bear expenses in relation to tax obligations of the non-Uzbek natural persons, there is no assurance that an Uzbek court will agree with this interpretation and, therefore, there is a risk that such gross-up provisions may not be enforceable. So far as the Bank is aware, there has been no court case in the Republic of Uzbekistan in which tax gross-up or similar provisions were considered.

Risks Related to the Notes

Insolvency and administrative laws in the Republic of Uzbekistan could negatively affect the ability of Noteholders to enforce their rights

Uzbekistan bankruptcy law provides that transactions or payments entered into or made within specified time periods before a bankruptcy petition is filed or at or after the time when a bankruptcy petition is filed may be declared void by an Uzbek court. After a bankruptcy petition is filed, the subject company is prohibited from paying any debt outstanding prior to the bankruptcy proceedings, subject to specified exceptions. After the subject company becomes insolvent, creditors of that company may not effectively pursue any legal action to obtain an order for payment of indebtedness, to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor outside the framework of the bankruptcy proceedings. Contractual provisions, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, are not enforceable under Uzbekistan law. In addition, an administrator may renounce or set aside executory contracts.

Additionally, if a court orders bankruptcy proceeding, it can prohibit the sale of an asset that it deems to be essential to the continued business of the debtor, and it can postpone the payment of debts owed by the debtor. Uzbekistan bankruptcy law assigns priority to the payment of certain creditors, including creditors on personal injury obligations, employees, secured creditors, the government, tort plaintiffs and certain post-petition creditors.

The threshold for the Bank's restricted payment covenant is subject to legislative changes

Pursuant to Condition 5(b), the Bank will not, and will not permit any of its Subsidiaries (as defined in the Conditions), directly or indirectly, to make a Restricted Payment (as defined in the Conditions), unless, among other things, at the time of and after giving effect to such Restricted Payment the aggregate amount of such Restricted Payment made during any financial year of the Bank would not exceed a threshold of 50 per cent. of the Consolidated Net Profit (as defined in the Conditions) for the previous financial year. Condition 5(b) further states that if any higher threshold is provided for by the laws or presidential or governmental acts in Uzbekistan, such higher threshold shall apply.

For so long as the state retains an ownership interest in at least 50 per cent. of the Bank's authorised share capital, the Bank will remain subject to certain mandatory dividend requirements. See "*Business—Dividend Policy*" for further information. Any such changes in law or new presidential or governmental acts that impact the abovementioned threshold could have a material impact on the retained profit for the year by the Bank and, as a consequence, have a material adverse effect on the trading price of the Notes.

The Notes are pari passu securities

Subject to the restrictions on levels of indebtedness in other agreements and under prudential norms, there is no restriction on the amount of securities the Issuer may issue and which may rank equally in right of payment with the Notes. The issue of any such securities may reduce the amount investors may recover in respect of the Notes in certain scenarios as the incurrence of additional debt could affect the Issuer's ability to repay principal of, and make payments of interest on, the Notes. This could have a material adverse effect on the trading price of the Notes.

The Notes constitute unsecured obligations of the Issuer

The Issuer's obligations under the Notes will constitute unsecured obligations of the Issuer. Accordingly, any claims against the Issuer under the Notes would be unsecured claims, which would be satisfied only after any secured creditors, if at all. The ability of the Issuer to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows.

There is no public market for the Notes

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made for admission to trading of the Notes on the Official List. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Bank's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions in the global capital markets may lead to reduced liquidity, increased credit risk premiums and a reduction in investment in securities. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The trading price of the Notes may be volatile

The trading price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's operating results and those of the Bank's competitors, adverse business developments, changes to the regulatory environment in which the Bank operates, changes in

financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the credit rating of the Bank. Historically, the market for non-investment grade debt, such as the Notes, has been subject to disruptions that cause substantial volatility in the prices of such securities. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the trading price of the Notes without regard to the Bank's operating results, financial conditions or prospects or credit rating.

The Notes may or must be redeemed prior to maturity for certain reasons

On the occurrence of one of the early redemption events described in Condition 7, the Issuer may, or in some cases must, redeem the Notes in whole or in part together with accrued and unpaid interest at any time, and the Issuer shall redeem all outstanding Notes in accordance with the Conditions. On such redemption, or at maturity, the Issuer may not have the funds to fulfil its obligations under the Notes and it may not be able to arrange for additional financing. Further, if the Issuer is able or perceived to be able to redeem the Notes prior to their maturity then this may adversely affect the market price of the Notes from time to time.

Modification and waivers

The Conditions contain provisions for calling meetings of the Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of certain provisions of the Notes or the Trust Deed which in the opinion of the Trustee is of a formal, minor or technical nature and is made to correct a manifest error, (ii) any other modification thereof (subject as provided in the Trust Deed) or any waiver or authorisation of any breach or proposed breach thereof which in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form, with interests therein held through the facilities of Euroclear and/or Clearstream, Luxembourg. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg, or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear and/or Clearstream, Luxembourg, can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear and/or Clearstream, Luxembourg systems may be impaired.

USE OF PROCEEDS

The net proceeds from this Offering, after payment of commissions related to the Offering, will be approximately U.S.\$299,109,470. This figure does not include expenses related to the Offering and admission to trading, estimated to be approximately £7,515.

The Issuer will use the net proceeds from the issuance of the Notes for general banking business.

CAPITALISATION

The following table sets forth the Group's capitalisation as at 30 June 2020 and is extracted from the Interim Financial Information. For further information regarding the Bank's financial position, see "Financial Review" and the Interim Financial Information included elsewhere in this Prospectus.

	As at 30 June 2020 UZS millions (unaudited)
Liabilities	
Due to other banks.....	664,664
Customer accounts.....	7,908,442
Debt securities in issue	4,658
Borrowings from government, state and international financial institutions.....	12,787,873
Other borrowed funds	425,905
Other financial liabilities.....	10,685
Other non-financial liabilities.....	59,428
Total liabilities before liabilities associated with assets held for distribution to owners	21,861,655
Liabilities associated with assets held for distribution to owners.....	18,816
Total liabilities.....	21,880,471
Equity	
Share capital.....	2,815,810
Share capital reserve.....	151,807
Retained earnings.....	884,465
Revaluation reserve of financial assets at fair value through other comprehensive income.....	(589)
Net assets attributable to the Bank's owners	3,851,493
Non-controlling interest	(4,106)
Total equity.....	3,847,387
Total liabilities and equity.....	25,727,858

During July and August 2020, equity securities carried at fair value through other comprehensive income and assets held for distribution to owners together with associated liabilities were transferred to the Government in return for the reduction of the Government's share in the Bank's equity, specifically the share capital reserve, by UZS 36,736 million. See "Financial Review—Financial Position—Total Equity" and "Financial Review—Recent Developments" for further information. As at 30 June 2020, the carrying value of the abovementioned transferred assets together with associated liabilities amounted to UZS 5,738 million and UZS 34,680 million, respectively.

Further, in October 2020, the EBRD extended a dual-tranche U.S.\$40,000,000 unsecured loan to the Bank to provide support to its MSME clients, including women-led borrowers (under the EBRD's Central Asian Women in Business programme), in an environment of large-scale disruptions caused by the COVID-19 pandemic. The Bank received the first tranche of U.S.\$20,000,000 in early November 2020. The proceeds of the loan are intended to be on-lent by the Bank in line with the EBRD's eligibility criteria and the proceeds of the first tranche are expected to be disbursed in full by early December 2020.

From 1 January 2020 to date, the Bank has received approximately UZS 384 billion in funding from the Government, in the form of a loan with a 20-year term, for the purposes of (among other things) financing a housing programme in accordance with Presidential Decree No. PF-5886.

Other than as described above, since 30 June 2020, there have been no material changes in the consolidated capitalisation and indebtedness of the Bank.

SELECTED FINANCIAL INFORMATION

The financial information set forth below as at 30 June 2020 and for the six-month periods ended 30 June 2020 and 30 June 2019 and as at and for the years ended 31 December 2017, 2018 and 2019 is based on the Financial Statements of the Group. The financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and related notes included elsewhere in this Prospectus and "Financial Review". The information below is not necessarily indicative of the results of future operations.

Selected Statement of Profit or Loss and Other Comprehensive Income

	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December		
			2019	2018	2017
			(UZS million)		
	(unaudited)			(audited)	
Interest income	1,169,386	919,008	1,952,784	1,224,371	582,492
Interest expense	(481,643)	(422,815)	(917,559)	(577,354)	(284,911)
Net interest income before provision for credit losses	687,743	496,193	1,035,225	647,017	297,581
Charge for credit losses on loans and advances to customers	(252,330)	(128,989)	(274,856)	(95,581)	(45,236)
Net interest income	435,413	367,204	760,369	551,436	252,345
Fee and commission income	122,819	119,356	255,425	216,187	205,201
Fee and commission expense	(33,712)	(21,452)	(47,748)	(38,346)	(34,506)
Net gain from trading in foreign currencies	3,250	2,157	16,727	(1,075)	59,536
Net gain from foreign exchange translation	25,380	4,247	20,070	10,533	206,991
Dividend income	10	117	181	961	482
Impairment losses on non-financial assets	(6,316)	(7,833)	-	(25,659)	-
Impairment (charge)/recovery on other financial assets and contingencies	-	-	(5,774)	1,023	(3,071)
Other operating income	26,609	14,533	31,127	14,592	10,906
Administrative and other operating expenses	(291,540)	(240,796)	(619,401)	(503,558)	(391,363)
Share of results from associates	(33)	(48)	(276)	(60)	-
Profit before tax	281,880	237,485	410,700	226,034	306,521
Income tax expense	(43,435)	(39,369)	(71,682)	(48,329)	(25,570)
Net profit for the period	238,445	198,116	339,018	177,705	280,951
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Fair value adjustment on financial assets as fair value through other comprehensive income	(456)	128	656	(173)	-
Tax effect	92	(44)	(150)	38	-
Total other comprehensive income / (loss) for the period	(364)	84	506	(135)	-
Total comprehensive income for the period ...	238,081	198,200	339,524	177,570	280,951
Total comprehensive income attributable to:					
Owners of the Bank	239,559	199,162	339,725	189,968	282,349
Non-controlling interest	(1,478)	(962)	(201)	(12,398)	(1,398)
Total comprehensive income for the period ...	238,081	198,200	339,524	177,570	280,951
Basic and diluted earnings per share per ordinary share in UZS	0.08	0.18	0.27	0.19	0.59

Selected Statement of Financial Position Information

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
		(UZS million)		
Assets	(unaudited)		(audited)	
Cash and cash equivalents.....	2,911,565	2,630,173	1,315,362	1,374,091
Due from other banks.....	762,581	845,018	508,224	1,249,251
Loans and advances to customers.....	20,883,011	19,839,756	17,598,212	10,563,180
Debt securities of the Government of the Republic of Uzbekistan	664,055	131,149	154,610	-
Financial assets at fair value through other comprehensive income.....	6,114	6,572	5,784	-
Investment in securities available for sale	-	-	-	5,821
Investment in associates.....	1,931	1,964	2,240	2,300
Premises, equipment and intangible assets.....	278,550	276,601	184,921	138,300
Current income tax prepayment	-	8	878	18
Deferred income tax asset.....	66,422	57,451	33,534	9,294
Other financial assets.....	11,732	5,210	1,211	17,515
Other non-financial assets	88,401	51,076	26,374	23,880
Total assets before assets held for distribution to owners.....	25,674,362	23,844,978	19,831,350	13,383,650
Assets held for distribution to owners.....	53,496	-	-	-
Total assets	25,727,858	23,844,978	19,831,350	13,383,650
Liabilities				
Due to other banks.....	664,664	284,533	-	160
Customer accounts.....	7,908,442	7,935,719	7,090,686	5,648,433
Debt securities in issue.....	4,658	14,850	9,934	12,797
Borrowings from government, state and international financial institutions.....	12,787,873	11,530,321	11,057,373	6,303,874
Other borrowed funds	425,905	425,905	-	-
Other financial liabilities.....	10,685	53,050	13,500	9,862
Other non-financial liabilities	59,428	52,445	47,732	44,498
Total liabilities before liabilities associated with assets held for distribution to owners.....	21,861,655	20,296,823	18,219,225	12,019,624
Liabilities associated with assets held for distribution to owners.....	18,816	-	-	-
Total liabilities.....	21,880,471	20,296,823	18,219,225	12,019,624
Total equity.....	3,847,387	3,548,155	1,612,125	1,364,026
Total liabilities and equity	25,727,858	23,844,978	19,831,350	13,383,650

Selected Key Performance Indicators calculated based on the IFRS Financial Statements

	Six months ended 30 June	Year ended 31 December		
	2020	2019	2018	2017
		(%)		
Financial Performance				
Return on average assets ⁽¹⁾	1.9 ⁽¹¹⁾	1.6	1.1	2.9
Return on average equity ⁽²⁾	12.9 ⁽¹¹⁾	13.1	11.9	31.6 ⁽³⁾
Cost-to-income ratio ⁽⁴⁾	35.0 ⁽¹¹⁾	47.2	59.3	52.4
Net interest margin ⁽⁵⁾	6.3 ⁽¹¹⁾	5.2	4.5	3.6
Allowance for loan losses / gross loans ⁽⁶⁾	3.7	2.7	1.5	1.0
Liquidity				
Total liquid assets ⁽⁷⁾ / total assets.....	11.3	11.0	6.6	10.3
Credit Quality				
Non-performing loans as a proportion of the gross loans to customers (NPL ratio) ⁽⁸⁾	3.4	1.9	0.8	0.5
Non-performing loans coverage ⁽⁹⁾	108.4	142.6	195.6	211.5
Problem loans / gross loans ⁽¹⁰⁾	3.7	3.3	1.0	0.9

Due to adoption of new accounting standards by the Bank, certain comparative KPIs may not be comparable.

Notes:

- (1) Return on average assets is calculated as net profit for the period divided by the average balance of total assets. The average balance of total assets is calculated as a simple average of total assets as at the beginning and ending of the period.
- (2) Return on average equity is calculated as net profit for the period divided by the average of total equity. The average equity is calculated as simple average of total equity as at the beginning and the ending of the period.
- (3) In 2017, the Bank recorded a particularly high return on average equity as compared to the subsequent years primarily as a result of the liberalisation of the local currency market in the same year. See “Financial Review—Currency Fluctuations” for further information.
- (4) Cost-to-income ratio is calculated as administrative and other operating expenses for the period divided by the sum of net interest income before provision for credit losses and net non-interest income (which comprises net fee and commission income, net gain/(loss) from trading in foreign currencies, net gain from foreign exchange translation, dividend income and other operating incomes) for the same period.
- (5) Net interest margin is calculated as net interest income before provision for impairment of loans divided by average interest-earning assets. The average interest-earning assets is calculated as simple average of interest earning assets at the beginning and the ending of the period.
- (6) Allowance for loan losses / gross loans is calculated as provision for expected credit losses as at the period end divided by gross loans and advances to customers as at the period end.
- (7) Total liquid assets represent cash and cash equivalents.
- (8) NPL ratio is defined as non-performing loans (defined as gross loans and advances to customers with overdue payments of principal loan amount and/or interest by more than 90 days) divided by the gross loans to customers.
- (9) Non-performing loans coverage is calculated as the amount of provision for expected credit losses as at period end divided by the total amount of the non-performing loans (as defined in Note 8 above) as at the period end.
- (10) Problem Loans (sum of Doubtful and Non-Performing Loans) are calculated as a percentage of gross loans and advances to customers. Sum of doubtful and non-performing Loans is defined as all gross loans and advances to customers with overdue payments of principal loan amount and/or interest by more than 30 days.
- (11) Return on average assets, return on average equity, cost-to-income ratio and net interest margin for the six months ended 30 June 2020 are presented on an annualised basis.

Selected Key Performance Indicators calculated based on Uzbekistan GAAP

	Period ended 1 September	Year ended 31 December		
	2020	2019	2018	2017
		(%)		
Financial Performance				
Cost-to-income ratio ⁽¹⁾	29	42	53	50
Return on average equity ⁽²⁾	13.2	16.1	17.4	32.5
Net interest margin ⁽³⁾	5.9	5.3	3.8	3.0
Cost of risk ⁽⁴⁾	2.2	1.7	0.9	1.2

Notes:

- (1) Cost-to-income ratio is calculated as operating expenses for the period divided by the sum of net interest income and net non-interest income for the same period.
- (2) Return on average equity is calculated as net profit for the period divided by the average of total equity. The average equity is calculated as simple average of total equity as at the beginning and the ending of the period.
- (3) Net interest margin is calculated as net interest income divided by average interest earning assets. The average interest earning assets are calculated as simple average of interest earning assets at the beginning and the ending of the period.
- (4) Cost of risk is calculated as charge for credit losses on loans and advances to customers divided by average gross loans and advances to customers. The average gross loans and advances to customers are calculated as simple average of gross loans and advances to customers at the beginning and the ending of the period.

Capital Adequacy Ratios

	Six months ended 30 June	Year ended 31 December		
	2020	2019	2018	2017
Capital Adequacy				
Total Capital Adequacy Ratio ⁽¹⁾	19.1	25.6	13.0	15.8
Tier I Capital Adequacy Ratio ⁽¹⁾	16.8	19.2	10.4	11.8

Notes:

- (1) Total Capital Adequacy Ratio and Tier I Capital Adequacy Ratio are APMs calculated based on Uzbekistan GAAP and the CBU Decree No. 2693 dated 6 July 2015 and take into account the impact of the capital injection and loan disposal pursuant to Presidential Decree No.4487 as described in “*Business—Structural Reform and Privatisation—2019 UFRD Transfer*”.

FINANCIAL REVIEW

The following discussion and analysis of the Bank's financial condition and results of operations covers the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020. The financial information presented in this discussion has been extracted or derived from the Financial Statements. This section should be read together with the Financial Statements and the notes thereto, as well as the other financial information included elsewhere in this Prospectus.

The following discussion contains forward-looking statements. The Bank has based these forward-looking statements on its current projections and expectations about future events. The actual results of the Bank may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set for the under "Risk Factors" and elsewhere in this Prospectus.

The Interim Financial Information for the periods indicated below includes all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim period. The interim results are not necessarily indicative of the results that may be expected for a full year.

Overview

Established in 2005, the Bank is one of the leading universal banks in the Republic of Uzbekistan according to the CBU. Its principal areas of activity include commercial banking, retail banking, securities operations, foreign currency operations and trade financing. According to the CBU, as at 1 September 2020, the Bank ranked as the fourth largest commercial bank in Uzbekistan by total assets and loan portfolio size, with an 8.1 per cent. and 8.6 per cent. market share, respectively. The Bank offers a comprehensive range of banking services, including state, corporate and retail lending with a particular focus on mortgage lending, deposit-taking, cash handling, international money transfers, documentary operations, guarantees, foreign exchange operations and other products. According to the CBU, the Bank is the largest mortgage lender in Uzbekistan accounting for approximately 25.4 per cent., 28.9 per cent. and 29.3 per cent. of the sector's total outstanding residential mortgage loan portfolio as at 31 December 2019, 1 July 2020 and 1 September 2020, respectively. The Bank conducts its banking operations from its head office in Tashkent and had 39 branches, 99 mini-banks and 44 banking centres (including mortgage centres) providing a range of banking services located across Uzbekistan as at 30 June 2020. See "*Business—Distribution Network*".

In addition to its commercial banking activities, the Bank has historically operated as a state financing vehicle on the basis of funding provided by state agencies, such as the UFRD and the Ministry of Finance, for subsidised financing of investment projects in certain key industries (primarily being the manufacturing (which includes the mining sector), construction, trading and services, transport and communication and retail sectors) and has otherwise in its day-to-day operations relied on funding provided by the Government in the form of predominantly subsidised loans, deposits, capital injections and state guarantees, as well as funding received as borrowings from the IFIs. Since 2018, as part of the ongoing economic reforms in Uzbekistan, the Bank has been undergoing a transitional reform of its banking organisation (namely, by moving away from being dependent on state control and funding to more of a market-orientated commercial structure). Under this transition strategy, the Government has been gradually decreasing its influence on the business and loan portfolio of the Bank, as well as narrowing the scope of state support financing available to the Bank to specific state-sponsored funds or programmes, such as the MRCU or the State Fund for Support of Entrepreneurs' Activity, as well as reducing the number of state guarantees that borrowers of the Bank have benefitted from and which the Bank has received as credit support. See "*Business—Competitive Strengths—History of strong Government support*". Following such a strategic transition, the Bank intends to reduce the share of state ownership to less than 50 per cent. by the end of 2022 (see "*Business—Structural Reform and Privatisation*" for further details) and expects to rely less on state subsidised financing in its funding base and instead to rely to a larger extent on funding from other sources, such as customer accounts, the MRCU, interbank lending markets and international capital markets. Furthermore, the Bank is seeking to diversify its loan portfolio and expand its client base to further benefit from higher margins on loans

attributable to the key sectors of Uzbekistan's economy, such as the construction sector and residential mortgage market, as well as to further increase its client base amongst MSMEs and retail customers, including private entrepreneurs, on more commercial and market-orientated terms, while maintaining and developing its existing strong position in the manufacturing (which includes the mining sector), trade and services and agriculture sectors.

As at 30 June 2020, the Bank's total assets amounted to UZS 25,727,858 million. Total gross loans and advances to customers amounted to UZS 21,686,611 million as at 30 June 2020, with corporate loans, residential mortgage and consumer loans and small business loans accounting for 30.3 per cent., 33.0 per cent. and 30.8 per cent. of total gross loans, respectively. As at 30 June 2020, the Bank's total equity constituted UZS 3,847,387 million. For the year ended 31 December 2019 and six months ended 30 June 2020, the Bank generated a net profit of UZS 339,018 million and UZS 238,445 million, respectively.

Factors Affecting the Financial Statements

Key factors affecting the Bank's financial results during the period under review and expected to continue to affect the Bank's financial results in the future are discussed below.

Macroeconomic Conditions

The Bank's results of operations and financial condition are to some extent affected by the overall macroeconomic conditions globally and in Uzbekistan. Changes in both the global and domestic environment have in the past resulted in lower liquidity levels across the banking sector and pressure on the soum and may continue to affect the Bank and Uzbekistan's banking sector generally in the future. In addition, Uzbekistan's economy is, to a certain degree, dependent on exports of key commodities, such as gold, natural gas and cotton. Dramatic decreases in the prices of these commodities in the world market may lead to sharp decreases in revenues of the Government and revenues of companies operating in these sectors, which, in turn, may negatively impact the overall Uzbekistan economy. Accordingly, the Bank's results of operations and financial condition are, and will continue to be in the future, to some degree affected by Uzbekistan's economic factors, including those in the below table.

	Six months ended 30 June	Year ended 31 December		
	2020	2019	2018	2017
Nominal GDP at current prices, UZS billion.....	255,252.6	511,838.1	406,648.5	302,536.8
Real GDP growth yoy, total (%).....	0.2	5.6	5.4	4.5
GDP per capita at current prices, UZS thousand).....	7,497.0	15,242.0	12,339.1	9,340.8
Inflation (%).....	4.6	15.2	14.3	14.4
Total external public debt as a % of GDP	33.2	27.0	19.9	12.8

Source: The State Committee of the Republic of Uzbekistan on Statistics. Actual numbers measured on a yearly basis. Total external public debt as a percentage of GDP has been calculated by the Bank on the basis of data extracted from the State Committee of the Republic of Uzbekistan on Statistics.

Between 2013 and 2019, the average annual increase of Uzbekistan's GDP in real terms was 6.3 per cent. In 2019, the GDP of Uzbekistan in current prices amounted to UZS 511,838.1 billion, a growth in real terms of 5.6 per cent. compared with 2018. However, there was a sharp decline in nominal GDP in U.S. dollar terms in 2017 and 2018, mainly due to the managed devaluation of the official exchange rate of the soum to the then prevailing market levels in September 2017, which occurred as a result of currency liberalisation reforms. In 2017, the average annual exchange rate was UZS 3,711.7 per U.S. Dollar until the implementation of the abovementioned liberalisation reforms by the CBU, following which the exchange rate was devalued to UZS 8,100 per U.S. Dollar. In 2018, 2019 and the first half of 2020, the average annual exchange rate was UZS 8,069 per U.S. dollar, UZS 8,851.4 per U.S. dollar, and UZS 9,812.36 per U.S. dollar, respectively. Nominal GDP in U.S. dollar terms decreased from U.S.\$59,160 million in 2017 to U.S.\$50,392.6 million in 2018 and increased to U.S.\$57,921.3 million in 2019. As at 30 June 2020, nominal GDP in U.S. dollar terms amounted to U.S.\$26,013.42 million.

The economy of Uzbekistan is also affected by inflationary pressure. Uzbekistan's inflation was equal to 15.2 per cent. in 2019, 14.3 per cent. in 2018 and 14.4 per cent. in 2017. The inflation rate experienced a sharp increase in 2017, which was to a large extent linked to the currency liberalisation reform implemented by the Government in 2017, and has since remained relatively stable at 14.3 per cent. and 15.2 per cent. in 2018 and 2019, respectively. See "*Currency Fluctuations*" below. The expenses of the Bank are mostly denominated in soums and, accordingly, are potentially affected by inflation. For example, employee wages have been, and are likely to continue to be, particularly sensitive to monetary inflation in Uzbekistan.

Stronger economic conditions tend to result in increased demand for the Bank's banking products and services, including loans, deposits and other products. On the other hand, any deterioration of the economy affects the Uzbekistan banking sector by the reduction of profits, accumulation of losses and growth in the percentage of non-performing loans on the balance sheets of banks. Customers' and investors' lack of confidence in the banking industry may cause volatility in the funding markets, leading to higher borrowing costs and restricting access to liquidity for banks. Further, the Government typically supports domestic banks by, among other things, providing additional liquidity. As at the date of this Prospectus, the Bank has not observed any significant deterioration of the Uzbek banking industry.

Impact of COVID-19

The spread of COVID-19 and the imposition of quarantine measures has created significant volatility, uncertainty, and economic disruption during the first six months of 2020. Almost all sectors of the economy of the Republic of Uzbekistan, both in terms of individuals and legal entities, have been adversely affected by such unprecedented disruptions which has led to significant Government intervention and support. The Bank has experienced, and management expects the Bank to continue to experience, certain disruptions to the Bank's business (see "*Risk factors—Risks related to the Bank's business and the banking industry in Uzbekistan—The COVID-19 pandemic has had, and will likely continue to have, a significant effect upon the economy of Uzbekistan, which consequently may adversely affect the Bank's business, financial condition and results of operations*").

Management anticipates that the presence and continuing spread of COVID-19, reduced consumer and business activity due to quarantine measures in Uzbekistan could result in decreased demands for the Bank's range of products. Secondly, the continuing decline in Uzbekistan's economic performance as a result of COVID-19 (see "*Risk factors—Risks relating to Uzbekistan—The Bank may be adversely affected by changes in Uzbekistan's economic, political and other conditions*") could lead to an increase in bad debts as corporate and retail customers become financially stressed or insolvent. As at 30 June 2020, the Bank had gross NPLs in the amount of UZS 741,182 million. See "*Financial Position—Total Assets—NPLs*" for further details. In light of the adverse economic impacts of the ongoing pandemic, the Bank further reassessed its expected credit losses and recorded a UZS 803,600 million provision for expected credit losses for the six months ended 30 June 2020 as compared to UZS 541,986 million for the year ended 31 December 2019. The NPL coverage ratio as at 30 June 2020, 31 December 2019 and 31 December 2018 was 108.4 per cent., 142.6 per cent. and 195.6 per cent., respectively. The decrease in the NPL coverage ratio was attributable primarily to an increase in the NPL levels due to effect of the COVID-19 pandemic. At the same time the Stage 3 loans coverage ratio (defined as provision for expected credit losses divided by the amount of Stage 3 loans before provision) for the same periods stood at 82.6 per cent as at 30 June 2020, 75.8 per cent. as at 31 December 2019 and 90.6 per cent. as at 31 December 2018. Stage 3 loans, as calculated based on IFRS 9, include, among other problem loans, not only NPLs of a particular borrower but also all other outstanding loans of such borrower which are not classified as NPLs and, therefore, Stage 3 loan coverage ratio represents in principle a more conservative measure of provisions over the problem loans.

While the Government, the CBU and other state agencies have implemented various measures designed to provide relief for domestic commercial banks such as the Bank (see "*Business—COVID-19 Response*" and "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan—Implementation of COVID-19 related measures by the CBU*" for further details.), the full impact of COVID-19 on the Bank's financial performance will depend on future developments, including, among others, the ultimate geographic spread and severity of the virus, the consequences of governmental and other measures

designed to prevent the spread of the virus, the development of effective treatments, the duration of the outbreak, actions taken by governmental authorities, customers, suppliers and other third parties, workforce availability, and the timing and extent to which normal economic and operating conditions resume.

The Bank has assessed, among other things, the credit, liquidity, operational, currency and interest rate risks associated with the ongoing effect of the pandemic and it believes that it is well positioned to withstand such challenges and continue to comply with the CBU ratios and requirements based on its most severe stress-testing models. As a result of such stress-testing, the Bank intends to implement pre-emptive measures to reinforce its liquidity position by attracting large corporate clients with significant liquidity and new payroll opportunities, directing its investment strategy towards short-term and liquid instruments such as Government debt securities, and agreeing new credit lines with local and foreign banks as well as IFIs to provide an additional contingent liquidity source (see “*Business—COVID-19 Response*” for further details). The Bank was also able to access approximately UZS 224 billion of additional liquidity as a result of the CBU easing its mandatory reserve requirements to mitigate the detrimental effect of the pandemic (see “*Business—COVID-19 Response*” for further information).

In addition, the lack of observable data that is available to support a fully modelled view of the economic impacts of the COVID-19 pandemic on customers has further exacerbated the ability of the Uzbekistan banking sector to assess the levels of expected credit losses. The Bank incorporates forward-looking information into its measurement of expected credit losses when there is a statistically proven correlation between the macroeconomic variables and the NPL. As at 30 June 2020, statistical tests have not proven reliable and consequently expected credit losses across all loan portfolios have not been adjusted for forward-looking information and macroeconomic scenarios. As such, due to the increased risk and uncertainties to accurately gauge the specific effects of the COVID-19 pandemic and related Government support measures, the Bank has applied an additional overlay in measuring expected credit losses by introducing the following adjustments to its methodology:

- as discussed in “*Business—COVID-19 Response*” and Note 8 of the Interim Financial Information, the Bank has provided borrowers with deferral of repayments of principal and interest under loans which affected 37 per cent. of its total loan portfolio as at 30 June 2020; and
- the calculations of probability of default rates applied across all portfolios (corporate, small business loans and consumer loans) of the Bank save for residential mortgage loans and loans provided to state-owned enterprises was based on the Bank’s assumption that the abovementioned deferral of repayments was the evidence of a significant increase in credit risk. The Bank believes that the actual default rates could, however, materialise into a lower amount (see Note 3 of the Interim Financial Information for further information).

As a result, the probability of default rates across all portfolios have been adjusted to reflect the increased credit risk by classifying all Stage 1 loans restructured due to the effects of the COVID-19 pandemic (save for loans to state-owned enterprises and residential mortgage loans) as Stage 2, but in measuring the expected credit losses, the Bank has applied an overlay by moving these restructured loans back to Stage 1.

An additional overlay was applied to the restructured loans to state-owned enterprises and residential mortgage loans by retaining their pre-pandemic staging and assuming that restructuring is not automatic cause to increase their credit risk. These loans were not automatically reclassified as Stage 2 given the expected Government support to facilitate such borrowers meeting their obligations (in respect of state-owned enterprises) and continued Government policy to facilitate loan repayment deferrals (in the case of residential mortgage loans). The Bank also adjusted the calculation of loss given default rates by excluding loan recovery results from the second quarter of 2020, assuming the recovery pattern during the COVID-19 lockdown period does not accurately reflect the financial performance of borrowers. This adjustment has been applied across all segments of the Bank’s loan portfolio.

Consequently, the Bank will continue to closely monitor the servicing of its loan portfolio to assess the adequacy of the abovementioned overlays during the fourth quarter of 2020, and update its expected

credit loss measurements as more information becomes available to support an update by incorporating alternative economic scenarios. Changes in judgements and assumptions could, therefore, result in a material adjustment to those estimates in subsequent reporting periods.

Currency Fluctuations

The functional currency of the Bank, which is the currency of the primary economic environment in which the Bank operates, and the Bank's presentation currency, is the Uzbek soum. Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the CBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at the period-end official exchange rates of the CBU are recognised in profit or loss.

In September 2017, in accordance with the Decree of the President of the Republic of Uzbekistan No.UP-5177 *"On priority measures for liberalisation of monetary policy"* dated 2 September 2017, the official rate of the Uzbek soum was devaluated from UZS 4,210.3 per U.S.\$1 to UZS 8,100.0 per U.S.\$1, representing a 92 per cent. decrease. The devaluation allowed market mechanisms to determine the exchange rate rather than being administratively set. As a result, the Bank recorded a sharp increase of its net gain on foreign exchange translation for the year ended 31 December 2017 amounting to UZS 206,991 million. For the years ended 31 December 2018 and 2019, the Bank recorded net gain on foreign exchange translation of UZS 10,533 million and UZS 20,070 million, respectively. The foreign exchange gain in the year ended 31 December 2017 was the most significant item that positively impacted the Bank's non-interest income in the periods ending 31 December 2019, 2018 and 2017. This was a one-off event for the year ended 31 December 2017 that may not reoccur in the future. As a result of this event, the Bank was granted a tax exemption on net gains from foreign exchange translation resulting from the devaluation of the Uzbek soum against the U.S. Dollar. (See *"—Results of Operations for the Years Ended 31 December 2019, 2018 and 2017—Financial Position—Income Tax Expense"* for further information).

In addition, the Bank is exposed to volatility in foreign currency rates. Assets and liabilities of the Bank are denominated in certain foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Historically, the Bank has long open currency positions and, consequently, it has recorded a positive effect on its income as a result of the gradual devaluation of the soum. The Bank plans to access the international capital markets, which subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. Despite the Bank's strategy to maintain a balanced foreign currency position, any depreciation of the Uzbek soum against the U.S. dollar could negatively affect the Bank primarily by making it more difficult for Uzbekistan borrowers to service their foreign currency-denominated loans. See *"Risk Factors—The Bank's operations are subject to foreign currency risk"*. The Bank naturally hedges its position to mitigate such risk by disbursing foreign currency denominated loans to projects that generate proceeds in the same foreign currency.

The Bank's three largest foreign currency exposures are to Almalyk Mining and Metallurgical Plant, JSC "Uzmetkombinat" and Navoi Mining and Metallurgical Combinat, which each generate export revenues in foreign currencies, and together constitute 39 per cent. of the Bank's total foreign currency loans as at 30 June 2020. As at 30 June 2020, 67.5 per cent. of the Bank's loans to customers were denominated in soums, 25.1 per cent. in U.S. dollars and the remaining 7.4 per cent. in other currencies.

Changes in Funding Base

The Bank has historically operated on the basis of subsidised funding provided by the state agencies, such as the UFRD and the Ministry of Finance for subsidised financing of various projects in a number of strategic industries and business segments and has otherwise relied on funding provided by the Government in the form of subsidised loans, deposits, capital injections and state guarantees, as well as borrowings from IFIs. See *"Business—Strengths—History of strong Government support"*. Following its strategic transition and privatisation, the Bank intends to gradually decrease the share of state funding in its funding base and instead to rely to a larger extent on funding from other sources, such as customer

accounts, interbank lending market and international capital markets. See “*Business—Structural Reform and Privatisation*”. The following table illustrates the composition of the Bank’s total customer accounts by customer segment as at the periods indicated:

	As at 30 June		As at 31 December	
	2020	2019	2018	2017
	UZS millions (unaudited)		UZS millions (audited)	
State and budgetary organisations.....	4,279,474	4,586,437	4,171,089	3,043,630
Individuals	1,901,003	1,819,631	1,553,983	1,284,619
Other legal entities	1,727,965	1,529,651	1,365,614	1,320,184

During the first six months of 2020, the Bank’s retail and corporate clients and MSME (which are not categorised as state and municipal organisations or state-owned entities) accounted for 45.9 per cent. of its total customer accounts, as compared to 42.2 per cent. as at 31 December 2019. Notwithstanding the Bank’s strategy, the Bank intends to continue to take a central role in the development of mortgage financing in the Republic of Uzbekistan, including by participating and utilising funding provided by the state sponsored MRCU, which will extend longer term financing at commercial rates to support the growth of the mortgage sector. See “*Business—Strengths—History of strong Government support*” for further information.

As at 30 June 2020, the share of customer accounts within the Bank’s total liabilities amounted to 36.1 per cent., as compared to 39.1 per cent. as at 31 December 2019, 38.9 per cent. as at 31 December 2018 and 47.0 per cent. as at 31 December 2017. While the Bank has maintained a consistent source of funding from its customer accounts, which it intends to increase as part of its privatisation strategy, the Bank also intends to attract new, and develop existing, sources of funding such as deriving funding from long and short-term placements of other banks. For example, as at 30 June 2020 and 31 December 2019, due to other banks amounted to UZS 664,664 million and UZS 284,533 million, respectively, whereas the Bank recorded no such liabilities as at 31 December 2018 and UZS 160 million as at 31 December 2017. Further, the Bank has other sources of available funding, including under existing agreements with IFIs, See “*Funding*”.

Non-compliance with certain covenants in the Bank’s financing agreements

In 2017 and 2018, ADB advanced two loans the Republic of Uzbekistan in connection with financing of the Horticulture Value Chain Development Project in Uzbekistan (the “**Project**”). The Republic of Uzbekistan on-lent a part of these loans to the Bank under the Subsidiary Loan Agreements. The loan agreements between ADB and the Republic of Uzbekistan require the latter to cause the Bank to ensure maintenance of certain financial covenants, including a cost-to-income ratio calculated in accordance with the ADB methodology on the basis of IFRS, 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.

The Subsidiary Loan Agreements are governed by Uzbek law and do not contain any event of default provisions. Therefore, no cross-default provisions under the Bank’s other outstanding indebtedness were triggered as a result of the non-compliance with this covenant. At the same time, the Subsidiary Loan Agreements provide for the right of the Republic of Uzbekistan to demand prepayment of the relevant loans in case of a non-compliance with covenants. This required the Bank to classify the loans under the Subsidiary Loan Agreements as “less than 3 months” loans in its Annual Financial Statements and Interim Financial Information as further disclosed in Note 3 to the Annual Financial Statements and Note 15 to the Interim Financial Information, respectively. As a result, the auditors’ report on the Annual Financial Statements of the Bank classified the going concern as a key audit matter.

Pursuant to the terms of the Subsidiary Loan Agreements, any non-compliance with the covenants gives the Republic of Uzbekistan the right to demand prepayment of the loans advanced to the Bank. The Bank has been proactively communicating with both ADB and the Republic of Uzbekistan to establish a strategic action plan in order to rectify the non-compliance with the 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 Republic of Uzbekistan's debt obligations and the Republic of Uzbekistan 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. 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.

Subsequent to 31 December 2019, due to the effects of the pandemic on the Uzbek economy and banking sector, the Bank estimated that it might need to take additional measures to ensure compliance with the cost-to-income ratio under the Subsidiary Loan Agreements. These measures include, but are not limited to, the increase of online lending to reduce operating costs, closing inefficient branches, optimising staff costs and substituting state finance low-margin lending with higher margin commercial lending. In addition, the Bank monitors the impact of various measures adopted by the Republic of Uzbekistan to combat the negative impact of pandemic (including deferral of repayments of interest and principal granted to 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) on its NPL ratio. See *"Risk Factors—Risks related to the Bank's business and the banking industry in Uzbekistan—The COVID-19 pandemic has had, and will likely continue to have, a significant effect upon the economy of Uzbekistan, which consequently may adversely affect the Bank's business, financial condition and results of operations—Impact of the Central Bank of Uzbekistan's Measures relating to the COVID-19 pandemic"* The amendments to the Action Plan covering these two covenants were agreed with ADB and the Republic of Uzbekistan. In addition, the Republic of Uzbekistan confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants. The Bank believes that such non-compliance is not expected to adversely affect the Group's financial performance, and in particular its liquidity position.

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. 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.

Recent Developments

Pursuant to the Cabinet of Ministers Decree No. 362 dated 5 June 2020 (the "**Decree No. 362**"), the Bank completed the disposal to other state-owned entities of Ipoteka Sarmoyasi LLC (which held the Bank's non-core assets) in August 2020 (the "**disposal of non-core assets**"). As the Bank did not receive any cash consideration for the disposal of non-core assets, it was treated as a distribution to shareholders of the Bank. As a result, the Bank's share capital reserve has decreased by the amount equal to the carrying value of the disposed non-core assets. Furthermore, the Bank expects the amount of the share capital reserve remaining after such decrease to be converted into the Bank's share capital pursuant to Presidential Decree No. 2660 and subject to the shareholders' approval. See Note 23 of the Annual Financial Statements and Notes 12 and 28 to the Interim Financial Statements for further background.

Results of Operations for the Six Months Ended 30 June 2020 and 2019

For the six-month period ended 30 June 2020, the Bank generated net profit of UZS 238,445 million, an increase of UZS 40,329 million, or 20.4 per cent., from UZS 198,116 million for the six-month period ended 30 June 2019. A primary driver for the change in the Bank's results for the six months ended 30 June 2020 is the adjustment to its calculation of expected credit loss as a result of the increased risk and uncertainties with respect to incorporating the specific effect of the COVID-19 pandemic and the related Government support measures. The abovementioned changes comprise the following:

- the calculations of probability of default rates applied across the corporate, small business and consumer loan portfolios of the Bank (and not including residential mortgage loans and loans provided to state-owned enterprises) were based on the Bank's assumption that the payment holidays granted during lockdown were the evidence of a significant increase in credit risk. However, the Bank believes that the actual default rates could materialise to be lower due to (a) retail loans (which comprise consumer and residential mortgage loans) automatically receiving payment holidays by virtue of Government initiatives and not by direct request of individual borrowers, and (b) certain legal entities (namely corporates and small businesses) may have requested restructuring due to temporary liquidity constraints as a result of the impact of lockdown, rather than a deterioration of credit risk.

As a result of these assumptions, the probability of default rates across all segments of the Bank's loan portfolio have been adjusted to reflect the increased credit risk by classifying Stage 1 loans restructured due to the effects of the COVID-19 pandemic (save for loans to state-owned enterprises and residential mortgage loans) as Stage 2 but, for the purposes of measuring expected credit losses, the Bank has applied an overlay by moving these restructured loans back to Stage 1.

- an additional overlay was applied to the restructured loans to state-owned enterprises and residential mortgage loans by retaining their pre-pandemic staging and assuming that restructuring is not automatic cause to increase their credit risk. These loans were not automatically reclassified as Stage 2 given the expected Government support to facilitate such borrowers meeting their obligations (in respect of state-owned enterprises) and continued Government policy to facilitate loan repayment deferrals (in the case of residential mortgage loans) to ensure individual borrowers retain their dwellings by maintaining a stable income. As such, the restructuring that took place during the period of the COVID-19 pandemic in these two categories of borrowers did not automatically move them to Stage 2 for a lifetime loss calculation.
- an adjustment to the calculation of loss given default rates by excluding loan recovery results from the second quarter of 2020, assuming the recovery pattern during the lockdown period does not accurately reflect the financial performance of borrowers. Cash flows and turnover of customer accounts observed during pre and post-quarantine periods suggested a significant slowdown in the recovery of loans were mainly attributable to factors other than the financial standing of the borrowers. This adjustment to loss given default rates has been applied across all portfolios of the Bank.

See Note 3 of the Interim Financial Information and “—*Factors Affecting the Financial Statements*”—*Impact of COVID-19*” for further details on the abovementioned provisioning changes.

The following table sets forth the components of the Bank's profit for the periods indicated:

	Six-month periods ended 30 June	
	2020	2019
	<i>UZS million</i> (unaudited)	
Interest income.....	1,169,386	919,008
Interest expense.....	(481,643)	(422,815)
Net interest income before provision for credit losses	687,743	496,193
Charge for credit losses on loans and advances to customers.....	(252,330)	(128,989)
Net interest income	435,413	367,204
Fee and commission income.....	122,819	119,356
Fee and commission expense.....	(33,712)	(21,452)
Net gain from trading in foreign currencies.....	3,250	2,157
Net gain from foreign exchange translation.....	25,380	4,247

Dividend income.....	10	117
Impairment charge on other financial assets and contingencies	(6,316)	(7,833)
Other operating income.....	26,609	14,533
Administrative and other operating expense	(291,540)	(240,796)
Share of results from associates.....	(33)	(48)
Profit before tax.....	281,880	237,485
Income tax expense.....	(43,435)	(39,369)
Profit for the period.....	238,445	198,116

Net Interest Income

Net interest income has historically been the largest component of the Bank's operating income. For the six-month period ended 30 June 2020, net interest income before provision for credit losses increased by UZS 191,550 million, or 38.6 per cent., as compared to the six-month period ended 30 June 2019, which was primarily attributable to an increase in the Bank's interest income from loans and advances to customers as a result of disbursing loans to MSME and individual clients at market rates. For the six-month period ended 30 June 2020, the Bank's net interest margin amounted to 6.3 per cent compared to 4.9 per cent. for the six-month period ended 30 June 2019.

Interest Income

The Bank's interest income for the six-month period ended 30 June 2020 amounted to UZS 1,169,386 million, an increase of UZS 250,378 million, or 27.2 per cent., from UZS 919,008 million for the six-month period ended 30 June 2019.

The following table sets forth the principal components of the Bank's interest income for the periods indicated:

	Six-month periods ended 30 June			
	2020		2019	
	UZS million (unaudited)	per cent. of total	UZS million (unaudited)	per cent. of total
Interest income				
Loans and advances to customers	1,093,784	93.5	880,202	95.8
Debt securities of the Government	30,720	2.6	18,838	2.0
Due from other banks.....	44,882	3.9	19,968	2.2
Total interest income.....	1,169,386	100.0	919,008	100.0

The increase in the Bank's interest income during the period under review mainly resulted from a UZS 213,582 million, or 24.3 per cent., increase to the Bank's interest income from loans and advances to customers as a result of the growth of its loan portfolio, particularly with respect to residential mortgage loans. In addition, interest income on balances due from other banks increased by 124.8 per cent. to UZS 44,882 million for the six-month period ended 30 June 2020 as a result of a growth of short-term soum-denominated interbank deposits, including short-term deposits with the CBU.

Interest Expense

The Bank's total interest expense increased by UZS 58,828 million, or 13.9 per cent., to UZS 481,643 million for the six-month period ended 30 June 2020 from UZS 422,815 million for the six-month period ended 30 June 2019. The following table sets forth the principal components of the Bank's interest expense for the periods indicated:

	Six-month periods ended 30 June			
	2020		2019	
	UZS million (unaudited)	per cent. of total	UZS million (unaudited)	per cent. of total
Interest expense				
Customer accounts.....	238,439	49.5	196,737	46.5

Borrowings from Government, state and international financial institutions	234,492	48.8	224,761	53.2
Other borrowed funds	6,344	1.3	-	-
Due to other banks.....	1,675	0.3	483	0.1
Debt securities in issue	693	0.1	834	0.2
Total interest expense	481,643	100.0	422,815	100.0

The overall increase in the Bank's interest expense for the six-month period ended 30 June 2020 mainly resulted from an increase in interest expense on all components, including interest expense on customer accounts and borrowings from the Government, state and international financial institutions and other borrowed funds.

Interest expense on customer accounts increased by UZS 41,702 million, or 21.2 per cent., to UZS 238,439 million for the six-month period ended 30 June 2020 as compared to UZS 196,737 million for the six-month period ended 30 June 2019. Expense on interest on customer accounts increased for the six-month period ended 30 June 2020 primarily as a result of an increase of actual interest rates for deposits from 15.3 per cent. as at 30 June 2019 to 16.3 per cent. as at 30 June 2020 mainly due to the increased demand for liquidity among Uzbek banks due to the competitive landscape and impact of the COVID-19 pandemic.

Interest expense on borrowings from government, state and international financial institutions increased by UZS 9,731 million, or 4.3 per cent., to UZS 234,492 million for the six-month period ended 30 June 2020 as compared to UZS 224,761 million for the six-month period ended 30 June 2019. This increase mainly resulted from a UZS 1,552 billion, or 66 per cent. increase of new borrowings from IFIs and other foreign banking institutions (being primarily the EBRD and Credit Suisse).

Charge for Credit Losses on Loans and Advances to Customers

Charge for credit losses on loans and advances to customers increased by UZS 123,341 million to UZS 252,330 million for the six-month period ended 30 June 2020 as compared to the six-month period ended 30 June 2019 as a result of the effects of the COVID-19 pandemic on the business activities of the Banks' customers in 2020, the adjustment of the classification of assets and additional provisions taken in the first half of 2020 as well as the increased growth of the Bank's total loan portfolio in the MSME and retail segments which, in turn, increased the Bank's risk exposure. The COVID-19 pandemic contributed to a deterioration of probability of default rates across most industry sectors which affected the Bank's methodology for calculating expected credit losses during the six month period ended 30 June 2020 as compared to the probability of default rates as at 31 December 2019 (see "*Factors Affecting the Financial Statements—Impact of COVID-19*" for further information).

Net Fee and Commission Income

One of the largest sources of the Bank's non-interest income is its fee and commission income. The Bank's fee and commission income primarily comprises commissions generated by settlement transactions, cash transactions, foreign currency exchange, guarantees and letters of credit and other operations. For the six-month period ended 30 June 2020, the Bank had net fee and commission income of UZS 89,107 million as compared to net fee and commission income of UZS 97,904 million for the six-month period ended 30 June 2019.

The following table sets forth the components of the Bank's net fee and commission income for the periods indicated:

	Six-month periods ended 30 June			
	2020		2019	
	UZS million (unaudited)	per cent. of total	UZS million (unaudited)	per cent. of total
Fee and commission income				
Settlement transactions.....	90,722	73.9	97,675	81.8
Cash transactions.....	11,891	9.7	1,730	1.4
Guarantees and letters of credit...	8,716	7.1	3,358	2.8
Foreign currency conversion operations	8,533	6.9	12,653	10.6
Other.....	2,957	2.4	3,940	3.3
Total fee and commission income	122,819	100.0	119,356	100.0
Fee and commission expense				
Settlement transactions.....	22,352	66.3	6,650	31.0
Cash collection services.....	4,024	11.9	12,568	58.6
Conversion operations.....	2,288	6.8	1,790	8.3
Cash transactions.....	210	0.6	22	0.1
Other.....	4,838	14.4	422	2.0
Total fee and commission expense	33,712	100.0	21,452	100.0
Net fee and commission income	89,107		97,904	

The decrease in the Bank's net fee and commission income for the six-month ended 30 June 2020 is mostly attributable to a UZS 15,702 million, or 236.1 per cent., increase in fee expense incurred from settlement transactions, UZS 6,953 million, or 7.1 per cent., decrease in fee income derived from settlement transactions and a UZS 4,120 million, or 32.6 per cent., decrease in foreign currency conversion operations, in each case as compared to the same period of 2019 due to the impact of the COVID-19 pandemic during the first six months of 2020. The significant increase in expenses incurred from settlement transactions in the first six months of 2020 is primarily attributable to an increase in the number of active users of the Bank's online and mobile banking services as a result of the COVID-19 related lockdown and mandatory quarantine restrictions that, in turn, resulted in customers utilising such remote and online services in order to service their day-to-day banking needs.

Fee income derived from settlement transactions decreased by 7.1 per cent. during the first six months of 2020 as compared to the corresponding period of 2019 primarily as a result of a decrease in the turnover of client accounts due to the effects of the COVID-19 pandemic. The income from foreign currency conversion operations decreased by 32.6 per cent. during the first six months of 2020 as compared to the corresponding period of 2019 as a result of the COVID-19 related lockdown and mandatory quarantine restrictions, which contributed to a fall in remittances from migrant workers in Uzbekistan.

At the same time, fee expenses from cash collection services decreased by UZS 8,544 million or 68.0 per cent. as compared to the first six months of 2019 mainly due to the optimisation of the Bank's cash collection processes (such as improved routes for cash collection vehicles) and the establishment of a self-service option for clients. During the first six months of 2020, the increased number of the Bank's network of smart offices (including ATMs) was the primary driver for the UZS 10,161 million, or 587 per cent., increase of fee income from cash transactions as compared to the first six months of 2019 primarily because of greater use by the Bank's customers of its cash-related banking services in order to service their day-to-day banking needs.

Net Gain from Trading in Foreign Currencies

Net gain from trading in foreign currencies increased by UZS 1,093 million to UZS 3,250 million for the six-month period ended 30 June 2020 as compared to UZS 2,157 million for the six-month period ended 30 June 2019, as a result of an increase volume of foreign currency trades and conversions.

Net Gain from Foreign Exchange Translation

The functional currency of the Bank, which is the currency of the primary economic environment in which the Bank operates, and the Bank's presentation currency is Uzbek soum. Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the CBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at the period-end official exchange rates of the CBU are recognised in profit or loss.

For the six-month period ended 30 June 2020, the Bank recorded net gain from foreign exchange translation of UZS 25,380 million as compared to a net gain on foreign exchange translation of UZS 4,247 million for the six-month period ended 30 June 2019. The increase in the Bank's net gain from foreign exchange translation for the six-month period ended 30 June 2020 compared to the six-month period ended 30 June 2019 is mainly attributable to the devaluation of the soum against the U.S. Dollar by 7 per cent. (as compared to a 2.7 per cent. devaluation for the six month period ended 30 June 2019) and a UZS 620,619 million increase in the Bank's net balance sheet position in U.S. dollars to UZS 692,615 as at 30 June 2020 from UZS 71,996 million as at 30 June 2019. See "*Factors Affecting the Financial Statements—Currency Fluctuations*".

Other Operating Income

For the six-months ended 30 June 2020, the Bank's other operating income increased by UZS 12,076 million as compared to the six-month period ended 30 June 2019 from UZS 14,533 million to UZS 26,609 million. The increase in the Bank's other operating income was mainly a result of income generated from the commencement of the Bank's insurance operations through its subsidiary, Imkon Sugurta LLC.

Administrative and Other Operating Expenses

The main components of the Bank's administrative and other operating expenses are staff costs, depreciation and amortisation, security services, charity and sponsorship, stationery and supplies, insurance operations expense and other operating expenses. Administrative and other operating expenses increased by UZS 50,744 million, or 21.1 per cent., to UZS 291,540 million for the six-month period ended 30 June 2020 as compared to UZS 240,796 million for the six-month period ended 30 June 2019, which was mainly driven by increased staff costs to align salaries with prevailing market rates, depreciation and amortisation of fixed assets, operating expenses for new banking service centres and charity and sponsorship expenses.

The increase in administrative and other operating expenses for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 was mainly driven by an increase of: (a) staff costs by UZS 16,988 million, or 9.9 per cent., from UZS 170,797 million to UZS 187,785 million, which is in line with the Bank's strategy to align salaries with market levels, (b) charity and sponsorship by UZS 9,733 million, or 638.2 per cent., from UZS 1,525 million to UZS 11,258 million, which mainly resulted from the sponsorships of the Bank of Expo exhibitions and other events in order to promote the brand of the Bank, (c) depreciation and amortisation expense by UZS 8,198 million, or 63.4 per cent., from UZS 12,925 million to UZS 21,123 million, which is in line with the Bank's strategy to strengthen its IT infrastructure and from purchasing ATMs and point of sale terminals in the amount of UZS 77,369 million during the first half of 2020 and second half of 2019 for the purposes of developing its remote banking services.

Income Tax Expense

For the six-month period ended 30 June 2020, the Bank recorded income tax expense of UZS 43,435 million as compared to UZS 39,369 million for the six-month period ended 30 June 2019. The increase in income tax expense for the six-month period ended 30 June 2020 resulted mainly from the 18.7 per cent. increase in profit before tax, which is attributable to the growth in the majority of components of the Bank's net interest and net non-interest income. In accordance with Presidential Decree No. 2660, the accrued but not payable income tax expense was contributed to the Bank's share capital reserve which,

as at 30 June 2020, amounted to UZS 151,807 million. See also “—Recent Developments” for further information.

Profit for the Period

As a result of the factors described above, the Bank generated net profit for the period in the amount of UZS 238,445 million and UZS 198,116 million for the six-month periods ended 30 June 2020 and 2019, respectively, representing a growth of 20.4 per cent.

Results of Operations for the Years Ended 31 December 2019, 2018 and 2017

For the year ended 31 December 2019, the Bank’s net profit for the year increased by UZS 161,313 million to UZS 339,018 million from UZS 177,705 million for the year ended 31 December 2018, which in turn was a decrease by UZS 103,246 million from UZS 280,951 million for the year ended 31 December 2017.

The following table sets forth the components of the Bank’s profit for the periods indicated.

	Year ended 31 December		
	2019	2018	2017
		UZS million	
		(audited)	
Interest income.....	1,952,784	1,224,371	582,492
Interest expense.....	(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.....	(274,856)	(95,581)	(45,236)
Net interest income.....	760,369	551,436	252,345
Fee and commission income.....	255,425	216,187	205,201
Fee and commission expense.....	(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 from translation.....	20,070	10,533	206,991
Impairment losses on non-financial assets.....	—	(25,659)	—
Dividend income.....	181	961	482
Other operating income.....	31,127	14,592	10,906
Impairment (charge)/recovery on other financial assets and contingencies.....	(5,774)	1,023	(3,071)
Administrative and other operating expense.....	(619,401)	(503,558)	(391,363)
Share of results from associates.....	(276)	(60)	—
Profit before tax.....	410,700	226,034	306,521
Income tax expense.....	(71,682)	(48,329)	(25,570)
Net profit for the year.....	339,018	177,705	280,951

Notes:

There were no discontinued operations during the years ended 31 December 2019, 2018 and 2017.

Net Interest Income

Net interest income is one of the largest components of the Bank’s operating income. For the year ended 31 December 2019, net interest income increased by UZS 388,208 million, or 60.0 per cent., to UZS 1,035,225 million from UZS 647,017 million for the year ended 31 December 2018, which in turn was an increase of UZS 349,436 million, or 117.4 per cent., from UZS 297,581 million for the year ended 31 December 2017. These increases were mainly due to the growth of interest income, which increased by 59.5 per cent. for the year ended 31 December 2019 and by 110.2 per cent. for the year ended 31 December 2018. The primary reason for the increase in interest income over each period is due to the increased amount of loans and advances to customers recorded by the Bank and, in 2019, a higher volume of debt securities of the Government.

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.

The Bank's net interest margin demonstrated a relatively stable growth during the periods under review and amounted to 5.2 per cent., 4.5 per cent. and 3.6 per cent. for the years ended 31 December 2019, 2018 and 2017, respectively. The increase of the Bank's net interest margin in 2019 was primarily a result of the completion of the 2019 UFRD Transfer (see "*Business—Structural Reform and Privatisation—2019 UFRD Transfer*") and the Bank's ongoing commercialisation of its loan portfolio as part of its overall strategy.

Interest Income

For the year ended 31 December 2019, the Bank's interest income increased by UZS 728,413 million, or 59.5 per cent., to 1,952,784 million from UZS 1,224,371 million for the year ended 31 December 2018, which in turn was an increase of UZS 641,879 million, or 110.2 per cent., from UZS 582,492 million for the year ended 31 December 2017.

The following table sets forth the principal components of the Bank's interest income for the periods indicated:

	Year ended 31 December					
	2019		2018		2017	
	UZS million (audited)	per cent. of total	UZS million (audited)	per cent. of total	UZS million (audited)	per cent. of total
Interest income						
Loans and advances to customers.....	1,868,410	95.7	1,201,264	98.1	568,392	97.6
Debt securities of the Government.....	44,351	2.3	187	0.0	—	—
Due from other banks.....	40,023	2.0	22,920	1.9	14,100	2.4
Total interest income.....	1,952,784	100.0	1,224,371	100.0	582,492	100.0

The increases in the Bank's interest income during the periods under review resulted primarily from a 55.5 per cent. increase in interest income from loans and advances to customers for the year ended 31 December 2019 as compared to the year ended 31 December 2018, and a 111.3 per cent. increase in interest income from loans and advances to customers for the year ended 31 December 2018 as compared to the year ended 31 December 2017. This growth was mainly driven by a general increase of the Bank's loan portfolio during the period under review as well as increasing the proportion of higher interest-bearing small business loans and residential mortgage loans in the Bank's loan portfolio. In addition, the Bank began to shift away from attracting and providing loans at the CBU's refinancing rate following the establishment of the State Fund for Support of Entrepreneurs' Activity which provided subsidised loan programmes (See "*Business—Competitive Strengths—History of Strong Government Support*").

In addition, interest income on balances due from other banks increased by 74.6 per cent. to UZS 40,023 million for the year ended 31 December 2019 as compared to UZS 22,920 million for the year ended 31 December 2018, which in turn increased by 62.6 per cent. as compared to UZS 14,100 million for the year ended 31 December 2017. This increase was mainly due to currency liberalisation reforms and increased interbank financing in the Uzbekistan banking market, including overnight borrowings, in line with the general market trend for diversification of funding sources for commercial Uzbek banks and the increase of the CBU's refinancing rate from 14 per cent. to 16 per cent. during such periods. With effect from 15 April 2020, the CBU set its refinancing rate to 15 per cent. and further decreased the rate to 14 per cent. on 11 September 2020. Furthermore, in 2019 the Bank's mandatory reserve balance with the CBU increased by 34.8 per cent. as compared to 2018, primarily due to the increase of clients' deposits, which in turn allowed the Bank to increase placements with other banks with original maturities of more than three months.

Interest Expense

For the year ended 31 December 2019, the Bank's interest expense increased by UZS 340,205 million, or 58.9 per cent. to UZS 917,559 million from UZS 577,354 million for the year ended 31 December 2018,

which in turn was an increase of UZS 292,443 million, or 102.6 per cent., from UZS 284,911 million for the year ended 31 December 2017.

The following table sets forth the principal components of the Bank's interest expense for the years indicated:

	Year ended 31 December					
	2019		2018		2017	
	UZS million (audited)	per cent. of total	UZS million (audited)	per cent. of total	UZS million (audited)	per cent. of total
Interest expense						
Borrowings from Government, state and international financial institutions.....	455,496	49.6	307,978	53.3	129,286	45.4
Customer accounts.....	446,906	48.7	265,941	46.1	150,991	53.0
Other borrowed funds.....	8,017	0.9	—	0.0	—	0.0
Due to other banks.....	5,196	0.6	2,318	0.4	1,804	0.6
Debt securities in issue	1,944	0.2	1,117	0.2	2,830	1.0
Total interest expense.....	917,559	100.0	577,354	100.0	284,911	100.0

The overall increase in the Bank's interest expense during the periods under review mainly resulted from increases in interest expense on other borrowed funds and interest on customer accounts.

Interest expense on customer accounts increased by UZS 180,965 million, or 68.0 per cent., to UZS 446,906 million for the year ended 31 December 2019 as compared to UZS 265,941 million for the year ended 31 December 2018, which in turn was an increase by UZS 114,950 million, or 76.1 per cent., as compared to an expense of UZS 150,991 million for the year ended 31 December 2017. Expense on interest on customer accounts increased in the period under review on the back of 68.0 per cent. and 76.1 per cent. increases in customer accounts for the years ended 31 December 2019 and 2018, respectively. Interest expense on customer accounts increased in 2019 mainly as a result of a significant increase in term deposits following an increase of interest rates. See “—Financial Position—Total Liabilities”.

Interest expense on borrowings from government, state and international financial institutions increased by UZS 147,518 million, or 47.9 per cent., to UZS 455,496 million for the year ended 31 December 2019 as compared to UZS 307,978 million for the year ended 31 December 2018, which in turn was an increase by UZS 178,692 million, or 138.2 per cent., as compared to an expense of UZS 129,286 million for the year ended 31 December 2017. The reason for this increase across the period under review was a growth in the Bank's borrowings from the Ministry of Finance and IFIs by six times and 3.2 times, respectively, across the period under review.

Charge for Credit Losses on Loans and Advances to Customers

The Bank recorded a charge for credit losses on loans and advances to customers of UZS 274,856 million in 2019 as compared to UZS 95,581 million in 2018 and UZS 45,236 million in 2017, respectively. The fluctuations in the Bank's provisions in 2019-2017 principally resulted from adoption of the IFRS 9 standards by the Bank from 1 January 2018 (which were not restated for comparative information for 2017) for financial instruments in scope of IFRS 9 and reflected the increased growth of its loan portfolio in the MSME and retail segments which increased the Bank's risk exposure and adjustment of risk weights and classification of assets.

Net Fee and Commission Income

One of the largest sources of the Bank's non-interest income is its fee and commission income. The Bank's fee and commission income primarily comprises commissions generated by settlement transactions, foreign currency exchange, cash transactions and other operations. For the year ended 31 December 2019, the Bank had net fee and commission income of UZS 207,677 million as compared to net fee and commission income of UZS 177,841 million for the year ended 31 December 2018 and

UZS 170,695 million for the year ended 31 December 2017. The increasing trend across the period under review was primarily attributable to the continued growth and diversification of the Bank's client base, with a particular focus on the growth of its retail and MSME lines of business, and the development of its distribution network.

The following table sets forth the components of the Bank's net fee and commission income for the years indicated:

	Year ended 31 December					
	2019		2018		2017	
	UZS million (audited)	per cent. of total	UZS million (audited)	per cent. of total	UZS million (audited)	per cent. of total
Fee and commission income						
Settlement transactions.....	198,704	77.8	178,285	82.5	175,948	85.7
Conversion operations.....	23,958	9.4	23,438	10.8	18,063	8.8
Cash transactions.....	18,586	7.3	1,520	0.7	883	0.4
Guarantees and letters of credit issued.....	7,509	2.9	7,450	3.4	7,377	3.6
Other.....	6,668	2.6	5,494	2.5	2,930	1.4
Total fee and commission income.....	255,425	100.0	216,187	100.0	205,201	100.0
Fee and commission expense						
Cash collection services.....	23,960	50.2	26,892	70.1	22,938	66.5
Settlement transactions.....	15,520	32.5	4,178	10.9	4,558	13.2
Conversion operations.....	6,944	14.5	6,838	17.8	5,565	16.1
Cash transactions.....	256	0.5	123	0.3	1,332	3.9
Other.....	1,068	2.2	315	0.8	113	0.3
Total fee and commission expense.....	47,748	100.0	38,346	100.0	34,506	100.0
Net fee and commission income.....	207,677		177,841		170,695	

The increases in the Bank's net fee and commission income for the years ended 31 December 2019 and 2018 are mostly attributable to growth in fees from settlement transactions, which increased by 11.5 per cent. for the year ended 31 December 2019 and by 1.3 per cent. for the year ended 31 December 2018 primarily as a result of an increase of legal entity clients by approximately 11,000 between 2018 and 2019. The income gained from cash transactions increased by UZS 17,066 million to UZS 18,586 million for the year ended 31 December 2019, as compared with UZS 1,520 million for the year ended 31 December 2018. The increase was mainly driven by the cash transaction fees associated with a more widespread use of ATM's by the Bank's customers as part of the Bank's strategy to actively develop remote banking services as well as to meet its customers' demands in light of increased use of bank cards. Furthermore, in 2019, the Bank also began charging fees and commissions for utility payments and other transactions by individual customers which did not previously attract such fees and commissions.

The increase of the Bank's fee and commission income was partially offset by the growth in the majority of components of the fee and commission expense due to the general increase in the volume of its operations in line with the increase in the fee and commission income and the corresponding increase in the volume of commissions paid. The increase in settlement transactions expenses by UZS 11,342 million, or 271.5 per cent. for the year ended 31 December 2019 as compared with the year ended 31 December 2018, was mainly attributable to the increased use by the Bank's customers of online technology and payment facilitating platforms and the resulting increase in settlement commission expenses. Further, as part of its strategic transformation, in 2019 the Bank closed 41 inefficient minibanks and 179 special cash desks which accept deposits from retail customers and facilitate transfers of payments, and has instead moved such services to the Bank's online and remote platforms, namely its ATMs, smart offices, banking service centres and mobile banking system, which led to an increase of settlement commission expense paid to vendors of such platforms.

Net Gain from Trading in Foreign Currencies

Net gain from trading in foreign currencies increased by UZS 17,802 million to UZS 16,727 million for the year ended 31 December 2019 as compared to a loss of UZS 1,075 million for the year ended 31 December 2018, which in turn represented a decrease of UZS 60,611 million, or 101.8 per cent. as compared to gain of UZS 59,536 million for the year ended 31 December 2017. The primary reason for the fluctuations over the period under review is because domestic banks were not permitted to establish their own foreign exchange rates based on market conditions until August 2018. Prior to that, domestic banks purchased foreign currencies at a rate higher than the CBU's official exchange rates, whereas the sale of foreign currencies was performed through special conversion cards and at minimum levels.

Net Gain from Foreign Exchange Translation

The functional currency of the Bank, which is the currency of the primary economic environment in which the Bank operates, and the Bank's presentation currency is Uzbek soum. Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the CBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at the period-end official exchange rates of the CBU are recognised in profit or loss.

For the year ended 31 December 2019, the Bank recorded net gain on foreign exchange translation of UZS 20,070 million as compared to net gain on foreign exchange translation of UZS 10,533 million for the year ended 31 December 2018 and net gain on foreign exchange translation of UZS 206,991 million for the year ended 31 December 2017. In September 2017, as part of the currency liberalisation reform in Uzbekistan, the official rate of the soum was devalued from UZS 4,210.4 per U.S.\$1 to UZS 8,100.0 per U.S.\$1, representing a 92 per cent. decrease. As a result, the Bank's net gain on foreign exchange translation significantly increased for the year ended 31 December 2017. In addition, the soum depreciated by 2.7 per cent. and 14 per cent. against the U.S. Dollar in 2018 and 2019, respectively, which increased the Bank's foreign exchange gains as a result of its open positions for those years.

Impairment Losses on Non-Financial Assets

For the year ended 31 December 2019, the Bank did not record any impairment for losses on non-financial assets, as compared to a provision of UZS 25,659 million in the year ended 31 December 2018. The Bank did not record any provision for the year ended 31 December 2017. The provision for impairment of losses on non-core assets in 2018 was a result of impairment losses recognised on the property, plant and equipment of the Bank, as well as other assets of regional fishery entities that the Bank invested in through its investment company, Ipoteka Sarmoyasi LLC.

Impairment (Charge)/Recovery on Other Financial Assets and Contingencies

For the year ended 31 December 2019, the Bank recorded an impairment for losses on other financial assets and contingencies in the amount of UZS 5,774 million, as compared to a recovery of UZS 1,023 million for the year ended 31 December 2018. The principal reason for this trend arose from the Bank's calculation of expected credit losses based on prevailing credit ratings of financial institutions by Moody's, S&P and Fitch which resulted in an origination of a provision for impairment for losses in the total amount of UZS 7,712 million, a de-recognition of UZS 2,128 million and other changes to the expected credit losses for cash and cash equivalents, due from other banks and debt securities that amounted to UZS 190 million in aggregate. For the year ended 31 December 2017, the Bank recorded a provision for impairment for losses on other financial assets and contingencies in the amount of UZS 3,071 million. This provision was recorded as a result of the establishment of the State Fund for Support of Entrepreneurs' Activity (See "*Business—Competitive Strengths—History of Strong Government Support*"). As a result, the Bank's previous investments of approximately UZS 3 billion in the preceding Guarantee Fund were written off as its contribution to the newly established State Fund for Support of Entrepreneurs' Activity.

Other Operating Income

Other operating income increased by UZS 16,535 million, or 113.3 per cent., to UZS 31,127 million for the year ended 31 December 2019 as compared to UZS 14,592 million for the year ended 31 December 2018, which in turn represented an increase of UZS 3,686 million, or 33.8 per cent. as compared to income of UZS 10,906 million for the year ended 31 December 2017. The increase in other operating income for the year ended 31 December 2019 as compared to the year ended 31 December 2018 primarily reflected an increase in other non-interest income from UZS 6,203 million in 2018 to UZS 10,810 million in 2019, an increase in largely non-loan related fines and penalties received from employees and clients for from UZS 2,594 million in 2018 to UZS 7,410 million in 2019, an increase of insurance operations incomes from nil in 2018 to UZS 3,541 million in 2019, and an increase of income from rental of point of sale terminals from UZS 4,083 million in 2018 to UZS 6,711 million in 2019.

Administrative and Other Operating Expenses

The main components of the Bank's administrative and other operating expenses are staff costs, security services, depreciation and amortisation, repair and maintenance of property and equipment, membership fees, charity expenses, stationary and other low value items and other operating expenses. Administrative and other operating expenses increased by UZS 115,843 million, or 23.0 per cent., to UZS 619,401 million for the year ended 31 December 2019 as compared to UZS 503,558 million for the year ended 31 December 2018, which in turn represented an increase of UZS 112,195 million, or 28.7 per cent., as compared to UZS 391,363 million for the year ended 31 December 2017.

The increase in administrative and other operating expenses for the year ended 31 December 2019 as compared to the years ended 31 December 2018 was mainly driven by (a) a 39.3 per cent. growth in staff costs on the back of increase in the remuneration of the Bank's employees thereby bringing wages closer to market rates and paying annual bonuses and an increase in general inflation, (b) a 46.5 per cent. increase in security services expenses which are tied to minimum wage levels in Uzbekistan, (c) a 35.1 per cent. increase in depreciation and amortisation expense which primarily resulted from the construction of new banking service centres as part of the Bank's transformational programme, and (d) a 19.9 per cent. increase in stationery and other low value items expenses, which resulted from the expansion of the Bank's operations as more bank cards were issued and the market price for such items increased.

The increase in administrative and other operating expenses for the year ended 31 December 2018 as compared to the years ended 31 December 2017 was mainly driven by a 25.1 per cent. growth in staff costs on the back of increase in the remuneration of the Bank's employees and an increase in general inflation, as well as 45.1 per cent. increase in expenses on taxes other than income tax, a 64.8 per cent. increase in depreciation and amortisation expenses which largely derived from the Bank's expenditures relating to its strategic distribution network transformation and development of its IT servers and a 23.7 per cent. increase in security services expenses as a result of an increase in minimum wages in Uzbekistan. Primarily as a result of the foregoing optimisation and network transformation, the Bank's cost-to-income ratio amounted to 35.0 per cent. for the six months ended 30 June 2020 as compared to 39.1 per cent. for the six months ended 30 June 2019.

Share of Result of Associates

For the year ended 31 December 2019, the Bank recorded a loss of UZS 276 million from shared losses arising from its investments in associated exchange transaction companies, as compared to UZS 60 million for the year ended 31 December 2018, representing a 360 per cent. increase. For the year ended 31 December 2017, the Bank did not record a loss arising from its share in investments in associated companies. The losses for 2019, 2018 were principally derived from the Bank's investments in Nukus Agro Fish LLC and Nukus-Group Gold Fish LLC. Taken together, both companies recorded a loss of UZS 1,191 million and UZS 238 million for the years ended 31 December 2019 and 2018.

In accordance with Presidential Decree No.PP-2939 dated 1 May 2017, the Bank participated in the establishment of certain entities operating in the fishery industry, which are not strategic to the Bank's

operations, and obtained significant influence over them. As at 31 December 2018 and 2017, the Bank held a 25 per cent. ownership interest in both Nukus Agro Fish LLC and Nukus-Group Gold Fish LLC. As at 31 December 2019, the Bank held a 23 per cent. ownership interest in Nukus Agro Fish LLC and 25 per cent. ownership interest in Nukus Gold Fish LLC. The Bank no longer maintains an ownership interest in these entities following its transfer of Ipoteka Sarmoyasi LLC (see “*Business—Subsidiaries*” for further information).

Income Tax Expense

For the year ended 31 December 2019, the Bank recorded income tax expense of UZS 71,682 million as compared to UZS 48,329 million for the year ended 31 December 2018 and UZS 25,570 million for the year ended 31 December 2017. The increase in income tax expense for the year ended 31 December 2019 resulted mainly from growth in profit before tax for 2019 as a result of a 60.0 per cent. increase in net interest income before provision for credit losses. However, this net increase in interest income was partially offset by the decrease in the statutory income tax rate from 22 per cent. in 2018 to 20 per cent. in 2019. Pursuant to Presidential Decree No. 2660 the Bank accumulated UZS 90,656 million in share capital reserve for the year ended 31 December 2019, which was contributed to the share capital of the Bank as a contribution of the Ministry of Finance (see “*Financial Position—Total Equity*” for further information). See also “*Recent Developments*” for further information.

The increase in income tax expenses for the year ended 31 December 2018 as compared to the corresponding period of 2017 was primarily attributable to the effect of the tax exemption on net gains from foreign exchange translation under Presidential Decree No. 5177 on income tax expense generated for the year ended 31 December 2017, which was mainly a result of the devaluation of the Uzbek soum by more than 90 per cent. from UZS 4,210.4 to UZS 8,100 per U.S. Dollar in September 2017.

Net Profit for the Period

As a result of the factors described above, the Bank generated net profit for the year in the amount of UZS 339,018 million, UZS 177,705 million and UZS 280,951 million for the years ended 31 December 2019, 2018 and 2017, respectively.

Financial Position

The following discussion of the Bank’s assets and liabilities should be read in conjunction with “Risk Management” and, in particular, with the data provided under “Risk Management—Credit Risk”, “Risk Management—Market Risk” and “Risk Management—Liquidity Risk”.

Total Assets

The following table sets forth the principal components of the Bank’s total assets as at the dates set forth below.

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
	UZS millions (unaudited)		UZS millions (audited)	
Cash and cash equivalents.....	2,911,565	2,630,173	1,315,362	1,374,091
Due from other banks.....	762,581	845,018	508,224	1,249,251
Loans and advances to customers.....	20,883,011	19,839,756	17,598,212	10,563,180
Debt securities of the Government of the Republic of Uzbekistan.....	664,055	131,149	154,610	–
Financial assets at fair value through other comprehensive income.....	6,114	6,572	5,784	–
Investment securities available for sale.....	–	–	–	5,821
Investment in associates.....	1,931	1,964	2,240	2,300
Premises, equipment and intangible assets.....	278,550	276,601	184,921	138,300
Current income tax prepayment.....	–	8	878	18
Deferred income tax asset.....	66,422	57,451	33,534	9,294
Other financial assets.....	11,732	5,210	1,211	17,515
Other non-financial assets.....	88,401	51,076	26,374	23,880
Assets held for distribution to owners	53,496	–	–	–
Total assets	25,727,858	23,844,978	19,831,350	13,383,650

As at 30 June 2020, the Bank had total assets of UZS 25,727,858 million as compared to UZS 23,844,978 million as at 31 December 2019, UZS 19,831,350 million as at 31 December 2018 and UZS 13,383,650 million as at 31 December 2017.

The increase in total assets by UZS 1,882,880 million, or 7.9 per cent., as at 30 June 2020 as compared to 31 December 2019, was mainly driven by an increase of cash and cash equivalents, loans and advances to customers, and debt securities of the Government. Loans and advances to customers increased by UZS 1,043,255 million, or 5.3 per cent., as at 30 June 2020 as compared to 31 December 2019 as a result of a 40.8 per cent. increase in retail loans during that period. Debt securities of the Government of the Republic of Uzbekistan increased by UZS 532,906 million, or 406.3 per cent. as at 30 June 2020 as compared to 31 December 2019 driven by the Bank's intention to allocate large portions of its available liquidity to liquid Government bonds to safeguard its position.

The increase in total assets by UZS 4,013,628 million, or 20.2 per cent., as at 31 December 2019 as compared to the year 2018 was primarily attributable to an increase in loans and advances to customers. The increase of UZS 2,241,544 million, or 12.7 per cent., in gross loans and advances to customers as at 31 December 2019 as compared to 31 December 2018 reflected the growth across certain components of the Bank's loan portfolio: (i) small business loans increased by 195.3 per cent. and reached UZS 6,391,443 million; (ii) residential mortgage loans increased by 88.1 per cent. and reached UZS 5,169,389 million; and (iii) consumer loans increased by 45.4 per cent. and reached UZS 822,510 million. The increase in loans and advances to customers reflected greater demand for small business loans and residential mortgages as a result of the Government's urban housing programmes, the Bank targeting MSME and retail clients as part of its ongoing transformation strategy, as well as the impact of the 2019 UFRD Transfer which increased the Bank's lending capacity and capital adequacy ratio. In addition, the Bank's total assets in 2019 as compared to 2018 were affected by an increase of UZS 1,314,811 million, or 100.0 per cent., in cash and cash equivalents. This increase principally resulted from increases in cash balances with the CBU (other than mandatory reserve deposits), cash on hand and placements with other banks with original maturities of less than three months.

The increase in total assets by UZS 6,447,700 million, or 48.2 per cent., as at 31 December 2018 as compared to 2017 is primarily attributable to the increase of loans and advances to customers. The increase of UZS 7,035,032 million, or 66.6 per cent., in gross loans and advances to customers in 2018 as compared to 2017 reflected the growth across all the components of the Bank's loan portfolio, namely: (i) corporate loans increased by 56.0 per cent. and reached UZS 12,388,307 million; (ii) residential mortgage loans increased by 90.3 per cent. and reached UZS 2,748,458 million, (iii) small business loans increased by 105.1 per cent. and reached UZS 2,164,264 million, and (iv) consumer loans increased by 148.9 per cent. and reached UZS 565,853 million. The increase in loans and advances to customers before impairment provision in 2018 resulted from, among other things, an increase in loans to

construction companies by UZS 2,517,884 million, residential mortgage loans by UZS 1,304,410 million and loans backed by state guarantees.

Loan Portfolio

Loans and advances to customers (before provision for expected credit losses) are the largest components of the Bank's total assets, accounting for 81.2 per cent., 83.2 per cent., 88.7 per cent., and 78.9 per cent. of total assets as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively.

General

As at 30 June 2020, the Bank's gross loans and advances to customers amounted to UZS 21,686,611 million, representing a 6.4 per cent. increase as compared to gross loans and advances to customers as at 31 December 2019. In 2019, gross loans and advances to customers increased by UZS 2,241,544 million, or 12.7 per cent., as compared to 31 December 2018, which in turn was an increase of UZS 7,035,032 million, or 66.6 per cent., as compared to 31 December 2017. The size of the Bank's loan portfolio in soums increased as a result of growth in lending activity, depreciation of the soum against major foreign currencies (including the U.S. dollar and Euros) on the back of a proportion of the Bank's loan portfolio being denominated in foreign currencies (including the U.S. dollar and Euros) as compared to soums and general development of the banking sector in Uzbekistan.

The following table sets forth the Bank's gross loans and advances to customers as at the dates set forth below:

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
	<i>UZS millions</i> (unaudited)		<i>UZS millions</i> (audited)	
Corporate loans ⁽¹⁾	6,579,108	7,998,400	12,388,307	7,942,539
Residential mortgage loans	7,153,135	5,169,389	2,748,458	1,444,048
Small business loans	6,671,401	6,391,443	2,164,264	1,055,082
Consumer loans	1,282,967	822,510	565,853	227,317
Total loans and advances to customers before provision for expected creditor losses	21,686,611	20,381,742	17,866,882	10,668,986
Provision for expected credit losses ⁽²⁾	(803,600)	(541,986)	(268,670)	(105,806)
Total gross loans and advances to customers⁽³⁾	20,883,011	19,839,756	17,598,212	10,563,180

Notes:

- (1) As at 31 December 2019, 2018 and 2017, corporate loans included finance lease receivables of UZS 269,229 million, UZS 99,563 million and UZS 73,591 million before impairment provisions.
- (2) The Bank's allowance for expected credit loss is classified by three stages. See Note 10 to the Annual Financial Statements and Note 5 to the Interim Financial Information for further information.
- (3) As at 31 December 2019, 2018 and 2017, loans and advances to customers included 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.

The share of the corporate loans in the Bank's total gross loan portfolio has decreased from 69.3 per cent. as at 31 December 2018 to 39.2 per cent. as at 31 December 2019 and further decreased to 30.3 per cent. as at 30 June 2020. As at 30 June 2020, the Bank's corporate loan portfolio decreased by UZS 1,419,292 million, or 17.7 per cent., as compared to 31 December 2019. This decrease is primarily attributable to the effects of the 2019 UFRD Transfer, the Bank's increased focus on growth in its retail and small business (which includes MSME) portfolios as part of its transformation strategy and the conversion of an outstanding loan to Uzshahrqurilishinvest, a construction company, to a mortgage loan to individuals under a social mortgage programme. The Bank's corporate loan portfolio decreased by UZS 4,389,907, or 35.4 per cent. as at 31 December 2019 as compared to 31 December 2018, primarily as a result of the 2019 UFRD Transfer and the Bank's ongoing focus on growing its MSME and retail loan portfolios as part of its transformation strategy. As at 31 December 2018, the Bank's corporate loan portfolio increased by UZS 4,445,768 million, or 56.0 per cent., as compared to 31 December 2017. The primary reason for such changes in the Bank's corporate loan portfolio is the increase in loans allocated to the manufacturing (which includes the mining sector) and construction sectors, in particular, loans

disbursed to Uzshakharkurilishinvest LLC under a social mortgage programme in an aggregate amount of UZS 2,202 billion and industrial enterprises in an aggregate amount of UZS 470 billion.

Residential mortgage loans accounted for 33.0 per cent., 25.4 per cent. and 15.4 per cent. of the Bank's gross loan portfolio as at 30 June 2020 and 31 December 2019 and 2018, respectively. Residential mortgages increased by UZS 1,983,746 million, or by 38.4 per cent., as at 30 June 2020 as compared to 31 December 2019 reaching UZS 7,153,135 million. Residential mortgages increased by UZS 2,420,931 million, or by 88.0 per cent. as at 31 December 2019 as compared to 31 December 2018 reaching UZS 5,169,389 million. Residential mortgages as at 31 December 2018 increased by UZS 1,304,410 million, or by 90.3 per cent., as compared to 31 December 2017 reaching UZS 2,748,458 million. The primary reason for the increasing trend of the Bank's residential mortgages is due to its participation in the Government's urban housing programme (which is due to expire at the end of 2021) and its continued focus on the growth of its residential mortgages line of business as part of its transformation strategy.

Loans to small businesses accounted for 30.8 per cent., 31.4 per cent. and 12.1 per cent. of the gross total loan portfolio as at 30 June 2020 and 31 December 2019 and 2018, respectively. Loans to small businesses increased by UZS 279,958 million, or by 4.4 per cent., as at 30 June 2020 as compared to 31 December 2019 reaching UZS 6,671,401 million. Loans to small businesses increased by UZS 4,227,179 million, or by 195.3 per cent. as at 31 December 2019 as compared to 31 December 2018 reaching UZS 6,391,443 million. Loans to small businesses as at 31 December 2018 increased by UZS 1,109,182 million, or by 105.1 per cent., as compared to 31 December 2017 reaching UZS 2,164,264 million. The increasing trend during the period under review of the Bank's loans to small businesses is primarily attributable to the Bank's target strategy to increase its share of MSME clients in its loan portfolio as part of its ongoing transformation strategy as well as the liberalisation of the economy and improvement of the small business environment, which promotes active involvement by entrepreneurs in new projects or the expansion of existing businesses, thereby creating an increase demand for bank credit for small businesses.

The share of loans to consumers in the Bank's total gross loan portfolio also increased from 3.2 per cent. as at 31 December 2018 to 4.0 per cent. as at 31 December 2019 and further increased to 5.9 per cent. as at 30 June 2020. Total gross loans to consumers increased by 56.0 per cent. as at 30 June 2020 as compared to 31 December 2019 and reached UZS 1,282,967 million. Total gross loans to individuals increased by 80.8 per cent. as at 31 December 2019 as compared to 31 December 2018 and by 98.3 per cent. as at 31 December 2018 as compared to 31 December 2017.

Distribution of Loans by Economic Sectors

The following table sets forth distribution the Bank's loans and advances to customers by economic sector as at the periods indicated:

	As at 30 June		As at 31 December					
	2020		2019		2018		2017	
	UZS million	per cent. of total	UZS million	per cent. of total	UZS million	per cent. of total	UZS million	per cent. of total
	(unaudited)		(audited)		(audited)		(audited)	
Manufacturing.....	7,395,214	34.2	6,440,904 ⁽¹⁾	31.6	8,215,364	46.0	6,320,876	59.0
Individuals.....	8,436,102	38.9	5,991,899	29.4	3,314,311	18.5	1,671,365	15.7
Construction.....	1,783,394	8.2	4,794,719	23.5	3,960,918	22.2	1,443,034	13.5
Trade and Services.....	2,062,307	9.5	1,638,102	8.0	1,082,427	6.1	540,919	5.1
Agriculture.....	1,475,224	6.8	993,322	4.9	622,902	3.5	315,739	3.0
Transport and communication.....	287,532	1.3	281,290	1.4	362,871	2.0	119,209	1.1
Municipal Services.....	196,646	0.9	214,403	1.1	195,545	1.1	144,253	1.4
Oil & Gas.....	30,652	0.1	9,242	0.0	93,552	0.5	110,722	1.1
Other.....	19,540	0.1	17,861	0.1	18,992	0.1	2,869	0.1
Total loans and advances to customers before provision for expected credit losses.....	21,686,611	100.0	20,381,742	100.0	17,866,882	100.0	10,668,986	100.0

Notes:

- (1) The recorded decrease of the Bank's loans in the manufacturing sector (which includes the mining sector) in 2019 as compared to 2018 was primarily attributable to the effect of the 2019 UFRD Transfer.

The Bank has historically maintained a prominent exposure to the manufacturing (which includes the mining sector) and construction sectors of the Uzbek economy, with such exposures accounting for 42.3 per cent. of the total loans issued by the Bank as at 30 June 2020, 55.1 per cent. as at 31 December 2019, 68.2 per cent. as at 31 December 2018 and 73.0 per cent. as at 31 December 2017. As at 30 June 2020 and 31 December 2019, the Bank's largest exposures were to borrowers operating in the manufacturing sector (which includes the mining sector) which accounted for 34.2 per cent. and 31.6 per cent., respectively, of its total loan portfolio. In line with the Bank's strategy of diversifying its loan portfolio, during the period under review the Bank has increased the share of actively developing sectors of the economy in its loan book, such as trade services (the share in the Bank's loan portfolio increased from 8.0 per cent. as at 31 December 2019 to 9.5 per cent. as at 30 June 2020), agriculture (the share in the Bank's loan portfolio increased from 4.9 per cent. as at 31 December 2019 to 6.8 per cent. as at 30 June 2020) and loans to individuals (the share in the Bank's loan portfolio increased from 29.4 per cent. as at 31 December 2019 to 38.9 per cent. as at 30 June 2020), while maintaining its long-standing relationships with the companies in the Bank's sectors of expertise, including coloured metals mining, construction, oil and gas and municipal services.

As at 30 June 2020, the aggregate loan balance of the Bank's ten largest borrowers amounted to UZS 4,607,103 million (21.0 per cent. of total loans and advances to customer). As at 31 December 2019, 2018 and 2017, the aggregate loan balance of the Bank's ten largest borrowers amounted to UZS 7,473,199 million (37.0 per cent. of total loans), UZS 9,515,058 (53.3 per cent. of total loans) and UZS 3,709,021 million (35.0 per cent. of total loans), respectively. As at 31 December 2019, the Bank's ten largest borrowers exceeded 210.5 per cent. of the Bank's equity.

Distribution of Loans by Maturity

Of the Bank's net loan portfolio as at 30 June 2020, UZS 10,005,827 million, or 47.9 per cent. had a maturity of more than five years, UZS 8,183,822 million, or 39.2 per cent. had a maturity of between one year and five years, UZS 2,337,369 million, or 11.2 per cent., had a maturity profile of between three months and one year and UZS 355,993 million, or 1.7 per cent., had a maturity of less than three months.

Of the Bank's net loan portfolio as at 31 December 2019, UZS 7,544,772 million, or 38.0 per cent. had a maturity of more than five years, UZS 6,766,318 million, or 34.1 per cent. had a maturity of between one year and five years, UZS 5,094,066 million, or 25.7 per cent., had a maturity profile of between three months and one year, UZS 434,600 million, or 2.2 per cent., had a maturity of less than three months.

Of the Bank's net loan portfolio as at 31 December 2018, UZS 8,051,480 million, or 45.8 per cent. had a maturity of more than five years, UZS 5,679,186 million, or 32.3 per cent. had a maturity of between one year and five years, UZS 3,792,470 million, or 21.6 per cent., had a maturity profile of between three months and one year, UZS 75,076 million, or 0.4 per cent., had a maturity of less than three months.

Of the Bank's net loan portfolio as at 31 December 2017, UZS 4,858,789 million, or 46.0 per cent. had a maturity of more than five years, UZS 4,328,146 million, or 41.0 per cent. had a maturity of between one year and five years, UZS 1,324,553 million, or 12.5 per cent., had a maturity profile of between three months and one year, UZS 51,692 million, or 0.5 per cent., had a maturity of less than three months.

NPLs

Non-performing loans, or NPLs, represent loans with payments of principal and/or interest overdue by more than 90 days. The Bank had gross NPLs in the amount of UZS 741,182 million, UZS 380,202 million, UZS 137,376 million and UZS 50,037 million as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively. The level of the Bank's NPLs as a percentage of total gross loans to customers was 3.4, 1.9, 0.8 and 0.5 as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively. The period-on-period growth of the Bank's NPL levels is primarily attributable to its strategy of targeting retail and MSME customers. While such loans are generally more profitable as compared to loans to corporate customers and state-owned or municipal organisations, they do also present an increased level of risk to the Bank.

The Bank's corporate, residential mortgage, small business and consumer loan portfolios accounted for 30.3 per cent., 33.0 per cent., 30.8 per cent. and 5.9 per cent., respectively, of its gross loan portfolio as at 30 June 2020.

As at 30 June 2020, the Bank's provision for expected credit losses was UZS 803,600 million as compared to UZS 541,986 million as at 31 December 2019 and UZS 268,670 million as at 31 December 2018 and UZS 105,806 million as at 31 December 2017. The Bank's allowance for expected credit loss is classified by three stages. See Note 10 to the Annual Financial Statements and Note 5 to the Interim Financial Information and "*—Results of Operations for the Years Ended 31 December 2019, 2018 and 2017—Charge for Credit Losses on Loans and Advances to Customers*" and "*—Results of Operations for the Six Months Ended 30 June 2020 and 2019—Charge for Credit Losses on Loans and Advances to Customers*" for further information.

The increase in expected credit losses by UZS 261,614 million, or 48.3 per cent., from UZS 541,986 million as at 31 December 2019 to UZS 803,600 million as at 30 June 2020 was mainly due to the negative effects of the COVID-19 pandemic on the financial condition of the Bank's borrowers and the economy.

Due to the difficulties as at 30 June 2020 to incorporate the specific effects of the COVID-19 pandemic and the related government support measures, the Bank applied adjustment to its calculation of expected credit loss which comprise the following:

- the calculations of probability of default rates applied across the corporate, small business and consumer loan portfolios of the Bank (and not including residential mortgage loans and loans provided to state-owned enterprises) were based on the Bank's assumption that the payment holidays granted during lockdown were the evidence of a significant increase in credit risk. However, the Bank believes that the actual default rates could materialise to be lower due to (a) retail loans (which comprise consumer and residential mortgage loans) automatically receiving payment holidays by virtue of Government initiatives and not by direct request of individual borrowers, and (b) certain legal entities (namely corporates and small businesses) may have requested restructuring due to temporary liquidity constraints as a result of the impact of lockdown, rather than a deterioration of credit risk.

As a result of these assumptions, the probability of default rates across all segments of the Bank's loan portfolio have been adjusted to reflect the increased credit risk by classifying Stage 1 loans restructured due to the effects of the COVID-19 pandemic (save for loans to state-owned enterprises and residential mortgage loans) as Stage 2 but, for the purposes of measuring expected credit losses, the Bank applied an overlay by moving these restructured loans back to Stage 1.

- an additional overlay was applied to the restructured loans to state-owned enterprises and residential mortgage loans by retaining their pre-pandemic staging and assuming that restructuring is not automatic cause to increase their credit risk. These loans were not automatically reclassified as Stage 2 given the expected Government support to facilitate such borrowers meeting their obligations (in respect of state-owned enterprises) and continued Government policy to facilitate loan repayment deferrals (in the case of residential mortgage loans) to ensure individual borrowers retain their dwellings by maintaining a stable income. As such, the restructuring that took place during the period of the COVID-19 pandemic in these two categories of borrowers did not automatically move them to Stage 2 for a lifetime loss calculation.
- an adjustment to the calculation of loss given default rates by excluding loan recovery results from the second quarter of 2020, assuming the recovery pattern during the lockdown period does not accurately reflect the financial performance of borrowers. Cash flows and turnover of customer accounts observed during pre and post-quarantine periods suggested a significant slowdown in the recovery of loans were mainly attributable to factors other than the financial standing of the borrowers. This adjustment to loss given default rates has been applied across all

portfolios of the Bank.

See Note 3 of the Interim Financial Information and “—*Factors Affecting the Financial Statements*”—*Impact of COVID-19*” for further information.

Due to adoption of IFRS 9 by the Bank starting from 1 January 2018, certain comparative information may not be comparable. The Bank has not restated comparative information for 2017 for financial instruments in scope of IFRS 9. Thus, fiscal results of the Bank from 1 January 2018 and onwards reflect the adoption of IFRS 9, while prior periods reflect results under IAS 39. For additional information, see Note 5 to the Annual Financial Statements.

Total Liabilities

The following table sets forth the principal components of the Bank’s total liabilities as at the periods indicated:

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
	<i>UZS millions</i> (unaudited)	<i>UZS millions</i> (audited)		
Due to other banks.....	664,664	284,533	–	160
Customer accounts.....	7,908,442	7,935,719	7,090,686	5,648,433
Debt securities in issue	4,658	14,850	9,934	12,797
Borrowings from government, state and international financial institutions	12,787,873	11,530,321	11,057,373	6,303,874
Other borrowed funds	425,905	425,905	–	–
Other financial liabilities.....	10,685	53,050	13,500	9,862
Other non-financial liabilities.....	59,428	52,445	47,732	44,498
Liabilities associated with assets held for distribution to owners	18,816	–	–	–
Total liabilities.....	21,880,471	20,296,823	18,219,225	12,019,624

As at 30 June 2020, the Bank had total liabilities of UZS 21,880,471 million as compared to UZS 20,296,823 million as at 31 December 2019, UZS 18,219,225 million as at 31 December 2018 and UZS 12,019,624 million as at 31 December 2017.

The increase in total liabilities by UZS 1,583,648 million, or 7.8 per cent., as at 30 June 2020 as compared to 31 December 2019, was mainly driven by an increase of amounts due to other banks and borrowings from IFIs, namely the EBRD, CDB, ADB and Credit Suisse. Customer accounts slightly decreased by UZS 27,277 million, or 0.3 per cent., as at 30 June 2020 as compared to 31 December 2019, mainly as a result of a decrease in business activities in light of the impact of the COVID-19 pandemic. Due to other banks increased by UZS 380,131 million, or 133.6 per cent. as at 30 June 2020 as compared to 31 December 2019, primarily as a result of the execution of certain repurchase agreements with the CBU which totalled UZS 400,000 million. Borrowings from government, state and international financial institutions increased by UZS 1,257,552 million, or 10.9 per cent., as at 30 June 2020 as compared to 31 December 2019, driven by an increased amount borrowed from IFIs which totalled UZS 3,916,226 million as at 30 June 2020.

As at 31 December 2019, the Bank had total liabilities of UZS 20,296,823 million, an increase of UZS 2,077,598 million, or 11.4 per cent., from UZS 18,219,225 million as at 31 December 2018. This increase was primarily due to an increase in short-term placements to other banks, customer accounts of individuals, term deposits of state and budgetary organisations, and borrowings from the Ministry of Finance and IFIs. As at 31 December 2019, customer accounts increased by UZS 845,033 million, or 11.9 per cent., from UZS 7,090,686 million as at 31 December 2018, and this increase was primarily driven by the increase of accounts of state and budgetary organisations, individuals and non-governmental organisations and the expansion of the range of banking products and services offered to the Bank’s customers. As at 31 December 2019, borrowings from government, state and international financial institutions increased by UZS 472,948 million, or 4.3 per cent., from UZS 11,057,373 million as a result of borrowings from the Ministry of Finance and other IFIs, including the entry into credit

agreements with the CDB and the EBRD which established credit lines with the outstanding amounts as at 31 December 2019 of UZS 261,467 million and UZS 208,695 million, respectively. In addition, the Bank transferred liabilities to other borrowed funds in an amount of UZS 425,905 million in 2019 from borrowings from the Ministry of Finance (see Note 21 of the Annual Financial Statements).

As at 31 December 2018, the Bank had total liabilities of UZS 18,219,225 million, an increase of UZS 6,199,601 million, or 51.6 per cent., from UZS 12,019,624 million as at 31 December 2017. This increase was primarily due to the increase in customer accounts and borrowings from government, state and international financial institutions. Customer accounts increased by UZS 1,442,253 million, or 25.5 per cent. in 2018 as a result of growth in the majority of customer accounts components, including: (i) current/settlement accounts of state and public organisations increased by UZS 394,570 million, or 31.6 per cent.; (ii) current/settlement accounts of other legal entities increased by UZS 291,800 million, or 39.8 per cent.; and (iii) term deposits of individuals increased by UZS 201,449 million, or 22.1 per cent, on the back of increased product range of the Bank and expansion of its customer reach.

Total Equity

As at 30 June 2020, the Bank had total equity of UZS 3,847,387 million, an increase of UZS 299,232 million, or 8.4 per cent., from UZS 3,548,155 million as at 31 December 2019. This increase was primarily due to an increase in share capital reserve and retained earnings, which was mainly attributable to the conversion of the Decree 4487 On-loans (see “*Risk Management—Market Risk—Currency Risk*” for further information) into the Bank’s share capital for the benefit of the UFRD, as well as the increase of the Ministry of Finance’s shareholding of the Bank in December 2019 by utilising a share capital reserve in the amount of UZS 60,718 million.

As at 31 December 2019, the Bank had a total equity of UZS 3,548,155 million, an increase of UZS 1,936,030 million, or 120 per cent., from UZS 1,612,125 million as at 31 December 2018. As at 31 December 2018, the Bank had a total equity of UZS 1,612,125 million, an increase of UZS 248,099 million, or 18.2 per cent., from UZS 1,364,026 million as at 31 December 2017. The increases during the periods under review was mainly attributable to an increase in share capital reserve and retained earnings which was principally a result of the following main factors:

- in the case of the Bank’s total equity as at 31 December 2019, the 2019 UFRD Transfer;
- the implementation of Presidential Decree No. 2660 dated 22 November 2016, which granted the Bank relief from the payment of income tax and property taxes for the period from 1 January 2017 to 31 December 2021, which continued to accrue but were not payable. Any funds saved from such tax relief were contributed to the share capital of the Bank as a contribution of the Ministry of Finance. The funds were accumulated in a special reserve as they represent an equity contribution to be made from the Ministry of Finance when a new share issue is registered. The 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;
- the one-off effects on the Bank’s recorded profits for foreign currency translation gains as a result of the liberalisation of the Uzbekistan currency market in 2017 (see “*Factors Affecting the Financial Statements—Currency Fluctuations*” and “*—Results of Operations for the Years Ended 31 December 2019, 2018 and 2017—Net Gain from Trading in Foreign Currencies*” for further information); and
- at the Government’s direction, the de-recognition of two term loans funded by the UFRD by changing their currency profile and interest rates which resulted in a loss on initial recognition of the assets of UZS 34,472 million and that was instead recognised in the Bank’s total 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.

See Note 23 of the Annual Financial Statements for further information.

Liquidity and Capital Resources

The Bank's principal sources of liquidity are customer accounts, other borrowed funds (which include borrowings from international and domestic financial organisations), inter-bank deposit agreements, proceeds from sale of securities, principal repayments on loans, interest income and fees and commissions income.

Although the Bank does not have the right to use the mandatory deposits held in the CBU for the purposes of funding its operating activities, the Bank 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 Bank. Due to the nature of their business, it is unusual for financial institutions to have completely matching maturities. 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 Bank and its exposure to changes in interest and exchange rates.

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

Due the effects of the COVID-19 pandemic on the Uzbek economy and banking sector, the Republic of Uzbekistan 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:

- commercial banks were provided with additional liquidity as a result of easing the requirements for mandatory reserves with CBU (this measure has allowed the Bank to access approximately UZS 224 billion in aggregate additional liquidity);
- a credit line collateralised with mortgage loans and/or loans classified as "standard". As at the date of this Prospectus, the Bank has not accessed any funding under this facility due to its stable liquidity position and access to other funding sources;
- for regulatory and statutory purposes, commercial banks were permitted to not reduce the quality classification of the loans restructured as a result of the COVID-19 pandemic, which in turn allowed commercial banks to not increase their statutory impairment allowances;
- the CBU postponed the introduction of more stringent requirements on liquidity coverage ratio until 2021; and
- a reduction of quarterly contributions to the State Deposit Insurance Fund from 0.25 per cent. to 0.05 per cent..

In addition, during the COVID-19 pandemic related lockdown, the usage of cash by the population of Uzbekistan has significantly reduced which led to a reduced withdrawal of cash from bank accounts. The lockdown has also encouraged many legal entities to revise their salary payment methods by switching to debit cards. From the second quarter of 2020, the Bank has managed to attract new corporate clients to cooperate on their salary programs, which improved the Bank's short-term liquidity.

As part of liquidity risk management, the Bank 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 Bank's ability to access state resources due to its state ownership and strategic importance to the national banking system of the Republic of Uzbekistan.

The Bank's liquidity contingency plan consists of the following:

- the attraction of long-term deposits of state funds: Pension Fund, State Deposit Insurance Fund and others;
- the attraction of budgetary funds up to one year through weekly electronic bidding platform run by the state treasury under the Ministry of Finance;
- the utilisation of the CBU's short-term liquidity loans;
- the attraction of funds through repo facility with the CBU using the Bank's government bond portfolio;
- the attraction of funds through swap line with the CBU to attract UZS liquidity in return for U.S. Dollars on a short-term basis; and
- attracting deposits from inter-bank money markets within the limits set by the local commercial banks.

Funding

The Bank's funding base relies primarily on customer accounts and borrowed funds (funds received from the UFRD and the Ministry of Finance, funds raised on the interbank market in Uzbekistan and funds raised from IFIs). Other sources of funding include the Bank's issues of certificates of deposits and domestic capital markets activities. The Bank's funding strategy is to continue to develop a diversified funding base in order to achieve an optimum balance between its own capital, domestic and international borrowings to cover the growing needs of the Bank's business, both in terms of currency and maturity, while gradually reducing its need for state funding as part of its ongoing privatisation strategy (see *"Business—Structural Reform and Privatisation"* for more information). Concurrently, the Bank will continue to utilise funds from the Ministry of Finance and the CBU that are presently received under state financing programmes, including housing programmes, with maturities up to 2039, as well as participating in financing programmes with the MRCU at advantageous rates.

The following table sets out the Bank's material sources of funding as at the dates indicated:

	As at 30 June		As at 31 December					
	2020		2019		2018		2017	
	UZS million (unaudited)	per cent. of total	UZS million (audited)	per cent. of total	UZS million (audited)	per cent. of total	UZS million (audited)	per cent. of total
Due to other banks								
Long term placements of other banks.....	-	-	-	-	-	-	160	-
Short term placements of other banks.....	264,664	1.2	284,533	1.4	-	0.0	-	-
Repurchase agreements with the CBU.....	400,000	1.8	-	-	-	-	-	-
Total.....	664,664	3.1	284,533	1.4	-	0.0	160	-
Customer accounts								
State and budgetary organisation.....	4,279,474	19.6	4,586,437	22.7	4,171,089	23.0	3,043,630	25.4
Other legal entities.....	1,727,965	7.9	1,529,651	7.6	1,365,614	7.5	1,320,184	11.0
Individuals.....	1,901,003	8.7	1,819,631	9.0	1,553,983	8.6	1,284,619	10.7
Total.....	7,908,442	36.3	7,935,719	39.3	7,090,686	39.0	5,648,433	47.2
Borrowings from government, state and international financial institutions⁽¹⁾								
Borrowings from the Ministry of Finance.....	6,932,267	31.8	7,189,496	35.6	4,279,968	23.6	940,230	7.9
Borrowings from international financial institutions.....	3,916,226	18.0	2,363,981	11.7	1,248,547	6.9	714,007	6.0
Borrowings from domestic financial institutions.....	970,062	4.5	981,936	4.9	1,020,391	5.6	857,394	7.1
Borrowings from UFRD	883,001	4.1	906,729	7.4	4,389,285	24.2	3,700,032	30.9
Borrowings from CBU	73,232	0.3	76,101	0.4	107,104	0.6	80,133	0.7
Preference shares (debt component)	13,085	0.1	12,078	0.1	12,078	0.1	12,078	0.1
Total.....	12,787,873	58.7	11,530,321	57.1	11,057,373	60.9	6,303,874	52.7
Other borrowed funds⁽²⁾								
Debt of the Ministry of Finance.....	202,311	0.9	202,311	1.0	-	-	-	-
Debt of the Ministry of Finance.....	180,718	0.8	180,718	0.9	-	-	-	-
Debt of the Ministry of Finance.....	42,876	0.2	42,876	0.2	-	-	-	-
Total.....	425,905	2.0	425,905	2.1	-	-	-	-
Debt securities in issue								
Certificates of deposits.....	4,658	0.0	14,850	0.1	9,934	0.1	12,797	0.1
Total.....	4,658	0.0	14,850	0.1	9,934	0.1	12,797	0.1
Total funding.....	21,791,542	100.0	20,191,328	100.0	18,157,993	100.0	11,965,264	100.0

Notes:

(1) See Note 20 of the Annual Financial Statements and Note 15 of the Interim Financial Information for further information.

(2) See Note 21 of the Annual Financial Statements for further information.

The Bank's main sources of funding are customer accounts and borrowings from government, state and international financial institutions. See “—Financial Condition—Total Liabilities”. As at 30 June 2020, funding from IFIs comprised UZS 3,916,226 million, or 18.0 per cent. of the Bank's funding mix, as compared to UZS 2,363,981 million as at 31 December 2019.

The following table sets forth funding available to the Bank under existing material credit facilities as at 30 June 2020:

	Utilised Amount	Available Funding	Maturity Date
	<i>UZS millions</i>		
Commerzbank.....	704,220	573,865	Varied depending on individual project to which funds are allocated
ODDO Bank	-	570,574	Varied depending on individual project to which funds are allocated
China Development Bank.....	284,954	121,981	2027
European Bank for Reconstruction and Development	112,420	92,986	2024
Credit Suisse AG.....	228,229	342,344	2020
Credit Suisse AG.....	-	570,574	2021
Credit Suisse AG.....	-	285,287	2021
Gazprombank.....	-	305,201	Varied depending on individual project to which funds are allocated
Asian Development Bank	299,911	157,890	2040

Contingencies and Commitments

The Bank enters into certain financial instruments with off-balance sheet risk in the ordinary course of business to meet its clients' needs. These instruments, which include guarantees and letters of credit and other contingent liabilities, involve varying degrees of credit risk and are not reflected in the consolidated statement of financial position. The Bank uses similar credit approval policies in undertaking off-balance sheet credit related commitments as it does for its on-balance sheet operations. See "Risk Management—Credit Risk".

The following table sets forth the Bank's credit-related commitments as at the dates indicated:

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
	<i>UZS millions</i>		<i>UZS millions</i>	
	(unaudited)		(audited)	
Letters of credit.....	308,933	332,420	889,358	1,488,063
Guarantees.....	591,098	94,232	373,776	77,626
Undrawn loan commitments.....	217,209	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.....	1,117,240	457,166	3,781,276	3,857,682

For additional information on the Bank's credit-related commitments see Note 34 to the Annual Financial Statements and Note 25 to the Interim Financial Information.

Capital Management

The Bank manages its regulatory capital in order to comply with the capital requirements set by the CBU and to safeguard its ability to continue operations. 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 on a monthly basis with reports outlining their calculation reviewed and signed by the Deputy Chairman of the Management Board.

Regulatory capital requirements in Uzbekistan are set by the CBU and are applied to the Bank on a standalone basis. Under the CBU Regulation "On requirements to the capital adequacy of commercial banks" No. 2693 dated 6 July 2015 (the "Capital Adequacy Regulation") the Bank is required to maintain a minimum Total Capital Adequacy Ratio of 13 per cent. and a minimum Tier I Capital Adequacy Ratio of 10 per cent., both computed based on the Bank's standalone financial statements prepared under Uzbekistan GAAP and in accordance with CBU regulations and pronouncements.

The Capital Adequacy Regulation is based on and follows the principles of Basel III; however, capital estimates may differ due to the difference in the underlying accounting standards. Such differences mainly arise out of estimation and classification methodology applied to risk-weighted assets (“RWA”). Basel III standards for RWA calculation require total assets under IFRS to be weighted by their risk profile using either external rating agency rating utilisation or an internal rating model. On the other hand, CBU standards for RWA calculation as set out in the Capital Adequacy Regulation require total assets to be calculated under Uzbekistan GAAP and weighted in accordance with CBU-developed assets type criteria, taking into account credit, market and operational risk coefficients.

The Bank only uses CBU standards for calculation of RWA as of the date of this Prospectus as many of its clients have not been assigned a rating by external rating agencies, and the Bank’s internal comprehensive rating model is in development and has not yet been implemented.

The following table sets forth the capital components information prepared under Uzbekistan GAAP and related instructions:

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
	UZS millions		UZS millions	
Share capital.....	2,818,198	2,818,198	986,368	846,810
Retained earnings.....	432,560	47	-	98,598
Disclosed bank reserves.....	264,420	264,420	232,234	-
Intangible assets ⁽¹⁾	6,799	-	(3,182)	(2,025)
Investments in subsidiaries ⁽¹⁾	(18,073)	(18,223)	(20,486)	(42,623)
Tier 1 capital (adjusted)	3,497,105	3,064,442	1,194,934	900,760
Subordinated debt ⁽²⁾	-	424,092	-	-
Current year profit/(loss).....	253,540	430,058	178,621	278,908
Undisclosed bank reserves.....	196,094	196,094	119,446	27,706
Revaluation reserves.....	13,312	9,650	10,131	5,805
Tier 2 capital	462,946	1,059,894	308,198	312,419
Subordinated debt balance adjustment ⁽²⁾	-	(38,412)	-	(12,166)
Tier 2 capital (adjusted)	462,946	1,021,482	308,198	300,253
Total Capital (adjusted)	3,960,051	4,085,924	1,503,132	1,201,013
Total balance sheet and off balance sheet risk weighted assets.....	20,788,708	15,977,381	11,539,187	7,614,903
Operational risk.....	1,208,597	821,853	628,245	471,314
Market risk.....	492,873	903,647	73,899	541,683
Risk Weighted Assets⁽³⁾	19,087,239	14,251,880	10,837,043	6,601,906
Tier I Capital Adequacy Ratio⁽⁴⁾	16.8	19.2 ⁽⁶⁾	10.4	11.8
Total Capital Adequacy Ratio⁽⁶⁾	19.1	25.6 ⁽⁶⁾	13.0	15.8

Notes:

- (1) Under CBU standards, intangible assets and investments in subsidiaries are excluded from the Tier I capital of the banks.
- (2) Certain other borrowed funds of the Bank were originated as a result of transfer of the borrowings from the Ministry of Finance by signing additional agreements in 2019 with intention to convert them into subordinated debt. Prior to 1 April 2020, the Bank treated such other borrowed funds as subordinated debt in the calculation of its capital adequacy ratios (as calculated on the basis of Uzbekistan GAAP). Following a letter from the CBU dated 25 February 2020 with instruction to amend the terms of the agreement with the Ministry of Finance in line with the applicable CBU regulations and prescribing that such other borrowed funds did not meet all subordinated debt requirements to be considered as part of Tier 2 capital, from 1 April 2020 such other borrowed fund have been excluded from subordinated debt. Consequently, since 1 April 2020, the Bank has excluded UZS 425 billion from the calculation of its Tier 2 capital (as calculated under Uzbekistan GAAP), which had the effect of decreasing the Bank’s Total Capital Adequacy Ratio as at 30 June 2020, notwithstanding the CBU’s instruction in April 2020 according to which the CBU did not object to the inclusion of such amounts in the calculation of the Bank’s Total Capital Adequacy Ratio (as calculated under Uzbekistan GAAP) and has instructed the Bank to update the abovementioned agreements accordingly.
- (3) Risk-Weighted Assets are calculated as the assets weighted with credit risk, market risk and operational risk coefficients.
- (4) Tier I Capital Adequacy Ratio is calculated as a ratio of a bank’s Tier I capital to Risk Weighted Assets. As at 30 June 2020 and as at 31 December 2019, 2018 and 2017, Tier I Capital Adequacy Ratio was set at a minimum level of 10 per cent., 10 per cent., 9.5 per cent. and 9.5 per cent. by the CBU and as a minimum level of 8 per cent., 8 per cent., 8 per cent. and 6 per cent. under Basel III.
- (5) Total Capital Adequacy Ratio is calculated as a ratio of sum of a bank’s Tier I capital and Tier II capital to Risk Weighted Assets. As at 30 June 2020 and as at 31 December 2019, 2018 and 2017, Total Capital Adequacy Ratio was set at a minimum level of 13 per cent.,

13 per cent., 12.5 per cent. and 12.5 per cent. by the CBU and as a minimum level of 10 per cent., 10 per cent., 8 per cent. and 8 per cent. under Basel III.

- (6) The Bank's Tier I Capital Adequacy Ratio and Total Capital Adequacy Ratio take into account the impact of the capital injection and loan disposal pursuant to Presidential Decree No.4487 as described in "*Business-Structural Reform and Privatisation-2019 UFRD Transfer*".

As at 31 December 2018 the Bank's Total Capital Adequacy Ratio and Tier I Capital Adequacy Ratio stood at 13.0 per cent. and 10.4 per cent. (in each case calculated on the basis of Uzbekistan GAAP and CBU standards), respectively, and were close to reaching the minimum mandatory thresholds of 12.5 per cent. and 9.5 per cent., respectively. As a result of the 2019 UFRD Transfer, the Bank's Total Capital Adequacy increased to 25.6 per cent. and Tier I Capital Adequacy Ratio increased to 19.2 per cent. as at 31 December 2019 (in each case calculated on the basis of Uzbekistan GAAP and CBU standards).

Furthermore, the Bank reports Leverage Ratio, which is the ratio of a bank's Tier I capital to total assets (including off-balance instruments and derivatives) less intangible assets and investments in subsidiaries and must not exceed 6.0 per cent. The Bank's Leverage Ratio was 12.2 per cent. as at 31 December 2019 and 12.7 per cent. as at 30 June 2020. For a detailed description of the capital and regulatory ratios which apply to the Bank, see "*Banking Sector and Banking Regulation in the Republic of Uzbekistan—Mandatory Ratios*".

As at the date of this Prospectus, the Bank is in compliance with the CBU's regulatory requirements and ratios, or has otherwise obtained waivers from the CBU in respect of such requirements and ratios. See "*Risk Management—Market Risk—Currency Risk*" in relation to the Bank's individual foreign currency position in U.S. Dollars and the Decree 4487 On-Loans.

Significant Accounting Policies and New Accounting Standards

A detailed description of the Bank's significant accounting policies are set forth in Note 2 to the Interim Financial Information and Note 3 to the Annual Financial Statements. The changes in the following significant accounting standards have affected the Financial Statements:

- *IFRS 9 Financial Instruments.* The Bank has applied IFRS 9 standards in the preparation of its Annual Financial Statements, effective for annual periods beginning on or after 1 January 2018. The Bank has not restated comparative information for the year ended 31 December 2017 for financial instruments in scope of IFRS 9. Thus, financial results of the Bank for the years ended 31 December 2018 and 2019 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 at 1 January 2018 and are disclosed in the consolidated statement of changes in equity. For additional information, see Note 5 to the Annual Financial Statements.
- *IFRS 16 Leases.* The Bank has applied IFRS 16 using the modified retrospective approach, which means the adoption from 1 January 2019 with no restatement of comparative periods and the comparative period is presented as previously reported under IAS 17 and related interpretations. The Bank 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). The implementation of IFRS 16 has no material impact on the amounts or disclosures in the Annual Financial Statements. For additional information, see Note 5 to the Annual Financial Statements.

In addition, the Bank has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective. For the list of such standards, please see Note 5 to the Annual Financial Statements and Note 4 to the Interim Financial Information.

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. A detailed description of the Bank's accounting estimates and judgments are set forth in Note 3 to the Interim Financial Information and Note 4 to the Annual Financial Statements. Also see “—*Factors Affecting the Financial Statements—Impact of COVID-19*” for further information.

BUSINESS

Overview

The Bank was established by the Decree of the President of the Republic of Uzbekistan dated 16 February 2005, No. DP-10 “*On measures for housing construction and further development of the housing market*”. The Bank’s registered and head office is located at Shahrizabz Street 30, 100000 Tashkent, the Republic of Uzbekistan. The telephone number of the registered and head office of the Bank is +998 (78) 150-11-22. As at the date of this Prospectus, the Bank has the following long-term ratings: BB- (stable outlook) from Fitch, B1 (stable outlook) from Moody’s and BB- (negative outlook) from S&P.

The Bank is one of the leading universal banks in the Republic of Uzbekistan according to the CBU. Its principal areas of activity include commercial banking, retail banking, securities operations, foreign currency operations and trade financing. According to the CBU, as at 1 September 2020, the Bank ranked as the fourth largest commercial bank in Uzbekistan by total assets and loan portfolio size, with an 8.1 per cent. and 8.6 per cent. market share, respectively. The Bank offers a comprehensive range of banking services, including state, corporate and retail lending with a particular focus on mortgage lending, deposit-taking, cash handling, international money transfers, documentary operations, guarantees, foreign exchange operations and other products. According to the CBU, the Bank is the largest mortgage lender in Uzbekistan accounting for approximately 25.4 per cent., 28.9 per cent. and 29.3 per cent. of the sector’s total outstanding residential mortgage loan portfolio as at 31 December 2019, 1 July 2020 and 1 September 2020, respectively. The Bank conducts its banking operations from its head office in Tashkent and had 39 branches, 99 mini-banks and 44 banking centres (including mortgage centres) providing a range of banking services located across Uzbekistan as at 30 June 2020. See “—*Distribution Network*”.

In addition to its commercial banking activities, the Bank has historically operated as a state financing vehicle on the basis of funding provided by state agencies, such as the UFRD and the Ministry of Finance, for subsidised financing of investment projects in certain key industries (primarily being the manufacturing (which includes the mining sector), construction, trading and services, transport and communication and retail sectors) and has otherwise in its day-to-day operations relied on funding provided by the Government in the form of predominantly subsidised loans, deposits, capital injections and state guarantees, as well as funding received as borrowings from the IFIs. Since 2018, as part of the ongoing economic reforms in Uzbekistan, the Bank is undergoing a transitional reform of its banking organisation (namely, by moving away from being dependent on state control and funding to more of a market-orientated commercial structure). Under this transition strategy, the Government has been gradually decreasing its influence on the business and loan portfolio of the Bank, as well as narrowing the scope of state support financing available to the Bank to specific state-sponsored funds or programmes, such as the MRCU or the State Fund for Support of Entrepreneurs’ Activity, as well as reducing the number of state guarantees that borrowers of the Bank have benefitted from and which the Bank has received as credit support. See “—*Competitive Strengths—History of strong Government support*”. Following such strategic transition, the Bank intends to reduce the share of state ownership to less than 50 per cent. by the end of 2022 (see “—*Structural Reform and Privatisation*”) and expects to rely less on direct state subsidised financing in its funding base and instead to rely to a larger extent on funding from other sources, such as customer accounts, the MRCU, interbank lending markets and international capital markets. Furthermore, the Bank is seeking to diversify its loan portfolio and expand its client base to further benefit from higher margins on loans attributable to the key sectors of Uzbekistan’s economy, such as the construction sector and residential mortgage market, as well as to further increase its client base amongst MSMEs and retail customers, including private entrepreneurs, on more commercial and market-orientated terms, while maintaining and developing its existing strong position in the manufacturing (which includes the mining sector), trade and services and agricultural sectors.

As at 30 June 2020, the Bank’s total assets amounted to UZS 25,727,858 million. Total gross loans and advances to customers amounted to UZS 21,686,611 million as at 30 June 2020, with corporate loans, residential mortgage loans and small business loans accounting for 30.3 per cent., 33.0 per cent. and

30.8 per cent. of total gross loans, respectively. As at 30 June 2020, the Bank's total equity constituted UZS 3,847,387 million. For the year ended 31 December 2019 and six months ended 30 June 2020, the Bank generated a net profit of UZS 339,018 million and UZS 238,445 million, respectively.

History

The Bank's history dates back to 1996, when the Tashkent Housing Savings Bank was established. This later became the Uzbek Housing Savings Bank (Uzjilsberbank) under Presidential Decree in March 1997, as part of a programme to promote home building and home ownership in Uzbekistan. In 2005, by virtue of the Decree of the President of the Republic of 16 February 2005 No. DP-10 "*On measures for housing construction and further development of the housing market*", the Uzbek Housing Savings Bank was merged with Zamin Bank to establish Joint-stock commercial mortgage bank 'Ipoteka Bank' as the first specialized mortgage-lending bank in the country. The Bank was incorporated as a joint-stock commercial bank in 2005 and is domiciled in the Republic of Uzbekistan. It is registered in Uzbekistan as a joint-stock commercial bank and is licensed to carry out banking and foreign exchange activities, and has been operating under the banking licence No.74, reissued by the CBU on 21 October 2017. The Bank participates in the state deposit insurance scheme introduced by the Law No. 360-II "*Insurance Bank Deposit*", dated 5 April 2002. The Bank has since diversified and currently operates in all sectors of the country's economy.

The ordinary shares of the Bank have been listed on the Tashkent Stock Exchange since 2003 under the symbol IPTB. As at 9 November 2020, the Bank's free float amounted to 2.6 per cent. of its share capital.

Structural Reform and Privatisation

Since 2018, and as part of ongoing economic reforms in the Republic of Uzbekistan and with the cooperation of the International Finance Corporation (the "IFC"), the banking sector has been undergoing a transitional reform to properly align with market-orientated and international banking and commercial standards, as opposed to the previous business model which centred around state control and funding to various sectors of the economy and traditional development bank functions. The Bank is also working with other IFIs, such as the EBRD, in order to further develop its internal control, audit procedures, documentary operations and its support for female entrepreneurship in Uzbekistan.

As at 1 October 2020, the UFRD, the "Tashkent City Khokimiyat Municipal Assets Management Center" State Unitary Enterprise and Ministry of Finance together held a 92.3 per cent. ownership interest in the Bank's share capital, which together comprise the Government's shareholding. Pursuant to Presidential Decree No. 4487 dated 9 October 2020 and Presidential Decree No. 5992 dated 12 May 2020, the Ministry of Finance is responsible for the transformation and modernisation of the Bank (and other state-owned banks) and will exercise the functions of sole shareholder in respect of all shares held by or on behalf the Government for the purposes of addressing the objectives outlined in the abovementioned Presidential Decrees.

On 25 June 2019, the Government passed the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 523 "*On measures for further transformation of the Joint-stock commercial mortgage bank "Ipoteka-bank" and its subsequent privatisation with the participation of the International Finance Corporation*" (the "**Resolution 523**"). Resolution 523 proposed that the Government's shares in the Bank be sold to foreign strategic investors, with the participation and support of the IFC and an option for IFC to acquire a stake in the Bank.

On 12 May 2020, the President of the Republic executed Decree No. DP-5992 "*On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025*" which approved the transformation and privatisation strategy for a number of state-owned banks, including the Bank (the "**Decree 5992**"). Decree 5992 implemented a five-year strategy to carry out the comprehensive transformation of the Uzbek banking system aimed at creating a modern banking system, increasing the investment attractiveness of banks and introducing new standards of banking services. Among other things, Decree 5992 presents various measures addressed towards improving the efficiency of the

banking system, ensuring its financial stability, improving the availability and quality of financial services and reducing the state share in the banking sector, including in the state's ownership of the Bank.

Decree 5992 establishes a two-stage process for the privatisation of large banks, such as the Bank, comprising: (a) an institutional transformation by engaging with international consulting companies to conduct an in-depth analysis of the financial condition of such banks, identify existing problems and develop an appropriate transformation strategy (which the Bank has completed following engagement with international stakeholders such as the IFC and the EBRD), and (b) following the implementation of such transformational changes, disposing of certain proportions of the state's shares in such banks to strategic external investors with the assistance of international stakeholders which, in the case of the Bank, includes the IFC.

According to Decree 5992, such structural reform is concentrated on four key areas, being corporate governance, the quality and range of banking services, the modernisation of information technologies and development of human resources. The Bank is actively pursuing a large-scale institutional reform of its organisational structure, management and operations in order to modernise its model to align with international banking and commercial standards as required by Decree 5992 (see “—*Strategy*” for further information).

Under Decree 5992, a roadmap is prescribed for the structural reform and privatisation of the Uzbek banking system. In the case of the Bank, Decree 5992 envisages the privatisation of the Bank to be completed by the end of 2022, and broadly sets out the following five-step reform and privatisation process:

- by June 2020, the execution of agreements with the IFC to attract a credit line and establish the terms of the Bank's transformation, which was signed on 22 June 2020 as further described below;
- by August 2020, the approval of a long-term development strategy in respect of the Bank;
- by August 2020, the formation of a new composition of the Supervisory Board with the participation of independent members;
- between 2021 and 2022, the performance of preparatory work with the participation of the IFC for the purposes of identifying potential investors; and
- by the end of 2022, the privatisation of the Bank through various dispositions of the state's share interests and/or the issuance of shares to strategic investors, such as the IFC.

As at the date of this Prospectus, the Supervisory Board includes five recently appointed independent members, representing the majority of the board. The remaining members of the Supervisory Board are two representatives from each of the UFRD and the Ministry of Finance. The Bank has also developed a long-term development strategy for 2020 to 2023 which has been approved by the Supervisory Board and a General Meeting of Shareholders on 30 September 2020.

Decree 5992 also envisages the disposal of non-core assets that would be unusual for an entity whose principal objectives are focused on banking activities. While this is not a specified milestone in the roadmap established by Decree 5992, the Bank has nonetheless taken a decision to dispose of its non-core assets. In August 2020, the Bank completed the transfer of Ipoteka Samoyasi LLC, which held the Bank's only non-core assets (See “—*Subsidiaries*”).

On 22 June 2020, the Bank signed a U.S.\$35,000,000 loan agreement with the IFC, which provides the IFC with an option to convert all or part of the principal amount of the loan into ordinary shares of the Bank, subject to the Bank satisfying certain requirements set out in the loan agreement. The capital conversion of the loan would result in the IFC becoming a shareholder of the Bank. The Bank expects to receive the funds committed under the agreement with the IFC by the end of 2020.

According to the Government's plans, the privatisation of the Bank should be effected by the end of 2022, following which the state's ownership interest in the Bank is expected to be reduced to less than 50 per cent. of the Bank's share capital. Notwithstanding the privatisation of the Bank, the Bank believes that the state will continue to support the Bank in its shareholder capacity.

The 2019 UFRD Transfer

In October 2019, in line with the Government's strategy of action for five priority areas of development of the Republic of Uzbekistan for 2017-2021, Presidential Decree No.4487 was issued in order to improve the financial stability and commercialisation of state-owned banks, efficiency of financing of state development programmes and UFRD funding. This decree, among other things, implemented certain measures to strengthen the financial standing of the banking sector which included a withdrawal of Government directed low-margin and subsidised assets from state-owned banks, including the Bank, in order to ease the pressure on their return on assets and performance.

As a result of the implementation of Presidential Decree No. 4487, on 9 October 2019, the Bank extinguished its borrowings from the UFRD in the amount of UZS 3,707,454 million (or U.S.\$389 million) by transferring certain low-margin, subsidised non-core loans to the UFRD in the same amount and converted borrowings received from the UFRD in the amount of UZS 1,353,924 million into the Bank's share capital during 2019 (the **"2019 UFRD Transfer"**). As a result of the 2019 UFRD Transfer, the Bank recorded particularly significant changes to its financial condition and results of operations, including the composition of its gross loan portfolio and key performance indicators, most notably its capital adequacy ratios. See also *"Financial Review—Capital Management"* and *"Risk Factors—Risks Related to the Bank's Legal, Regulatory, Compliance and Governance Framework—The Bank is subject to substantial regulation and oversight, and future changes in regulations or relevant policies are unpredictable"* for further information.

COVID-19 Response

As the spread of the COVID-19 was detected in Uzbekistan in the beginning of 2020, the Bank launched a number of preventative measures including the implementation of remote work arrangements and restricting business travel while maintaining existing business operations such as its financial reporting systems, internal controls over financial reporting and disclosure controls and procedures. After the introduction of nationwide quarantine measures in March 2020, production and economic activity in Uzbekistan temporarily slowed down which contributed to S&P downgrading Uzbekistan's rating outlook from "stable" to "negative".

The Bank has benefitted from increased liquidity due to the Presidential Decree No. PF-5978 dated 3 April 2020 *"On additional measures to support the population, economic sectors and business entities during the coronavirus pandemic"* (the **"Decree 5978"**). In accordance with Decree 5978, the CBU and other Government institutions and agencies have among other things: (i) eased the requirements for mandatory reserves, and by so doing, provided commercial banks with additional liquidity valued at UZS 2.6 trillion (which, following amendments by the CBU to mandatory reserves calculations in September 2020, allowed the Bank to access approximately UZS 224 billion in aggregate of additional liquidity), (ii) introduced a special facility for providing liquidity to commercial banks for a period of up to three years, this facility is valued at UZS 2 trillion (though, as at the date of this Prospectus, the Bank has not accessed for further funding) (iii) implemented a moratorium with effect until 1 October 2020 in respect of any bankruptcy proceedings relating to enterprises that have experienced financial difficulties as a result of the restrictive measures introduced by the Government to counter the spread of COVID-19, (iv) introduced payment holidays deferring repayments of principal and interest on loans by legal entities, individual entrepreneurs and natural persons experiencing financial difficulties until 1 October 2020, (v) deferred any income taxes payable by commercial banks on interest on loans accrued and deferred (due to the pandemic) by commercial banks until 1 October 2020, and (vi) waived any penalties and foreclosure measures on collateralised overdue loans borrowed by legal entities, individual entrepreneurs and natural persons whose activities were negatively affected by mandatory quarantine in Uzbekistan. The abovementioned deferral of repayments of principal and/or interest until 1 October 2020 applied to loans with the outstanding balance of approximately UZS 8 trillion or nearly 37 per cent.

of the Bank's total loan portfolio (or nearly 45 per cent. of loans to legal entities and nearly 26 per cent. of loans to individuals) as at 30 June 2020. Under all of these loans the payments of interest, principal or certain principal instalments were due before 1 October 2020. Upon the end of the abovementioned deferral period on 1 October 2020, the Bank rescheduled payments of principal or certain principal instalments due during the deferral period under these loans in the amount of UZS 1,377,739 million (in the case of loans to legal entities, which represented 10.4 per cent. of loans to legal entities) and UZS 144,216 million (in the case of loans to individuals, which represented 1.7 per cent. of loans to individuals) such that their due dates were extended beyond the third quarter of 2020. For the avoidance of doubt, all such loans continued to accrue interest on the outstanding principal amount as scheduled and are not subject to any further deferrals beyond 1 October 2020.

From August 2020 onwards, the Bank has observed that many of its clients were able to resume their regular operations and are in a position to continue to service loan repayments (including interest accrued during the deferral of repayments of principal and interest on loans which was not written off). After 1 October 2020, the Bank did not and does not currently intend to grant a further deferral of payments on any loans (and, as at the date of this Prospectus, is not required to do so under the CBU regulations), save for a limited number of customers that continue to experience financial hardship as a result of the pandemic, and may in such circumstances also restructure such loans. See "*Business—COVID-19 Response*" for further information. As at 1 October 2020, through its monitoring functions the Bank has identified less than one per cent. of loans in its total outstanding loan portfolio that may be subject to such additional measures. In addition, it is likely that the Bank will be required to engage in negotiations with a significant number of its existing debtors, which may result in credit facilities being restructured and/or their tenors extended. The Bank recorded UZS 461 billion of NPLs as at 31 March 2020 (being before the imposition of the abovementioned deferral of repayments), or 2.3 per cent. of the Bank's total loan portfolio, which increased to UZS 584 billion as at 30 September 2020, or 2.6 per cent. of the Bank's total loan portfolio, in each case as calculated based on Uzbekistan GAAP. The Bank expects that the level of NPLs will increase by the end of 2020 when the cumulative impact of COVID-19 on the Uzbekistan economy and banking sector will become more pronounced. In light of the adverse economic impacts of the ongoing pandemic, the Bank further reassessed its expected credit losses and recorded a UZS 803,600 million provision for expected credit losses for the six months ended 30 June 2020 as compared to UZS 541,986 million for the year ended 31 December 2019.

The CBU additionally introduced further measures in its statement 213/1 dated 7 April 2020 "*On additional measures in the banking system based on the Presidential Decree No. PF-5978 dated 3 April 2020*" which provide relief to corporate and individual borrowers, as well as commercial banks. The relief measures for commercial banks including the Bank consists of: (i) a deferral of any distribution of dividends to a bank's shareholders pending receipt of a special instruction from the CBU, and (ii) allowing commercial banks to implement amendments to existing loan agreements with individuals or corporate customers as a result of the effects of the pandemic without adversely affecting such customers' asset qualification under Uzbekistan GAAP, credit history and scoring indicator, which the Bank has opted to rely on. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan—Implementation of COVID-19 related measures by the CBU*" for further details. The abovementioned measure by the CBU affected the classification of asset quality whereby all stage 1 loans restructured due to the effects of the COVID-19 pandemic (save for loans to state-owned enterprises and residential mortgage loans) were classified as stage 2 loans with respect to the calculation of the probability of default rates only, and continued to be classified as stage 1 with respect to calculation of other components of expected credit losses measurement.

In May 2020, the IFC extended a U.S.\$10,000,000 trade finance-guarantee facility to the Bank to support Uzbekistan's exporters and importers and help protect the country's economy from the impact of the COVID-19 pandemic. With this agreement, the Bank became the fourth Uzbek bank to join the IFC's Global Trade Finance Program, which guarantees the trade-related payment obligations of banks in developing economies.

Further, in October 2020, the EBRD extended a dual-tranche U.S.\$40,000,000 unsecured loan to the Bank to provide support to its MSME clients, including women-led borrowers (under the EBRD's

Central Asian Women in Business programme), in an environment of large-scale disruptions caused by the COVID-19 pandemic. The Bank received the first tranche of U.S.\$20,000,000 in early November 2020. The proceeds of the loan are intended to be on-lent by the Bank in line with the EBRD's eligibility criteria and the proceeds of the first tranche are expected to be disbursed in full by early December 2020.

While the Bank's operations have already been significantly impacted by the COVID-19 pandemic due to the abovementioned restructuring of 37 per cent. of the Bank's total loan portfolio, the Bank is not yet in the position to quantify the full effects of the outbreak on the Bank's operations and expects the cumulative effect of the COVID-19 pandemic on its operations and financial position to be more prominent in the fourth quarter of 2020. As at the date of this Prospectus, the Bank expects the negative effects of the COVID-19 pandemic to primarily impact its profitability in 2020, in particular with respect to the growth of its loan portfolio, deposits and volume of money transfers as well as increased provisioning charges. The Bank continues to monitor the situation and intends to adapt strategies as needed to continue to drive the business and meet obligations and, as at 30 June 2020, has recorded provision for expected credit losses from loans and advances to customers in the amount of UZS 803,600 million.

Interest Rate Limits

Pursuant to the minutes of the Banking Supervision Committee of the CBU No. 226/1 dated 5 June 2020, the CBU suggested limits on interest rates for retail loans at 9 per cent. above the base rate and for corporate and individual entrepreneur loans at 6 per cent. above the base rate, in each case from 1 July 2020 until 1 January 2021 and the implementation of such rates being subject to the discretion of each commercial bank, provided that any loans issued above such limits are subjected to increased risk weighting. The CBU further suggested limits on interest rates for retail deposits at 3 per cent. above the base rate and corporate deposits at 1 per cent. above base rate, in each case from 1 July 2020 until 1 January 2021. The Bank did not lower the rates of its existing loans and deposits prior to 1 July 2020, but lowered the applicable rates for newly issued loans and newly attracted deposits after 1 July 2020 in line with the CBU's suggested limits. The Bank expects that these measures were intended to be directed at managing inflation, and it is not possible at this stage for the Bank to assess the effect of these policy changes on its financial position. As at the date of this Prospectus, the Bank's interest rates on such loans are in compliance with the CBU's suggested limits which, in turn, permits the Bank to access the CBU's liquidity instruments, pay a reduced quarterly contribution to the State Deposit Insurance Funds (from 0.25 per cent. to 0.05 per cent.) and not to increase the risk weight for any loans issued during the abovementioned period.

Dividend Policy

The Bank is required to allocate at least 30 per cent. of its net profit towards dividend distributions. Pursuant to Presidential Decree dated 29 June 2018 No. UP-5468 ("**Decree 5468**"), all entities that are majority owned by the state, which includes the Bank, are mandatorily required to pay such dividends as identified in an annual recommendation that is distributed by the Government.

Article 19 of the Law "*On the State Budget of the Republic of Uzbekistan for 2020*" No. 589 dated 9 December 2019, which superseded Decree 5468, prescribes for the mandatory distribution of dividends of at least 50 per cent. of the net profits generated by state-owned companies in 2019 where the state holds 50 per cent. or more of such companies' authorised share capital. In addition, as a result of the onset and economic impact of the COVID-19 pandemic, Presidential Resolution No. PP-4679 dated 15 April 2020 was enacted, which also envisages various measures relating to the inclusion of such mandatory dividend payments in the state budget to reflect the state's share of net profits generated by state-owned companies in 2019 and 2020 where the state holds 50 per cent. or more in such companies' authorised share capital.

Given the effective mandatory dividend framework applies to entities in which the state holds 50 per cent. or more of the authorised share capital, the Bank's dividend policy may be subject to change as a result of its ongoing privatisation. For so long as the state retains an ownership interest in at least 50 per cent. of the Bank's authorised share capital, the Bank will remain subject to the mandatory dividend

requirements enshrined in the abovementioned legislative framework. See also “*Risk Factors – Risks related to the Notes – The threshold for the Bank’s restricted payment covenant is subject to legislative change.*”

On 30 September 2020, the General Meeting of Shareholders of the Bank approved the distribution of its net profit in respect of the year ended 31 December 2019 in an amount equal to UZS 224.8 billion to be used to distribute dividends on ordinary shares (at the rate of UZS 0.08 per ordinary share) and in the amount equal to UZS 2 billion to be used to distribute dividends on preference shares (at the rate of UZS 0.25 per preference share). At the same time, based on the law “*On the Central Bank of the Republic of Uzbekistan*” and the law “*On banks and banking activity*”, the CBU adopted a statement No. 213/1 dated 7 April 2020 which imposed prudential measures to address the negative impact of credit risks on the banking system and prescribed that commercial banks refrain from distributing profits by way of dividend payments until otherwise directed by the CBU by way of special instruction, other than directing the dividends to the increase of share capital of the banks. Therefore, as at the date of this Prospectus, the Bank is required to refrain from distributing any dividends, including those declared on 30 September 2020, until such special instruction of the CBU (if any) is issued and, given the current impact of the COVID-19 pandemic on the banking system of Uzbekistan, the Bank does not expect to receive such special instruction from the CBU to make any distribution of dividends in respect of the year ended 31 December 2019.

Competitive Strengths

In line with its strategy, the Bank is consistently developing and is currently undergoing a transition into a competitive modern financial institution to continue implementing best international standards and practices. The Bank values its clients and provides them with a wide range of financial products and services, and a high level of service. In addition, the Bank actively promotes and assists local industries with financing technical and technological modernisation.

Management believes that the Bank benefits from the following competitive strengths:

History of strong Government support

The Government has historically provided substantial financial resources to the Bank in the form of credit lines and capital injections for the purposes of funding its operational growth. The Bank also benefits from certain state guarantees on exposures to state-owned enterprises. As at 30 June 2020, the balance of the Bank’s funding from the Ministry of Finance, the UFRD and the CBU was UZS 7,889 billion. The Bank received UZS 1,832 billion, UZS 139.6 billion, and UZS 542.1 billion as funding in the form of capital injections from the Government in 2019, 2018 and 2017, respectively. Of these amounts, the UFRD contributed UZS 1,771 billion, UZS 111.7 billion and UZS 542.1 billion in 2019, 2018 and 2017, respectively, whereas the Ministry of Finance contributed UZS 60.7 billion, UZS 27.9 billion and nil through the share capital reserve for the same respective periods. As at 30 June 2020, state and public organisations represented 14.6 per cent. of the Bank’s total loan portfolio and 54.1 per cent. of the Bank’s total deposits.

Pursuant to the Presidential Decree No. 5715 dated 13 May 2019 and the Cabinet of Ministers Resolution No. 868 dated 14 September 2019, and in consultation with the ADB, the Government established the MRCU, which is a state sponsored fund whose principal objective is to finance the development of mortgage lending in Uzbekistan by providing a long-term funding source to mortgage lenders. In the long-term, it is expected that the MRCU will issue securities in the domestic capital markets and use the proceeds to provide long-term loans denominated in soums to mortgage lenders in order to bridge the maturity mismatch that lenders face when seeking to do long-term mortgage lending using their short-term deposits. The MRCU is expected to stimulate the Uzbekistan mortgage market, as well as reduce the substantial pressure on the economy arising from the continued population growth and lack of housing supply to meet the increasing demand. In July 2020, and alongside state and domestic commercial banks participants, the Bank invested UZS 20 billion into the share capital of the MRCU. As a participant, the Bank is well positioned to access additional funding in the form of credit lines from the MRCU on favourable terms, provided that the Bank utilises such amounts to finance mortgages and also

grants security in favour of the MRCU over specific parts of its mortgage portfolio or other specific alternative assets. The Bank's participation in the MRCU allows it to access long-term funding (up to 18 years) at advantageous rates as compared to other funding sources available in the local markets. The Bank was the first Uzbek commercial bank to enter into a general agreement with the MRCU and, in October 2020, the first tranche of funding in the amount of UZS 70 billion was disbursed to the Bank. The Bank intends to utilise such amount until the end of 2020, following which it expects to continue receiving new funding from the MRCU as part of its general agreement.

In addition to developing mortgage lending in Uzbekistan, the Bank also utilises existing Ministry of Finance state programmes that are focused on financing agricultural and energy sectors, as well as certain pre-school construction projects at advantageous terms until 2021 and 2035, respectively. The Bank is the leading participant in the Government's urban housing programme under Presidential Decree No. 2660 and Presidential Decree No. 3350 each of which provides for long-term funding from the Ministry of Finance until 2038 and 2039 and on favourable terms. The Bank also participates in various UFRD sponsored programmes, such as programmes designed to support the development of entrepreneurs and MSMEs in Uzbekistan. For example, Presidential Decree No. 3325 dated 17 August 2017 established the State Fund for Support of Entrepreneurs' Activity for the purposes of providing, among other things, subsidies on up to 50 per cent. of a loan's interest rate and collateral and guarantees to small business entities on up to 50 per cent. of loans in each case disbursed by commercial banks to finance designated projects that produce value added goods. As at 30 June 2020, the Bank financed approximately UZS 1,000 billion of such loans under the programme. The Bank is committed to cooperating with the State Fund for Support of Entrepreneurs' Activity in order to facilitate the Government's objectives to support entrepreneurs and small businesses, meet its customers needs' in this segment and strengthen its position in the market among privately owned businesses.

In line with the Bank's transition strategy, the Bank intends to reduce the share of state ownership and financing in its funding base, and instead rely to a larger extent on funding from other sources including, without limitation, customer accounts, IFIs, the interbank lending market and the international capital markets as part of its broader modernisation strategy (See "*— Strategy—Structural modernisation of the Bank*"). As part of its long-term strategy, the Bank intends to gradually reduce the share of state organisations in its loan and deposit portfolios. There can be no assurance that such projections in fact will be achieved or that share of state organisations will reach these levels or will not exceed such thresholds. However, the management believes that, as the Bank's shareholders, the UFRD and the Ministry of Finance will continue to provide capital injections or other funding to the Bank should macroeconomic or other market conditions require the Bank to increase its liquidity or capital, as the Bank holds a significant market share in customer accounts, plays an important role in the development of mortgage financing in the Republic of Uzbekistan, and is a major participant in the Uzbek money market, at least for so long as the Government remains the ultimate controlling shareholder of the Bank. See "*Risk Factors—Risks Related to the Group's Business and the banking industry in Uzbekistan—Uzbekistan's economy and banking sector have been undergoing significant changes and there can be no assurance that such reforms will be successful or that the Bank will successfully adapt to such changes*", "*Risk Factors—Risks Related to the Group's Business and the banking industry in Uzbekistan—The Bank and some of its customers would be adversely affected if it and they did not continue to receive capital support from the Government*" and "*Risk Factors—Risks Related to the Group's Strategy—The Bank's strategy is determined by the Government as its major shareholder. Interests of the Bank's shareholders or management may conflict with those of the Noteholders*".

Established position in the banking market and growing business volumes

The Bank holds a well-established position within the top-four banks in Uzbekistan by assets and loan portfolio, according to the CBU. For the six months ended 30 June 2020, the Bank held an 8.1 per cent. market share in total assets, 8.5 per cent. market share in gross loans and 7.9 per cent. market share in customer deposits, according to CBU.

The Bank maintains a balanced loan portfolio. As of 30 June 2020, residential mortgage loans represented the largest share of the Bank's total loan portfolio (33.0 per cent.), followed by loans to small businesses (30.8 per cent.) and loans to corporates (30.3 per cent.). The Bank's principal sectors of

interest include manufacturing (which includes the mining sector), individuals (mainly comprising the Bank's activities in the residential mortgage sector), construction and trade and services. As of 30 June 2020, these sectors accounted for 34.2 per cent., 38.9 per cent., 8.2 per cent. and 9.5 per cent., respectively, of the Bank's total loan portfolio.

The Bank increased its total gross loan portfolio by UZS 1,304,869 million, or 6.4 per cent. as at 30 June 2020 as compared to 31 December 2019, whilst focusing on sectors and borrowers with sound financial standing, high growth potential, and by further enhancing certain key long-term customer relations.

The Bank enjoys long-standing relationships with its large corporate clients and has a deep understanding of their industries and individual business needs. The Bank plans to further strengthen its relationship with these clients, by providing such clients' employees with in-demand, higher-margin complementary products, including automotive loans, mortgages, short-term loans and salary cards. In addition, the Bank has been taking steps to diversify its loan portfolio and expand its client base within the private sector and the MSME and retail lending segment and further benefit from higher margins on loans attributable to the construction sector and residential mortgages segment using its unique and well placed position in these markets. Whilst still high by international standards, the Bank has significantly reduced the extent of single-name concentration in its loan book in recent years.

Furthermore, the Bank has also increased its retail loan portfolio by UZS 2,444,203 million, or 40.8 per cent., as at 30 June 2020 as compared to 31 December 2019, which allowed the Bank to significantly increase the share of retail loans (which comprises residential mortgage loans and consumer loans) in its gross loan portfolio from 18.6 per cent. as at 31 December 2018 to 29.4 per cent. as at 31 December 2019 and further to 38.9 per cent. as at 30 June 2020. The Bank provides its retail customers with a wide range of banking products through its branch network and online banking services.

Strong franchise and access to an extensive retail customer base

The overall retail customer base is comprised of approximately 1.3 million regular customers, of which more than 700,000 are pay-roll customers of the Bank (being employees of corporate and MSMEs clients of the Bank). According to the CBU, the Bank is the largest mortgage lender in Uzbekistan accounting for approximately 25.4 per cent., 28.9 per cent. and 29.3 per cent. of the sector's total outstanding residential mortgage loan portfolio as at 31 December 2019, 1 July 2020 and 1 September 2020, respectively. As at 30 June 2020, 33.0 per cent. of the total gross loans portfolio is constituted by residential mortgage loans issued to private individuals. The Bank's share of residential mortgage loans in its loan portfolio increased from 15.4 per cent. as at 31 December 2018 to 25.4 per cent. as at 31 December 2019.

Notwithstanding the shift from allocating mortgage loans on the basis of existing Government programmes (such programmes including, among other things, rural and urban housing programmes and mortgages for new and vulnerable families) towards developing the market through initiatives such as the MRCU, the Bank maintains a high level of experience and sophistication in this market, marked by a proven credit history, ability to cross-sell a variety of products (including non-risk products) and access to a stable customer base and existing long-term relationships with its customers.

According to the CBU, the Bank also enjoys a prominent position with respect to issued bank cards, with a market share of 9.7 per cent., 9.9 per cent. and 9.98 per cent. as at 1 January 2020, 1 July 2020 and 1 September 2020, respectively. In 2019, the Bank also expanded its customer services to introduce remote and other banking services, which facilitate its customers' banking needs by providing them with simple online access to a variety of banking products. See "*Distribution Network—Internet and Mobile Banking*". As a result of the Bank's efforts to digitise its banking services, the number of customers that utilised its remote banking services increased from approximately 139,800 users as at 1 January 2019 to 1.2 million users as at 30 June 2020.

Taken together, the abovementioned initiatives and the Bank's existing reputation and services increased the Bank's share of retail loans (which comprises residential mortgage loans and consumer loans) in its gross loan portfolio, constituted UZS 8,436,102 million or 38.9 per cent. as at 30 June 2020.

Comprehensive banking network

As at 30 June 2020, according to CBU, the Bank had the eighth widest distribution network in Uzbekistan with 39 active branches, 44 service and mortgage centres, over 45,000 payment terminals and 497 ATMs and info-kiosks. As at 30 June 2020, the Bank served its clients through 455 special cash desks, 99 mini-banks, 39 smart offices (which operate on a daily basis, including out-of-office hours), 101 offices for international money transfers and 77 foreign exchange offices. See "*Distribution Network*" below. The Bank's management believes that the Bank offers one of the most comprehensive ranges of financial products in the Uzbekistan banking market. Through its client-centric product range, large network and 24/7 service, the Bank reaches a wide spectrum of customers.

Focus on sound asset quality

The Bank follows stringent risk management policies and procedures and has conservative credit approval processes and underwriting criteria, all of which are intended to manage the quality of its assets as its loan portfolio grows. It also has an integrated control framework encompassing operational risk management and control, anti-money laundering compliance and corporate and information security. The Bank seeks to manage risk in a manner consistent with its growth ambitions so as to ensure sustainable profitability for the benefit of the Bank's stakeholders. The Bank's Risk Committee establishes and monitors the Bank's asset base against defined limits, set in accordance with the Bank's risk appetite. Risk is monitored at both an individual and sector-wide level. The Bank's NPL coverage ratio has remained over 100 per cent. in each of 2018, 2019 and the six months ended 30 June 2020. See "*Risk Management*". Furthermore, the Bank is currently developing a modern and extensive risk management system tailored to cover the Bank's transition strategy and planned operational and internal control network. See "*Risk Factors—Risks Related to the Group's Business and the banking industry in Uzbekistan—The Bank's risk management strategies and procedures are developing and may not be completely effective*".

Developed corporate governance and experienced management with a deep understanding of the local market

The Bank maintains a comprehensive corporate governance system, which includes its shareholders, the Supervisory Board (including five sub-committees), the Management Board (including five sub-committees) and the Inspection Commission. The Supervisory Board is represented by members with deep international banking and financial services experience and the Bank's senior management team is comprised of experienced and trained professionals with a proven track record of achieving growth and meeting financial performance targets. The Bank's management team has extensive experience in Uzbekistan's banking market and a strong understanding of the local financial services sector. The Bank's long-term goal is to maintain and further develop a strong corporate governance model.

The Bank has undertaken a number of new initiatives designed to improve its corporate governance systems, including initiatives in cooperation with the IFC. The Bank's long-term strategy is to maintain and further strengthen its corporate governance system by improving its relationship with shareholders, strengthening the composition and roles of the Supervisory Board, and optimising the interaction between the Bank's management bodies.

Based on that strategy, the Bank significantly revised and updated its corporate governance structure in 2019 by revising and updating the roles of its functioning committees. At the same time, the organisation of the Bank's corporate governance procedures and mechanisms was adapted to meet the nature, scale and complexity of the risks inherent to its business model and activities. The Bank has developed a common vision and strategic objectives for its development and established the foundations of a modern system of financial and management accounting systems. The Bank's corporate governance structure has

therefore been enhanced to encompass various pillars of responsibility, including identifying, managing, monitoring and reporting risks to which the Bank is or may be exposed. In order to strengthen and enhance the composition of its Supervisory Board, in 2019 and 2020, the Bank added five new independent directors with international experience to the Supervisory Board. The Bank's Supervisory Board currently consists of nine members. See "*Management—Supervisory Board*". The Bank further established a corporate consultancy service (the "**Corporate Consultant Service**") to facilitate an effective relationship and exchange of information with the Bank's shareholders, the Supervisory Board and the Management Board, as well as monitoring the compliance with corporate legislation applicable to the Bank's activities. While the Bank intends to continue enhancing the functionality of its existing committees, the Bank further established specialised committees under its Supervisory Board that focus on facilitating the accomplishment of the Bank's strategic objectives, as well as issuing recommendations pertaining to the improvement of the Bank's activities. In 2020, the Bank also approved, among other things, a new code of ethics that are intended to ensure that its rules regulating interaction amongst employees complies with established corporate norms.

As part of the Bank's ongoing improvement of its corporate governance framework to meet the standards of international best practices, the Bank also revised its internal regulations to introduce various new policies, including but not limited to the formation and maintenance of an effective composition of the Supervisory Board, the regulation of significant transactions and transactions with related parties, and the selection of independent members of the Supervisory Board.

Strategy

The Bank's strategic objective is to further strengthen its position as one of the leading commercial banks in Uzbekistan and continue to grow its profitability and market share. It aims to continue to provide high-quality corporate and retail banking products and services, based on international best practice, whilst ensuring growth of a sustainable and prudent nature.

Among other things, the Bank intends to diversify the range of banking products that it offers to customers, modernise its existing IT frameworks to meet business and customer needs, and increase its support for private sector clients as part of its privatisation strategy with a view to becoming one of the top five banks in Uzbekistan by return on average equity. In order to achieve this position, the Bank's targets are to reach more than 20 per cent. return on average equity, maintain at least 15 per cent. total capital adequacy ratio and less than 40 per cent. cost-to-income ratio (in each case calculated under Uzbekistan GAAP). By expanding its business model to become more competitive, with a particular focus on its retail and MSME business, and maintaining its well-established position in the corporate customer segment, the Bank expects to facilitate a strong growth of its total assets and gross loan portfolio in order to achieve its 2023 targets.

In addition, as part of the ongoing economic reforms in Uzbekistan, the Bank is undergoing a transition from a dependence on state control and funding to more of a market-orientated and commercial structure. As part of this strategy, the Bank actively cooperates with the IFC in the development and implementation of a modern business model for the Bank in line with international standards, which provides for, among other things, key development goals for the corporate, retail, MSME and investment units of the Bank, as well as for enhancing operational efficiency, and corporate governance.

The following are the key elements of the Bank's transformational strategy for the coming years:

Structural modernisation of the Bank

As part of the transitional programme in cooperation with the IFC and other stakeholders including the EBRD, the Bank has developed a strategy to institutionally transform itself into a modern commercial bank (see "*—Structural Reform and Privatisation*"). The reforms centre around the transformation of various areas including corporate governance and risk management, as well as improving the development of strategic planning, improving the quality of banking services and expanding their range, restructuring and increasing the efficiency of distribution channels and operations, overhauling the Bank's MSME and retail services, and overhauling its IT capabilities and employee development. The

development programme covers certain aspects of the Bank's operations and structure, and envisages in the implementation of structural, operational and organisational changes, including but not limited to:

- the improvement of the Bank's existing customer services, for example by simplifying its credit allocation process to a one-stage new underwriting systems (which has been implemented in 38 of 39 of the Bank's branches as at 1 November 2020) and establishing mortgage centres in Bukhara, Karshi, Navoi, Namangan, Gulistan, Fergana, Urgench and Tashkent;
- the introduction of new products tailored to its client's needs. The Bank has already introduced six new products for individuals (including express consumer loans, express micro-loans, and online micro-loans) and 12 new products for corporate entities (including working capital replenishment, portfolio credit lines and purchase of fixed assets);
- a redesign of its risk management policy and strategy, as well as its risk-appetite methodology and risk controls and committees (see "*Risk Management*");
- transforming its distribution network with a view to increasing efficiency and strengthening sales functions (see "*Distribution Network*");
- enhancing and strengthening of the Bank's corporate governance structure (see "*Strengths—Developed corporate governance and experienced management with a deep understanding of the local market*" above);
- developing a system of key performance indicators to measure the efficiency of branch staff; and
- developing comprehensive hiring procedures and staff training policies, labour protection systems, employee feedback systems and increased interaction with senior members of the Bank's executive body and the Management Board.

The Bank intends to transform its operational and organisational structures to align with international standards by 2023 and ultimately for the purposes of simplifying its business process and improving customer service. As a result of the Bank's concentrated modernisation efforts, its cost-to-income ratio decreased from 59.3 per cent. as at 31 December 2018 to 47.2 per cent. as at 31 December 2019 (on the basis of the calculation described in "*Selected Financial Information— Selected Key Performance Indicators calculated based on the IFRS Financial Statements*"). As part of its efforts, the Bank intends to continue working with its foreign partners, including the IFC, to effectively implement such reforms and upgrades, as well as introducing various training programmes for its branch employees.

Diversification of banking activities with a focus on the private sector and retail customers

The Bank plans to further diversify its loan portfolio and funding base in line with its ambitions to support further growth and profitability. In particular, the Bank intends to further expand its activities so as to benefit from the higher margins available in respect of loans to private borrowers in the key sectors of the economy, as well as continuing to build its client base amongst MSMEs and retail customers, including private entrepreneurs. As at 30 June 2020, the Bank's total gross loan portfolio amounted to UZS 21,686,611 million, representing an increase of 6.4 per cent. as compared to 31 December 2019. The structure of the portfolio has shifted: the share of retail loans (comprised of residential mortgage loans and consumer loans) in the gross portfolio increased to 38.9 per cent. as at 30 June 2020 as compared to 29.4 per cent. as at 31 December 2019; and the share of small business loans in the gross loan portfolio decreased to 30.8 per cent. as at 30 June 2020 as compared to 31.4 per cent. as at 31 December 2019.

In order to further diversify its portfolio on both the assets and liabilities sides, the Bank has been actively seeking to strengthen its position in the retail and MSME markets through targeted marketing activities, improving the quality of its services, increasing offered products to payroll customers, and offering new products tailored to MSME clients and growing businesses (such as a wide range of documentary operations, online loan applications and tiered packaged services based on turnover and income accrued to the Bank). As at 30 June 2020, the balance of customer deposits amounted to

UZS 7,908,442 million, representing a decrease of 0.3 per cent. as compared to 31 December 2019. Moreover, the share of the deposits from retail customers in the total deposit base amounted to 24.0 per cent. as at 30 June 2020, as compared to 22.9 per cent. as at 31 December 2019.

As part of its strategic objectives, the Bank intends to maintain and increase the share of loans to MSMEs and retail customers to more than 70 per cent. of its total loan portfolio by 1 January 2024, from 69.7 per cent. as of 30 June 2020 (calculated in accordance with Uzbekistan GAAP), and to increase the share of deposits from MSMEs and retail customers to more than 60 per cent. of its total deposit base by 1 January 2024, from 45.9 per cent. as of 30 June 2020 (calculated in accordance with Uzbekistan GAAP). There can be no assurance that such projections in fact will be achieved or that share of MSMEs and retail customers will reach these levels.

The Bank also intends to significantly increase its lending activities in the private sector, and in particular, through increasing the Bank's residential mortgage business. The Bank has developed extensive experience from its involvement in Government programmes which it intends to use for its construction financing activities in the private sector and to expand the scope of its residential mortgage services. Such programmes include the financing of the construction of 40,549 apartments by LLC Uz Shahar Qurilish Invest, which is being funded by the Ministry of Finance through the Bank pursuant to a state housing programme that is due to expire by the end of 2020 pursuant to Presidential Decrees No. PP2660 and No. PP-3350. Consequently, the Bank has begun participating in new commercial house programmes on the basis of Presidential Decree No. PF-5886 in 2020, which attracts funds from the Ministry of Finance at the CBU's refinancing rates. The Bank also intends to achieve its goal by utilising the available funding under the MRCU (see "*Competitive Strengths—History of strong Government support*") as well as ensuring further growth of its construction lending line of business, which is expected to result in an increase to residential mortgage loans as construction companies and prospective mortgagees in Uzbekistan typically utilise the same commercial bank lender. To that end, the Bank has established eight mortgage centres, with plans to increase such centres based on market demand, in order to enhance its distribution network. In order to achieve these objectives, the Bank is targeting to increase its total value of mortgage loans under commercial terms (as opposed to preferential terms within the framework of Government programmes) by 16 times by the end of 2023, and establish a working group by the end of 2020 to support its continued expansion in the property sector.

As part of its transition, the Bank is seeking to reduce the share of state ownership and gradually decrease state financing in its funding base and gross loan portfolio and to rely to a larger extent on funding from other sources. See "*Competitive Strengths—History of strong Government support*". The Bank targets a diversified funding base, including corporate and institutional deposits, individual deposits, money market financing, and long-term financing from IFIs and the state, as well as obtaining finance from the capital markets. For example, as at 30 June 2020, the Bank has increased its funding from IFIs to UZS 3,916,226 million, as compared to UZS 2,363,981 million as at 31 December 2019. The Bank intends to continue using previously allocated Government financing until maturity for ongoing strategic investments, including the Almalyk Mining and Metallurgical Company and JSC "Uzmetkombinat". In line with its policy to liberalise the economy, the Government intends to phase out such forms of support projects by state-owned companies and instead provide funding through the UFRD (rather than commercial banks), following which the Bank expects to maintain less involvement in such direct state subsidised programmes. In addition, previously allocated funds received within the framework of other Government programmes, including its housing programme, are expected to be held until maturity in 2039.

Development of IT infrastructure to improve customer services

Based on its traditional strengths, today the Bank is undergoing transformations to meet the needs of the rapidly developing economy of Uzbekistan. This involves changes in all areas of banking, including the introduction of new products, changes in operating technologies and modernisation of the branch network.

The Bank is working to position itself at the forefront of digital development in Uzbekistan through investment in IT modernisation, upgrades of software and hardware, and the introduction of cutting-edge

multichannel banking technology. Replacing the existing IT platform and maintaining a modern IT platform is a key factor in achieving the strategic goals of the Bank. In particular, this includes transformation of the Bank's business and operational structure, IT infrastructure and architecture, commercial and market-based systems, improving work efficiency to reduce the time to complete operations and developing and maintaining state of the art digital risk management solutions, including the introduction of an automatic credit scoring system. For example, in 2019, the Bank purchased a modern data storage and processing centre and subsequently launched a package of software designed to automate banking services.

In accordance with the Presidential Decree No. PD-5780 dated 13 August 2019, the Bank intends to continue investing in the wholesale modernisation and overhaul of its IT infrastructure to facilitate a transformation to a client-orientated model and increase operational efficiency for the purposes of streamlining services offered at its banking centres and generally increase the efficiency of services available to its client base in order to meet business and client needs. In 2019, the Bank invested approximately UZS 15.5 billion in pursuit of its abovementioned strategy to modernise its IT infrastructure.

The Bank has been actively developing its remote banking services in order to provide its clients with a wider range of services and will strive for the gradual unification of software and information storage systems, banking systems and the formation of a unified information space, in order to ensure that all IT systems and applications operate reliably without interruption. See *“Risk Factors—Risks Related to the Group's Business and the banking industry in Uzbekistan—The Bank's IT systems may malfunction, fail to secure the Bank against hacking, or be insufficient to support future business expansion”*.

Customer-centric sales models and reengineered business processes for improved efficiency

As part of its wider transformation, the Bank's objective is to transform its branches into active sales and consulting centres for the purposes of establishing customer-centric sales models by introducing modern banking service centre for the sale of banking products and the provision of financial advisory services that focuses on, among other things, the digitisation of banking services and the implementation of innovative technologies. To that end, the Bank intends to centralise all back-office operations into a single operations processing centre and increasing the ratio of sales managers in branches to up to 70 per cent. of the total number of branch personnel, with such processes being managed in coordination with regional managers. The restructuring of the Bank's branches is expected to take effect in three stages which focus on centralising operations in its branches in (a) Tashkent City, (b) the Tashkent region, and (c) the rest of Uzbekistan. As at 1 November 2020, all of the Bank's branches were restructured. As part of such restructurings, the Bank further intends to implement customer-orientated employee training programmes and requirements to improve customer satisfaction, and enhance the quality of its range of products to achieve such results. Once implemented, the Bank expects an increase in the efficiency and quality of customer services and consequently an improvement of customer satisfaction in respect of its banking services.

With the aim to reflect the customer-orientated approach and increase the operational efficiency of the Bank, its organisational structure has been revised in order to meet international banking standards. The new structure currently comprises seven blocks that manage certain areas of the Bank's business, being Corporate Banking and Market Instruments, Government Programs and Regional Projects, Small Business and Retail Services, Finance Block, Operations Block, Credit Block, and Risk Management Block, as well as other overhead functions that directly report to the Chief Executive Officer. This includes simplifying business processes, improving customer service and eliminating duplicative functions. As a result of these changes, the Bank's cost-to-income ratio has decreased from 59.3 per cent. as at 31 December 2018 to 47.2 per cent. as at 31 December 2019 (on the basis of the calculation described in *“Selected Financial Information—Selected Key Performance Indicators calculated based on the IFRS Financial Statements”*). The Bank has also been pursuing a transition to a one-stage loan underwriting process based on a scoring model in order to simplify lending processes (which the Bank has, as at 1 October 2020, already implemented at 29 of its branches). The Bank intends to continue developing its operational framework, models and processes to further streamline its banking operations and improve customer satisfaction insofar as possible.

Further development of risk-management and credit policies

The Bank maintains independent and streamlined risk governance that curbs business lines from aggressive risk taking and forces the internal control and compliance function to place adequate controls in all business areas, internal functions and operations. Currency risk management is carried out by setting limits on open currency positions. Additionally, the Bank mitigates currency risk by pursuing a natural hedging strategy whereby it provides lending to clients in the same currency as its funding. The Bank pursues a clear risk policy, which allows it to identify potential risks at early stages. The Bank identifies credit risk at both the individual borrower level and at the wider portfolio level by reference to common factors affecting certain industry sectors or geographies. The Bank's Credit Risk Management Policy sets concentration limits in respect of, the Bank's lending activities, as well as dollarisation limits and limits on non-performing loans for the whole portfolio and by customer segment. The Bank regularly performs stress-tests of its key types of risk (including credit, currency, liquidity and interest rate risk) based on various parameters and develops contingency plans following the results of such tests. During the first half of 2020, the Bank performed such tests in line with the IFC's newly introduced methodology. The Bank plans to further develop its risk management policies in the coming years, in line with its desire to further expand its share of MSME and retail lending, with such lending traditionally holding a higher degree of credit risk. The Bank will continue to develop both its quantitative and qualitative risk models to enable the risk management unit to predict potential defaults and shortfalls and provide the Bank's managing bodies with comprehensive information for decision-making. All these actions are directed to enhance risk reporting to meet Basel II and IFRS 9 standards and requirements.

Further development of high-quality corporate governance, qualified personnel, an entrepreneurial corporate culture and efficient HR management systems

The Bank is actively fostering an entrepreneurial corporate culture. In conjunction with the IFC and EBRD, the Bank also plans to ensure the implementation of effective and systematic training of the Bank's staff with a view to increasing the quality and delivery of customer services as part of its efforts to maintain leading positions by improving employees' professional skillsets, which is an important strategic goal of the Bank. In order to effectively manage this transition, the Bank will also establish a centralised human resources function in increase management efficiency and employee development.

As part of its corporate governance regime, the Bank adheres to the Rules of Corporate Governance Code dated 31 December 2015, which was approved by the Commission for Enhancement of Efficiency of the Joint-Stock Companies' Activity and Improvement of the Corporate Governance System. In that regard, the Bank's goal is to implement best domestic and international corporate governance practices in its day-to-day activities. Such measures include strengthening interaction between the Bank's governing bodies, effective risk management and control over significant corporate actions and increasing the transparency of the Bank's activities by ensuring sufficient disclosure of material information relating to such activities. The Bank's objective is to continue developing such strategic plans and measures to ensure the quality of its corporate governance framework, as well as guide the development of employees with an ultimate view of improving customer services and maintaining existing, and fostering new, client relationships.

Competition

The competition in the Uzbek banking market has increased over time. According to the CBU, as at 1 September 2020, 31 banks were registered in Uzbekistan and the five largest banks (being the NBU, Asaka bank, Agrobank, the Bank and SQB) held approximately 64.7 per cent. of total banking assets, 69.1 per cent. of total banking loans, 63.1 per cent. of total banking capital and 47.4 per cent. of total banking deposits.

The Bank faces competition from the leading domestic banks in each of the business areas in which it operates, and also from a number of banks with foreign participation in retail business. The Bank competes with a number of domestic banks including the NBU, Asaka Bank, Agrobank and SQB in the

corporate banking segment, Hamkorbank, Kapitalbank and Ipakyo'li in the retail segment, and Microcreditbank and Agrobank in the retail and micro finance loans and corporate sector.

Furthermore, the ongoing transition of the Bank and the banking industry generally to a more market-orientated and commercial model will likely result in increased competition for the Bank with other state-owned banks, foreign and private banks for the same client base. As at 30 June 2020, and according to the CBU, there were five foreign banks and six private banks in Uzbekistan which, following the liberalisation of the economy and the transitional development of the banking sector, may pose an increased competitive challenge in the domestic markets. Moreover, the expansion of the Bank's client base to new industries and sectors holds an additional degree of operational and credit risk, as the Bank may not have sufficient knowledge, procedures and resources to adequately evaluate and measure creditworthiness of new types of customers, including retail. See *“Risk Factors—Risks Related to the Group's Business and the banking industry in Uzbekistan—The Bank operates in a competitive industry”*, *“Risk Factors—Risks Related to the Group's Strategy—The Bank may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion”* and *“Risk Factors—Risks Related to the Group's Business and the banking industry in Uzbekistan—The Bank may not be able to accurately assess the credit risk of potential and current borrowers or maintain the quality of its loan portfolio”*.

Subsidiaries

Below is the description of the Bank's consolidated key subsidiaries as at the date of this Prospectus:

- *Ipoteka Leasing LLC*, a 100 per cent. owned subsidiary of the Bank incorporated in 2017 in the form of a limited liability company, which provides leasing services. Ipoteka-Leasing LLC actively financed the Uzbek fishing industry between 2017 to 2018 and currently finances all sectors of the domestic economy.
- *Imkon Sugurta LLC*, a 100 per cent. owned subsidiary of the Bank incorporated in 2019 in the form of a limited liability company, which provides insurance services.

During the period under review, the Bank also wholly owned Ipoteka Sarmoyasi LLC, which was incorporated in 2017 and acted as an investment holding company for the Bank's indirect subsidiaries in the fishing, scientific development, manufacturing, and innovation and technologies industries. Ipoteka Sarmoyasi LLC's principal business was to participate in the charter capital of companies operating in the fishing sector and provide them with financial support, and therefore operated as a non-core (or non-banking) asset of the Bank. As part of the Bank's privatisation strategy implemented with participation of the IFC to transfer subsidiaries that are not in line with the Bank's objectives, and in accordance with the Cabinet of Ministers Resolution No.362 dated 5 June 2020, the Bank transferred all of its ownership interests in Ipoteka Sarmoyasi LLC to Association “Uzbekbalik sanoat” in August 2020. See *“Structural Reform and Privatisation”* The Bank did not realise any tangible gains or incur losses as a result of the abovementioned transfer, but expects to benefit from the reversal of its provisions taken previously with respect to such investments the benefit of which will be received in its future financial results. Notwithstanding the transfer of Ipoteka Sarmoyasi LLC, the Bank has been providing, and will continue to provide, lending to the fishing sector on commercial terms in accordance with Presidential Decree No. PP-4005 dated 6 November 2018 and, pursuant to the abovementioned Resolution, such lending has been, and will continue to be, provided on a commercial basis.

In light of the dynamic growth of the insurance market in Uzbekistan, in April 2019, the insurance company Imkon Sugurta LLC was incorporated as a wholly owned subsidiary of the Bank. This company carries out voluntary insurance in such areas as insurance against accidents and disease, insurance of ground transportation vehicles, aviation and marine insurance, property insurance in transit, insurance of property against fire, natural disasters and harm, third party motor liability insurance, insurance of loans and collateral and other financial risks.

Business Operations

For IFRS purposes, the Bank's operations are treated as a single reportable segment. The Bank provides mainly banking services in the Republic of Uzbekistan and identifies the segment in accordance with the criteria set in IFRS 8 "*Operating Segments*" and based on the way the operations of the Bank are regularly reviewed by the Chief Executive Officer to analyse performance and allocate resources among business units of the Bank.

Operationally, the Bank is organised on the basis of the following business areas:

- *Corporate banking*: comprises the Bank's Treasury division (which manages the Bank's liquidity position, as well as its financial division and other central functions (including, for example, risk management)), basic lending operations, overdrafts, factoring, revolving lending, leasing, letters of credit, guarantees, corporate deposits, settlements and money transfer, currency conversion, currency derivative operations and other transactional operations and services;
- *Retail banking*: comprises retail demand and term deposit services; retail lending, including car loans, mortgages and other loans to individuals, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals;
- *MSME*: comprises lending, factoring, leasing, bank guarantee, trade finance, letter of credit, transaction operations, currency exchange, SWIFT transfers, corporate cards and payment terminals to small customers; and
- *State programmes and regional projects*: comprises specialised lending to legal entities and private individuals under state financing programmes.

Client Base

Since the beginning of 2020, the Bank diversifies its client base into the following categories: corporate clients, MSME clients and individual (retail) clients. The Bank defines:

- *corporate clients* as companies that do not qualify under the MSME requirements, with a total annual turnover exceeding U.S.\$15 million or a total workforce that is in excess of 300 employees, or where state-owned or foreign investors hold more than 49 per cent. of the share capital of such entity;
- *MSME clients* as individual entrepreneur companies with a total annual turnover not exceeding U.S.\$15 million or a total workforce that is not in excess of 300 or are majority owned by a private person. For the purposes of product development and marketing, small business are categories as micro, small or medium customers; and
- *individual (retail) clients* as private individuals receiving products and services from the Bank, including residential mortgage loans.

For the purposes of IFRS reporting, the Bank's loan portfolio is divided into: corporate loans (which include state-owned enterprises), residential mortgage loans, small business (which reflects the loan portfolio of MSME customers) loans, and consumer loans.

Corporate Banking

Corporate Banking includes banking services to state and municipal organisations and privately owned corporate clients. The Bank services over 1,600 corporate customers, of which 1,129 are state and municipal organisations, with its main customers being large-scale corporates that operate in the manufacturing (which includes the mining sector), construction, trade and services, agricultural and real estate sectors. The Bank offers corporate customers a comprehensive range of banking products and services, including investment and corporate loans; deposits; fee- and commission-based products and services such as settlements, guarantees and letters of credit. On the credit side, the Bank's offering for

state and municipal organisations and corporate clients includes financing of investments for the expansion and renewal of existing operations. These loans cover purchasing of equipment, materials, new product samples, other assets and technologies.

The Bank participates actively in the interbank lending market and constantly raises and places short-term loans with banks in Uzbekistan, Europe and CIS, including the Russian Federation. Interest rates and the amount of raised and allocated interbank loans are set through supply and demand on the national and international financial markets.

As at 30 June 2020, the Bank served customers of its corporate banking department through its 39 branches, 99 mini banks and 44 banking centres.

The Bank has extensive relationships and deep experience dealing with IFIs and commercial banks, including the disbursement of foreign credit lines. The Bank strives to support its corporate clients' foreign financial activity, for example by setting up the "Letter of Credit Reserve" and "Letter of Credit for Deferred Payment" products to suit such needs, and can finance projects with a value of up to 25 per cent. of the capital of the Bank.

The Bank's strategic objective for corporate banking is to increase the efficiency of corporate business through further diversification, increasing its share of private sector customer, focus on high-level comprehensive services and long-term partnerships. The Bank plans to utilise its resource base and client reach to build a high-quality sales team and tailored corporate customer service. As part of its goal to implement such objectives, the Bank has identified strategic initiatives including the optimisation of its service processes, enhancing cross-selling of products, and developing a risk-based approach to product pricing.

Corporate Products and Services

The Bank provides its corporate clients with a wide range of banking products.

Corporate Lending

The Bank's corporate loan portfolio decreased by 17.7 per cent. as at 30 June 2020, leading to a decrease of the share of corporate loans in the Bank's gross loan portfolio from 39.2 per cent. as at 31 December 2019 to 30.3 per cent. as at 30 June 2020, primarily as a result of the 2019 UFRD Transfer, commercialisation of the Bank's loan portfolio to diversify into retail and MSME lending and the conversion of outstanding loans to construction companies under state programmes into residential mortgage loans. As at 30 June 2020, NPLs in the corporate loan portfolio amounted to UZS 100,801 million, or 1.5 per cent., of the Bank's total gross corporate loan portfolio. In line with the Bank's risk management policy, the Bank takes collateral, either in the form of a pledge of assets or a state or corporate guarantee or third party warranties. The Bank manages its risk exposure to each borrower by increasing the volume of trade finance income. See "*Financial Review—Financial Position—Loan Portfolio*" and "*Risk Management—Collateral*".

The Bank has a particular expertise in the construction industry, which formed 8.2 per cent. and 23.5 per cent. of the Bank's gross loan portfolio as at 30 June 2020 and 31 December 2019, respectively. This expertise is supported by specialist engineers that provide tailored advice to the Bank's clients, including in respect of planning their budget accordingly over the life of the construction project. As part of its overarching strategy for 2020-2023, the Bank intends to continue growing its construction lending business, which paves the way for the Bank to increase its residential mortgage loans line of business. As a result, the Bank provides financing to corporate clients operating in the construction industry, and such financing will be converted into residential mortgage loans upon completion of the construction of residential properties using the long-term funding provided by the Ministry of Finance and the MRCU.

In the corporate lending sector, the Bank's most significant competitors are the NBU, Sanoat Qurilish Bank, Agrobank and Asaka Bank.

State Organisations Lending

The Bank's state organisations loan portfolio decreased by UZS 124,925 million or 3.8 per cent., as at 30 June 2020 as compared to 31 December 2019, which was primarily attributable to the commercialisation of the Bank's loan portfolio to diversify into retail and MSME lending. In addition to providing loans to large state-owned clients, the Bank also provides documentary operations for implementing state-owned clients' projects on post-financing terms. Loans to state organisations are comprised to a large extent of investment projects loans targeting the key sectors of the economy of Uzbekistan. The Bank offers the same products to state organisations as for other corporate customers. As at 30 June 2020, the balance of loans to state organisations amounted to UZS 3,171,501 billion or 14.6 per cent. of the Bank's total loan portfolio. In 2019, the Bank financed investment projects of strategic and basic industries, as well as small business projects and private entrepreneurship, through credit lines of the IFIs and foreign banks.

In the state organisations lending, the Bank's most significant competitor is the NBU, Sanoat Qurilish Bank, Agrobank and Asaka Bank.

Deposits

The Bank provides a range of current and term accounts to corporate customers, which are also standard for its MSME customers, and seeks to develop and offer new products to meet customer needs. The Bank offers competitive interest rates on its deposits. The Bank accepts funds from its clients in all major currencies (including Euros and U.S. Dollar) as time deposits that are subsequently placed in interbank deposits. Customers accounts as described in the Bank's Financial Statements only differentiate between state and public organisations and other legal entities (which include its MSME clients). As at 30 June 2020, the total volume of customer accounts attributable to other legal entities amounted to UZS 1,727,965 million, representing 21.8 per cent. of the Bank's total customer accounts (as compared to UZS 4,279,474 million attributable to state and public organisations which constitute 54.1 per cent. of the Bank's total customer accounts).

Trade Finance and Documentary Operations

The Bank provides a comprehensive suite of modern documentary operations and trade finance instruments.

The Bank's trade finance services provide clients with cheap sources of funding, establishing terms and payment dates to match the customer's underlying operations. The Bank offers real-time assistance in monitoring the fulfilment of contracts in this field. The Bank also helps its clients to choose the optimal scheme of interaction with foreign counterparties and the optimal forms of settlement, promoting the economic interests of the client, as well as ensuring compliance with the relevant currency legislation of the Republic of Uzbekistan. In addition, the Bank provides its clients with trade finance services, such as master loan agreements, letters of credit and post-import facilities. Furthermore, since 2017, the Bank has been participating in EBRD's Trade Facilitation Program as an issuing bank and the Bank has also been participating in the ADB's Trade Finance Guarantee Facility since May 2020 and the IFC's Global Trade Finance Program since June 2020, in each case as an issuing bank.

Documentary operations are an important tool of international banking, minimizing risks for both sellers and buyers in the global markets. The Bank has a large number of international correspondent banking relationships and, as a result, its letters of credit are accepted by major leading banks globally and all of the major banks in the United States, Russia, Europe and China. The Bank has agreed limits with different international banks for the purposes of its trade financing operations exceeding U.S.\$175 million as at 30 June 2020. The Bank provides documentary operations for its clients in U.S. dollars, Euros and Russian roubles. In the year ended 31 December 2019, the Bank recorded a decrease in the volume of export and import letters of credit, primarily as a result of reduced demand for letters of credit issued by Almalyk Mining and Metallurgical Company.

The Bank has a wide network of correspondent banks, including first-class American, European and Japanese banks, such as JP Morgan Chase, Commerzbank, Landesbank, VTB Europe, Credit Suisse, Sberbank, Raiffeisenbank, Gazprombank and MUFG.

The main clients of the Bank's documentary operations services are companies in the non-ferrous metallurgy, light and agricultural industries. For its letters of credit, the Bank utilises funding from foreign bank credit lines, the UFRD loans and the Bank's own funds. For the six months ended 30 June 2020, the Bank has opened 117 import letters of credit and advised on 27 export letters of credit for the total amount of U.S.\$115 million and U.S.\$3.8 million, respectively.

Currency Operations

Currently, the Bank provides various currency products to its clients primarily in U.S. Dollar and Euro-denomination and also conducts transactions in the international foreign exchange market with the same currencies, including foreign exchange transactions, on the terms of a SPOT transaction.

Treasury

The Treasury department of the Bank is responsible for overall liquidity management, foreign exchange and interest rate positions. Liquidity management involves using interbank deposits, security investments, repos, swaps and other instruments as part of a management plan that is approved by ALCO on a monthly basis. Accordingly, the Treasury department executes ALCO decisions and strategies through its money market and investment desks. In the six months ended 30 June 2020, the Bank generated UZS 44,882 million from interbank operations and UZS 30,720 million from its investment portfolio which largely consisted of Government bonds.

Further, the Treasury department manages the Bank's foreign currency position across all currencies by aggregating foreign currency trades across all channels in order to maintain a position that is within the approved internal and regulatory limits. As at 30 June 2020, the Bank realised a net gain of UZS 3,250 million from its foreign currency trading activities.

As part of the Bank's long-term strategy, the Treasury department is intended to operate as a separate profit-centre that directly reports to the Chairman of the Management Board from the end of 2021 onwards.

MSME Banking

The Bank has established strong ties with MSMEs and further plans to develop the MSME Banking through its comprehensive branch network, a wide range client-oriented sales channels, well-known brand and its experience in the field. The Bank's MSME banking services includes services to micro, small and medium enterprises with over 50,000 active clients, which, as at 31 December 2019, represented approximately 14 per cent. of MSME clients located across Uzbekistan. For marketing purposes, the Bank categorises its small business clients into three sub-segments:

- *micro*: being customers with an annual turnover of less than UZS 200 million;
- *small*: being customers with an annual turnover ranging between UZS 200 million to UZS 5 billion; and
- *medium*: being customers with an annual turnover ranging between the equivalent of U.S.\$5 million and U.S.\$15 million.

Approximately 8.3 per cent. of the Bank's MSME loan portfolio was represented by Government programmes as at 31 December 2019. The Bank's strategic objective is to continue working with MSME clients on commercial terms, utilising other IFI and state sponsored programmes including, but not limited to, the MRCU and the State Fund for Support of Entrepreneurs' Activity, while strengthening its position in the relevant market using its extensive experience in the field.

MSME Products and Services

The Bank offers its MSME clients with the same standard of banking products as those offered to its corporate clients (see “—*Corporate Banking—Corporate Products and Services*”). As part of its short-term strategy, the Bank is developing and plans to offer banking products that suit the nature of its MSME clients’ principal activities, including financial consulting services. As at the date of this Prospectus, the Bank offers the following categories of products and services to its MSME clients:

Small Business Lending

The share of loans to MSME customers in the Bank’s gross loan portfolio decreased to 30.8 per cent. as at 30 June 2020 as compared to 31.4 per cent. as at 31 December 2019 despite increased volumes. In the first half of 2020, the Bank provided small businesses (being MSMEs) with loans amounting to UZS 6,671,401 million (representing a 4.4 per cent. increase as compared to 31 December 2019), which contributed to the creation of more than 4,000 new jobs for its clients within the first half of 2020. As at 30 June 2020, small business (which includes MSME) NPLs amounted to UZS 428,401 million, or 6.4 per cent., of the total gross small business loan portfolio.

Deposits

As a share of the Bank’s total deposit base, its MSME customers accounted for 18.1 per cent. as at 30 June 2020 as compared to 15.7 per cent. as at 31 December 2019 (in each case calculated based on Uzbekistan GAAP and internal management estimates). There are currently no distinctive types of deposits as compared to the equivalent products offered under the Bank’s corporate banking line of business.

Transaction Business

MSME clients are offered standard transaction products as provided to corporate clients. The Bank holds the top three positions in the payment terminals market, with a share of approximately 10.2 per cent. as at 1 October 2020 of the market (representing around 45,000 units) and by income from payment terminals significantly outperforming other participants in the market. The volume of transactions carried out through the Bank’s terminal network for the six months ended 30 June 2019 and the six months ended 30 June 2020 amounted to UZS 3,406 billion and UZS 3,093 billion, respectively.

Retail Banking

The Bank’s retail banking services include retail lending products, such as mortgage loans, consumer loans, car loans and overdrafts, deposits, debit cards, payments and transfers, foreign exchange and safe deposit boxes. As at 30 June 2020, the Bank had approximately 1.3 million regular retail customers. The Bank’s retail customer base includes employees of large customers and their small business partners. Out of approximately 700,000 pay-roll customers as at 30 June 2020, the number of customers that were employees of the Bank’s corporate clients was more than 177,000 people and the remainder were employees of the Bank’s MSME clients, which contributed to the creation of more than 8,900 and 4,000 new jobs in 2019 and the first half of 2020, respectively, as a result of loans provided by the Bank to that customer segment. During the 2020-2023 period, the Bank intends to further enhance the scale and efficiency of its retail business, in particular through significantly expanding its mortgage lending business (including through utilising available funding under the MRCU), attracting employees of its corporate clients as retail customers with a lower degree of credit risk, developing tailored marketing strategies and products, as well as developing the Bank’s retail banking staff, policies and procedures. In addition, the Bank is actively developing its digital capabilities to keep pace with the rapid development of information technologies.

As part of its strategy, the Bank has particularly focused on growing its retail business. As a result, the Bank’s retail loan portfolio (which comprises residential mortgage loans and consumer loans) increased by UZS 2,444,203 million, or 40.8 per cent., as at 30 June 2020 as compared to 31 December 2019, which allowed the Bank to significantly increase the share of retail loans in its gross retail loan portfolio (which comprises residential mortgage loans and consumer loans). As at 30 June 2020, NPLs in retail

loan portfolio accounted for UZS 211,980 million, 2.5 per cent., of the Bank's gross retail loan portfolio (which comprises residential mortgage loans and consumer loans). Retail customer deposits increased by UZS 81,372 million, or 4.5 per cent., as at 30 June 2020 as compared to 31 December 2019.

As part of the retail business development strategy, in 2019, the Bank introduced debit plastic cards with the possibility of obtaining an overdraft loan for pay-roll customers. The Bank sees a significant growth potential in expansion of credit card and overdraft services. In this regard, the Bank aims to improve the quality of services and offer new products.

In the retail lending sector, the Bank's most significant competitors are Hamkorbank, Trastbank, IpakYo'li Bank as well as other private banks.

Retail Products and Services

The Bank provides its retail customers with a wide range of banking products through its branch network and online banking services:

Mortgage and Consumer Loans

In addition to the Bank's existing offering of retail banking products and services, its primary strategic direction for its retail business development is to also form a comprehensive model of customer relations to cover the majority of their requirements for financial services and significantly enhance and grow its mortgage lending line of business.

The Bank's mortgage loans accounted for approximately 25.4 per cent. of total mortgage loans outstanding in Uzbekistan in 2019. As part of its 2020-2023 strategy, one of the Bank's primary targets is to significantly enhance and grow its mortgage lending in market terms by the end of 2023. The majority of the Bank's mortgage loans were allocated on the basis of government programmes, in which the Bank has developed extensive experience and, from 2020 onwards, the Bank intends to utilise other sources to develop its mortgage lending line of business such as the MRCU, enhanced interaction and business development with retail customers, and increasing its lending to the construction sector in order to concurrently increase the volume of disbursed residential mortgage loans. The Bank provides six types of consumer loans to individuals, including, but not limited to, express consumer loans, express microloans, automotive loans and online microloans. The Bank also benefits from partnership programmes with various retailers which provide loans for customers to purchase such retailer's goods on advantageous terms.

The Bank has a number of retail lending programmes, including its mortgage activities as well as a number of other consumer lending platforms. As at 30 June 2020 and 31 December 2019, the Bank granted residential mortgages loans that amounted to UZS 7,153,135 million and UZS 5,169,389 million, respectively, and consumer loans that amounted to UZS 1,282,967 million and UZS 822,510 million, respectively.

Customer Deposits

As at 30 June 2020, individual customer deposits amounted to UZS 1,901,003 million. As at 31 December 2019, the volume of retail customer deposits in national and foreign currencies amounted to UZS 1,819,631 million, an increase of UZS 265,648 million as compared to 2018. The Bank offers 15 types of deposits, which were recently optimised, and five types of deposits in soums and U.S. Dollars, in each case for different periods of deposit, with different conditions. The Bank also offers an online deposit product through its own "Ipoteka Mobile" application and, as part of its IT digitisation strategy, intends to encourage retail clients to use this application more frequently in order to utilise its mobile application services.

Bank Cards

As at 30 June 2020, the number of issued bank cards exceeded 2.3 million (with a market share of 9.9 per cent. according to the CBU), of which almost 1.7 million were bank cards of the local interbank payment system "UzCard", approximately 500,000 were in the HUMO payment system and

approximately 95,000 were bank cards of the Visa international payment system. As at 30 June 2020, the number of payroll cards exceeded 1.3 million. The total turnover of bank cards in the first half of 2020 as compared to the corresponding period of 2019 increased by UZS 5,099 billion and amounted to UZS 20,441 billion.

The Bank aims to utilise cross-sale opportunities of other banking products to payroll card holders. In addition to being an active participant in various payroll projects, Management expects that the digitisation of the banking industry and development of remote banking services through mobile banking will facilitate the expansion of its deposit base.

Through the creation and establishments of its own infrastructure and systems, the Bank is expected to introduce new products and services, such as contactless payments, issuance of virtual cards and e-commerce on the basis of 3D secure technology. For the year ended 31 December 2019, the Bank attracted approximately 500,000 individuals that used the Bank's services to make utility and similar payments. One of the Bank's strategic goals is to attract such individuals into becoming regular customers and to transition such payments by marketing and making available its remote and digital channels to its customers.

Currency Operations and Money Transfers

The Bank's currency operations and money transfer services are centred on two principal activities, whereby the Bank (a) attracts clients' funds in freely convertible currencies (such as the U.S. Dollar and Euros) for various terms as time deposits, and (b) carries out various conversion operations in the local market (with a focus on U.S. Dollar and Euro conversions) and in the international foreign exchange market in major global currencies including the U.S. Dollar, Euros and the Russian Rouble on the terms of a SPOT transaction.

The Bank has an active partnership and agreements with several money transfer systems such as Western Union, UNIStream, Zolotaya Korona, MoneyGram and CONTACT, which provide with a comparatively broader and diversified geographic coverage. Through such transfer systems, the Bank's clients can receive and dispatch money transfers (in cash or non-cash forms) in domestic and major foreign currencies. As at 30 June 2020, the Bank had 101 offices across the country which provide such international money transfer services. Further, the Bank has developed and operates "Ipoteka Mobile", which is its own mobile application that can be used for a wide range of services including foreign exchange, deposits and payments.

In addition, in November 2019, the Bank, together with its foreign partners Paysend and Paymo, introduced a new banking product that allows clients to make international money transfers from their accounts (on every day of the week, including during out of business hours) to accounts opened and maintained in more than 70 countries around the world. The Bank intends to maintain its dynamic development of this business segment through a continued expansion of its geographic reach coupled with providing attractive fees and services to clients.

Fisheries

In accordance with Presidential Decree No.PP-2939 dated 1 May 2017, the Bank obtained indirect majority control of various entities that operate in the Uzbek fishery industry through its direct subsidiary, Ipoteka Sarmoyasi LLC. The Bank contributed capital to regional fisheries, replenish the fishing industry's working capital and to provide assistance to regional fisheries with respect to the implementation of programmes for the development of fish farming by co-financing such projects.

The following table illustrates the Bank's indirect ownership interest in the entities that operate in the fisheries industry as at 31 December 2018 and 2019:

	As at 31 December	
	2019	2018
	(per cent.)	
O'zbekbaliqsanoat LLC	100	100
Qaraqalpaqbaliqsanoat LLC.....	51	51
Andijonbaliqsanoat LLC.....	51	51
Buxorobaliqsanoat LLC.....	100	72
Jizzaxbaliqsanoat LLC.....	51	51
Qashqadaryobaliqsanoat LLC.....	51	51
Navoiybaliqsanoat LLC.....	51	51
Namanganbaliqsanoat LLC.....	51	51
Samarqan dbaliqsanoat LLC.....	51	51
Surxandaryobaliqsanoat LLC.....	51	51
Sirdaryobaliqsanoat LLC.....	100	51
Toshkentbaliqsanoat LLC.....	51	51
Farg'onabaliqsanoat LLC	51	51
Xorazmbaliqsanoat LLC.....	51	51

Further, the Bank also had an interest in two Uzbek associate entities, being Nukus Agro Fish LLC and Nukus-Group Gold Fish LLC. As at 31 December 2019, the Bank held a 23 per cent. and 25 per cent. ownership interest in Nukus Agro Fish LLC and Nukus-Group Gold Fish LLC, respectively.

As at the date of this Prospectus, the Bank no longer holds any ownership interests in Ipoteka Sarmoyasi LLC and its subsidiaries. See “—*Subsidiaries*” for further information.

Innovation Technologies, Science and Manufacturing

In accordance with Presidential Decree No. PP-3365 dated 1 November 2017, the Bank obtained indirect control of various entities that were established to develop innovation technologies, science and manufacturing in Uzbekistan. Through its direct subsidiary, Ipoteka Sarmoyasi LLC, the Bank wholly owned Baliqchilikilmiymarkazi LLC, Tozaquyoshmateriallari LLC, SBTECH LLC, SIDPAC LLC and Keramikaquyosh LLC.

As at the date of this Prospectus, the Bank no longer holds any ownership interests in Ipoteka Sarmoyasi LLC and its subsidiaries. See “—*Subsidiaries*” for further information.

International relations

The Bank cooperates with leading IFIs and foreign banks to establish joint support for companies in the real economy as well as small businesses and private enterprises. International financial institutions that have provided funding to the bank include the ADB, the ERBD, Credit Suisse, Commerzbank, the China Development Bank, Raiffeisen Bank International, ODDO Bank, Export-Import Bank of Korea and others. The Bank has a wide network of correspondent banks, represented by first-class American, European, Chinese and Japanese banks such as JP Morgan Chase, Commerzbank, Landesbank, VTB Europe, Raiffeisenbank International, Gazprombank, Credit Suisse, Chinese Industrial Bank Co. LTD and MUFG.

Distribution Network

Branches

As at 30 June 2020, the Bank had 39 branches. The Bank's branches operate on each business day of the week, with extended opening hours to accommodate its customers' needs. The Bank plans to further expand its branch network in order to initially attract and process high-quality retail customers, which further transfer the majority of their banking operations to the Bank's online banking system. In 2019, the branch network of the Bank remained flat (39 branches) and no significant expansion was executed. In 2020, the Bank does not plan to open additional branches in its network.

By 2023, however, the Bank's objective is to transform and modernise its existing branch network into a customer-orientated model through various initiatives including the following:

- transforming its branches and their structural divisions into points of sale and consulting by increasing the ratio of sellers and consultants to the total number of employees to up to 70 per cent.;
- transitioning to alternative distribution channels by increasing the share of transactions and active clients via internet and mobile banking, ATM and cash-in by 10 per cent. each year;
- streamlining the composition of the branches by implementing a reduction of employees across the Bank's workforce (see "*—Employees*" for further information); and
- reducing the number of branches to 26 regional hubs that perform back-office functions, and to increase the number of banking centres to 192 in order to provide additional points of sales for prospective and existing customers.

Points of sale

As at 30 June 2020, the Bank served its clients through 455 special cash departments, 99 mini-banks, 44 banking centres (including mortgage centres), 39 smart offices, 101 offices for international money transfer and 77 foreign exchange offices.

Mini-banks

Mini-banks operate as a remote point of sale, located outside the premises of the Bank's branches, and provide banking services to legal entities and individuals. In particular, legal entities are provided with settlement and cash services, and day-to-day banking operations such as the payment of utility bills, urgent money transfers, currency exchange and opening deposits for individuals can also be performed at these mini-banks. Mini-banks have advantages as compared to the traditional branches, as smaller size allows mini-banks to be placed more conveniently for the client and make their visit more pleasant. Visitors can independently familiarise themselves with the tariffs and the list of banking products, using the modern information board installed in the mini-bank.

Special Cash Desks

The main function of special cash desks is to receive utility and other payments from the general population. The special cash desks also accept deposits from individuals.

Offices for International Money Transfer

The offices for international money transfer offer services covering both inbound and outbound money transfers – from Uzbekistan to other countries and vice versa. The Bank cooperates with reputable international money transfer operators such as Western Union, UNISStream Zolotaya Korona, MoneyGram, CONTACT and others.

Foreign Exchange Offices

The Bank operates foreign exchange offices in all branches and banking centres, as well as through special ATMs. The foreign exchange offices provide services to customers for currency exchange from local currency to foreign currencies such as U.S. Dollars, Euros, British Pound Sterling, Swiss Francs and Japanese Yen and *vice versa*.

Banking Centres

Banking centres represent a distinct format for point of sale and consultation services, providing a full range of banking services. Unlike the mini-bank network, the banking centres operate 24-hour remote customer services and are formed to provide customer-orientated services.

Banking centres present certain advantages over mini-banks and traditional branches, since their format permits them to serve both retail and corporate clients and perform the day-to-day operations of a typical branch of the Bank. Banking centres are divided by the types of services provided, namely (a)

“Universal” being the provision of services to both legal entities and individuals, (b) “Retail” being the provision of services to individuals only, and (c) “Mortgage” which centralise all services required for the issuance of mortgage products and documentation (including notarial services, appraisals and related insurance products) by the Bank’s mortgage representatives. The Bank has eight established mortgage centres that are located in Bukhara, Karshi, Navoi, Namangan, Gulistan, Fergana, Urgench and Tashkent.

ATMs

For the convenience of its clients, as at 30 June 2020, the Bank has installed approximately 497 ATMs and info-kiosks and over 45,000 payment terminals (with a 10.7 per cent. market share according to the CBU), the latter of which more than 38,000 are located in retail outlets and 7,000 are in bank service outlets. The transaction turnover in the terminal network of the Bank for the year ended 31 December 2019 and the six months ended 30 June 2020 amounted to UZS 6,736 billion and UZS 3,093 billion, respectively.

Internet and Mobile Banking

The Bank provides its customers with 24/7 access through its Mobile Banking, SMS Banking and Internet Banking platforms. As at 30 June 2020, the total number of users of the Bank’s remote banking platforms amounted to approximately 1.2 million users, of which 108,000 were corporate entities and MSME clients and over 1.1 million were individual users.

In 2017, the Bank launched its own mobile application, “Ipoteka Mobile”, to provide for mobile banking services for its customers. This product allows the customer to use banking services, including transferring funds from card to card, repaying loans, paying utility bills and other online services. As part of the Bank’s further improvements and upgrades, the user interface of the application was updated, services such as receiving overdraft loans and micro-loans for payroll customers, opening and managing online deposits and real-time online conversion of money from national currency to foreign currency were added. In addition, the possibility to transfer money between different payment systems such as UzCard and HUMO cards was introduced. An online application service has been launched to open a new card through the mobile application, as well as for bank card holders to replace their cards with new ones (in case of card loss, failure and/or expiration of such cards). As at 30 June 2020, the Bank recorded over 340,000 mobile banking users, of which approximately 300,000 were individuals and the remainder being legal entities.

Information Technology

The Bank views IT as an integral part of its daily operations, and is committed to replacing its existing information technology infrastructure and is continuing to invest in information technology in order to improve its service and efficiency and address the developing needs of the business and its clients. The Bank seeks reliability, safety, quality, efficiency and scalability in its information and computer systems. The Bank has a primary data centre located in Tashkent as well as back-up systems designed to ensure that operations are not disrupted during critical or disastrous events. The Bank also has hardware and software to facilitate parallel operations and protect permanent data. The Bank’s core automated banking systems is developed and maintained by Technologic ASBT, a third party entity. The Bank launched its own mobile application, “Ipoteka Mobile”, which is primarily utilised by retail clients, and an internet banking application for its corporate clients, which in each case are maintained by Technologic ASBT. In addition, the Bank uses other system in the daily course of its business activities and operations including Bloomberg, Thomson Reuters EIKON 4.0 and Norma.

Based on the requirements of the time, the Bank has begun the process of a digital transformation with the involvement of leading consulting companies with a view to, among other things, modernising its banking platforms to meet international standards by 2023. The Bank intends to complete such modernisation by, among other things, introducing a micro-service architecture, centralising its IT services, further developing its remote banking services, implementation modernised core banking systems and upgrading its general IT and customer service capabilities and functionalities, in order to

improve business management procedures and more optimally serve its customers' needs. See also “—Strategy—Development of IT infrastructure to improve customer services” and “Risk Factors—Risks Related to the Group's Business and the banking industry in Uzbekistan—The Bank's IT systems may malfunction, fail to secure the Bank against hacking, or be insufficient to support future business expansion”.

Insurance

The Bank has a comprehensive insurance policy with the “Gross Insurance” insurance provider, covering against the Bank's losses from intentional fraudulent actions of third parties and employees, as well as losses of third parties as a result of accidental or intentional illegal actions of the Bank's employees in the course of its banking activities. The cost of the policy varies with the changing level of insurable assets, and the Bank monitors the coverage to ensure that it maintains an appropriate level of coverage.

In addition to the above, the Bank holds third-party liability insurance policies and real estate and property insurance policies covering the buildings and premises owned by the Bank. The Bank insures valuables on its premises, including cash in the operational offices, payment terminals and ATMs.

Employees

The following table sets forth the number of employees of the Bank by functional business areas as at the dates indicated below:

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
Total	4,452	4,461	5,334	5,305

There are collective bargaining agreements with the Bank's employees. These agreements provide for corporate etiquette, salary payment procedures, confidentiality and other basic provisions.

As part of the Bank's transformation and modernisation strategy for 2023, and pursuant to Presidential Resolution No. 5992 dated 12 May 2020, the Bank intends to close sales points that are designated to accept utilities and other payments and encourage customers to use the Bank's mobile application and other remote banking services. Instead, by the end of 2023, the Bank intends to open 192 new modern banking service centres that can provide all types of banking services. This process requires the reduction of its employee headcount by 1,500 by the end of 2023. The Bank has developed various guidelines in accordance with international best practices for the purposes of implementing the headcount reduction strategy which, in addition to mandatory redundancy payments, includes: (a) providing recommendation letters to such employees, (b) supporting the preparation of their applications for future opportunities, and (c) providing career development advice and assisting with the identification of suitable vacancies that are advertised in the public domain. The Bank is currently implementing this strategy with the active participation of the Republican Trade Union, with which it has certain trade union agreements that remain in force until 2022, and to date it has not been the subject to any labour related disputes as a result of this strategy.

The Bank's management considers the development of human capital to be an integral part of the Bank's potential and a priority. The Bank, in cooperation with the IFC, has also been developing a regulatory framework to implement international standards for personal training and development. The personnel management system is aimed at improving its effectiveness to achieve strategic goals. Therefore, the main strategic goal in the field of personnel management is the preservation, strengthening and development of the personnel potential of the Bank, leadership development, formation of the employer's brand aimed at maintaining a positive impression of the Bank and the continuation of the formation of a uniform corporate culture.

As part of the Bank's implementation of its personnel strategy, it offers a variety of programmes for employees with promising potential in order to facilitate their development. In 2019, 37 employees were selected for overseas educational programmes and more than 400 employees were invited to training

courses organised by the Uzbekistan Banks' Association, the Republic School of Business and Management and the NBU, among other training courses. In addition, 49 employees were selected for advanced training organised by the EBRD, and certain members of the Management Board attended training organised by the IFC.

The Supervisory Board also approved the "Personnel Training and Development Policy" which details the procedures for internal and external training programmes based on the needs and proposals of the Bank's departments. As at the date of this Prospectus, approximately 1,474 employees took part in various internal and external courses, seminars, trainings and webinars, of which 184 employees attended various externally organised courses.

In January 2020, the Bank signed a memorandum of cooperation with the Uzbek-Japanese Centre for the purposes of implementing advanced training and seminars from leading business figures and lecturers in Japan. The Bank has also implemented various training programmes and development projects that are aimed at training front-office employees.

The Bank does not have pension arrangements aside from the state pension of the Republic of Uzbekistan. The pension system of Uzbekistan requires contributions from the Bank in respect of its employees, calculated as a percentage of current gross salary payments.

Legal Proceedings

From time to time, the Bank is subject of legal proceedings and other investigations in the ordinary course of its business. As at the date of this Prospectus, there are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the previous 12 months which may have, or have had in the recent past, significant effects on the Bank's financial position or profitability.

In 2013, several employees of the Bank were individually charged with criminal offences relating to the purchase and sale of foreign currency in violation of anti-bribery and corruption laws and regulations. All employees involved in the transactions were dismissed by the Bank. Since that time, the Bank has thoroughly revised its internal control systems and procedures. In particular, the Bank has upgraded its anti-corruption risk management policies and the Bank's compliance systems and procedures. In addition, it has implemented new policies, including on corruption prevention, compliance management and operational risk management. The Bank has also introduced additional operational controls, including access restrictions and enhanced monitoring of employee activities. Since 2013 to date, the Bank has not recorded any other material breaches of anti-corruption or anti-bribery policies, laws and regulations.

Environmental and Social Responsibility

The Bank actively participates in social projects and pays special attention to the development of corporate social responsibility by taking an active role in socially important events as a sponsor and providing financial assistance to citizens in need of social protection. In particular, the Bank helps families from remote regions of the Republic of Uzbekistan to open their businesses and succeed in family entrepreneurship. The Bank regularly organizes free medical examinations for people with disabilities and supports citizens directly applying to the Bank for such help. The Bank, together with the IFC, has identified green banking as one strategic direction for future activities. The Bank also pays attention to increasing the potential of young professionals and makes sure they obtain up-to-date training.

As part of its continuous efforts to attract investors and increase customer numbers, the Bank has been an active sponsor of various expo events including "Tashabbus 2019", Bank Expo, Expo Russia Uzbekistan 2019 and other exhibitions. The increase of housing construction is one of the key factors in ensuring the well-being of society, and therefore represents a key social responsibility objective of the Bank. In that regard, the Bank has implemented various measures to build affordable housing in cities in recent years, for example, the commissioning of 336 multi-storey residential buildings in 2019.

Since the onset of the COVID-19 pandemic in the Republic of Uzbekistan in March 2020 to date, the Bank has allocated more than UZS 2 billion to various social funds and towards purchasing personal protective equipment, and provided UZS 233 million of financial assistance to medical staff as of 1 September 2020.

On 1 May 2020, a collapse occurred in the earth-filled dam of Sardoba water reservoir causing flooding in the Sirdaryo region. The Bank provided close to UZS 300 million of financial assistance to local residents and more than UZS 500 million towards the reconstruction of the model library in Navoi region.

Ecological Responsibility

The Bank's activities (including any project financing) stipulate the avoidance of forced labour, care for the environment and adherence to the principles of tolerance in social relations. These are being carried out in cooperation with the IFC within the transformation framework of the Bank. While financing new projects, the Bank conducts an assessment of environmental and social risks and develops measures to mitigate potential risks and associated negative impacts.

The Bank has developed an ecological and social risk management policy and regulations based on the requirements and recommendations of local regulations and international practices and has been integrating such measures into the Bank's lending operations. In accordance with its updated long-term mission developed in cooperation with the IFC and, depending on market potential, the Bank's objective is to build an effective platform for green financing and launching relevant products in line with the planned development of its internal technological and marketing potential and the improvement of its sales channels and staff training.

RISK MANAGEMENT

Overview

The principal risks that are inherent to the Bank's business are market, liquidity, credit and operational risk. The Bank's risk management function aims to identify, manage, analyse, and monitor these various risks in accordance with the Bank's overarching strategy. The Bank seeks to manage risk in a manner consistent with its growth ambitions so as to ensure sustainable profitability and expansion for the benefit of the Bank's stakeholders. The following is a description of the Bank's risk management policies and procedures in respect of the abovementioned risks. For a more detailed description of the Bank's risk management policies and procedures, see Note 23 to the Interim Financial Information.

The Bank's risk management strategy (the "**Risk Management Strategy**") is set in accordance with the Bank's overarching strategy, and is aligned with applicable legislation, the requirements and guidance of the CBU, and international best practice. The Risk Management Strategy covers all of the products offered by the Bank and all of the markets in which the Bank operates. The principal objectives of the Risk Management Strategy are:

- building a comprehensive risk management system and continually updating and improving it so as to maintain its effectiveness;
- monitoring and ensuring compliance with the Bank's risk management systems;
- developing and maintaining a risk culture within the Bank;
- ensuring that the Bank's strategic goals are pursued in line with the Bank's agreed risk appetite; and
- ensuring protection of the interests of the Bank's stakeholders.

The Risk Management Strategy is determined in accordance with the Bank's agreed risk appetite and based upon the principle of continually assessing risk throughout the life of any operation. In particular, this includes:

- risk identification;
- qualitative and quantitative assessments of particular risks;
- determination of acceptable levels of risk;
- setting limits and acceptable deviations, and creating reserves;
- the use of collateral;
- ongoing monitoring and control, allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessments were made; and
- ongoing analysis of the efficiency of the risk management system itself.

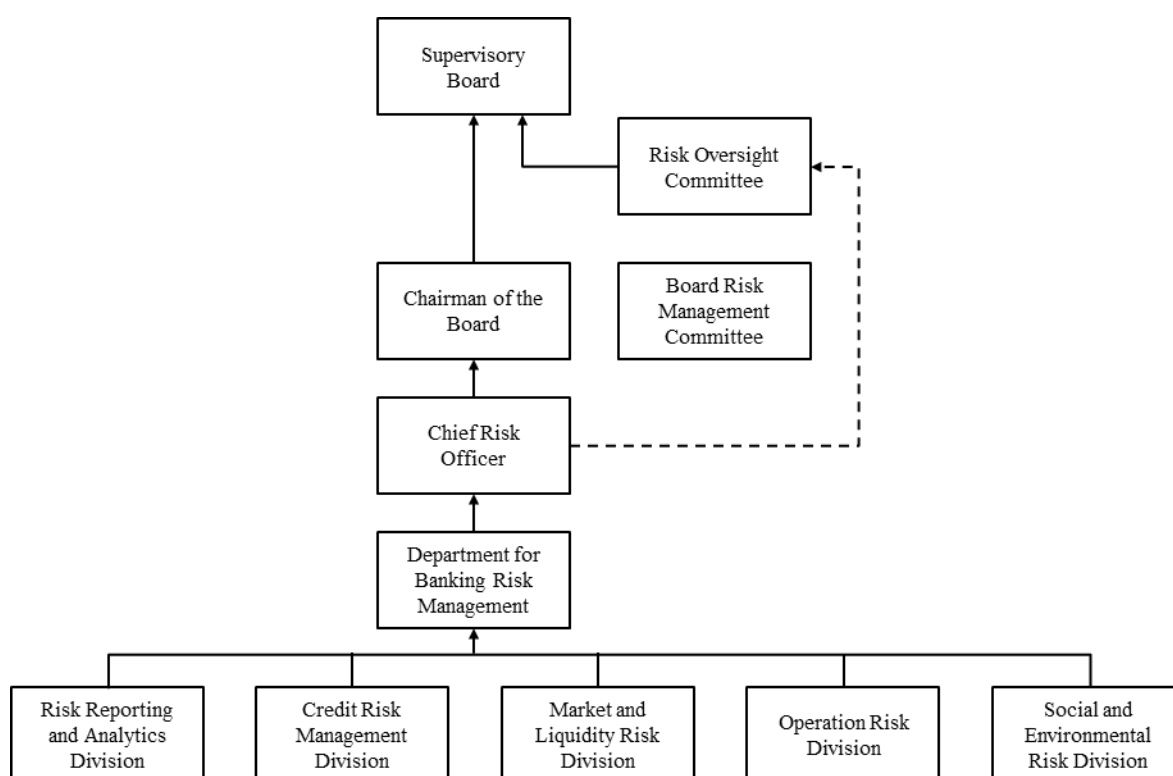
Risk Management Structure

Risk Management Bodies

The principal risk management bodies of the Bank are the Supervisory Board, the Risk Oversight Committee of the Supervisory Board, the Management Board, the Risk Management Committee of the Management Board (which, with effect from 1 October 2020, will also conduct the functions of the Large and Interested-Party Transactions Committee), the Credit Committee, the Asset and Liability Management Committee, the Investment Committee, the Project Management Committee, the Bank Risk Management Department, the Internal Control Department and the Internal Audit Department. A

brief description of each of these bodies is set out below. Whilst these are the principal risk management bodies of the Bank, the Bank takes a holistic approach to risk management and all sections of the

The Bank's risk management structure is based upon the principle of 'three lines of defence. The banking business units and financial and operating functions represent the first line of defence, and are responsible for ensuring adherence to the Bank's policies and procedures on a day-to-day basis. The Risk Management Department represents the second line of defence, monitoring and coordinating with the business units and financial and operational functions. The Risk Management Department, under the leadership of the Chief Risk Officer, reports to the Management Board and the Supervisory Board. The Internal Audit Department represents the third line of defence. The Internal Audit Department reports to the Supervisory Board (through the Audit Committee of the Supervisory Board) and is responsible for reviewing and ensuring the integrity of the risk management processes at the Bank. The chart below shows the key features of the Bank's risk management architecture.



The Supervisory Board

The Supervisory Board is responsible for the Bank's overall risk management approach and for approving the Bank's risk strategies and principals, and is ultimately responsible for identifying and controlling risks. The Supervisory Board delegates authority to the Risk Oversight Committee of the Supervisory Board (the "**Risk Oversight Committee**") to provide recommendations on such matters. It approves the Bank's risk appetite and credit policies and is responsible for approving certain credit decisions which fall outside the responsibility of the Credit Committee, including approvals of single borrower lending exposures that constitute between 15 to 25 per cent. of the Bank's Tier 1 capital (see "*Credit Risk*" below for further information). The Supervisory Board reviews and approves the Bank's risk appetite and the Risk Management Strategy. The Bank's risk appetite and Risk Management Strategy are determined in conjunction with one another and are each reviewed annually (or more frequently, if necessary) to ensure the Bank's continued compliance with applicable regulations, as well as to maintain the effectiveness and relevance of its controls in the context of any changing external demands.

The Management Board

The Management Board is responsible for the day-to-day management of the Bank and delegates responsibility to the Risk Management Committee of the Management Board (the “**Risk Management Committee**”) for matters concerning risk. The Risk Management Committee of the Management Board reports to the Risk Oversight Committee and provides recommendations as to the risk appetite and risk management strategy of the Bank. The committee reviews and monitors the monthly risk management reports, ensuring that the Bank’s results remain within the agreed parameters, and collaborates with the Risk Management Department, the Credit Committee and the Asset and Liability Management Committee in reviewing stress test scenarios and sensitivity analyses. The committee works in close collaboration with the various banking, financial and operating units and the Bank’s Treasury Department to ensure the effective implementation of the Bank’s risk management policies.

The Credit Committee

The Credit Committee is responsible for supervising and managing the Bank’s credit risk. The Credit Committee reviews and recommends changes, where necessary, to the Bank’s credit risk appetite and to the credit policies and procedures being applied at a banking level. This includes setting credit classifications and credit-scoring metrics, establishing credit limits, performing financial analyses of credit applications and reviewing credit terms and conditions. The Credit Committee is also involved with reviewing the results of the stress tests and sensitivity analyses carried out by the Risk Management Department. The responsibility for the day-to-day monitoring of the relevant indicators lies with the Risk Management Department through its credit risk division (the “**Credit Risk Division**”).

The Asset and Liability Management Committee

The Asset and Liability Management Committee (the “**ALCO**”) reports to the Chairman of the Management Board. The ALCO’s principal activities consist of developing and monitoring the Bank’s strategy in respect of its management of assets and liabilities in accordance with the Bank’s asset and liability management policies, as well as evaluating and monitoring the Bank’s exposure to market and liquidity risks. The ALCO recommends the structure of the asset and liability management policy to the Management Board. The ALCO reviews financial reports and indices including the Bank’s limits and ratios, balance sheet, statement of operations, maturity gap, interest rate gap, currency gap, foreign exchange risk, interest rate risk and funding liquidity risk reports, and analyses of total cash flow, customer cash flow and concentration risk, as well as other forms of financial analyses, both for past periods and in respect of future projections. The ALCO carries out these reviews on a monthly basis, and establishes policies, guidelines, and, where applicable, limits, with respect to such matters. The ALCO is also responsible for reviewing the results of any stress testing, including contingency plans, and issuing recommendations to the Risk Management Department in respect of their stress testing methodology. In particular, the ALCO day-to-day operations comprise the following:

- monitoring liquidity levels, interest rate risks and general market risk on a monthly basis (or more frequently, if required), as well as the violation of any established limits in respect of such risks and implementing emergency measures to counteract such breaches;
- issuing recommendations to the Bank’s business units in respect of limitations relating to its assets and liabilities, market risks and the prevailing risk appetite;
- reviewing (i) budgets and long-term business development plans, particularly in the context of any target assets and liabilities, (ii) the terms of new and existing products and services offered by the Bank and provides approval where appropriate, (iii) external factors (such as prevailing macroeconomic conditions) in the context of analysing the Bank’s vulnerability to risks associated with its management of assets and liabilities, as well as its exposure to general market conditions, and (iv) the Bank’s transfer pricing framework (such framework being an internal mechanism which allows for the allocation of net interest income among subdivisions, products or branches, which is reviewed and approved by the ALCO and the Finance Block);

- establishing and controlling portfolio limits, including money-market counterparty limits;
- approving any changes to interest rates on lending activities; and
- maintaining and providing an adequate supply of capital and liquidity to support the Bank's operations and activities.

Regulatory capital requirements in Uzbekistan are set by the CBU and are applied to the Bank on a standalone basis. As at the date of this Prospectus, the CBU requires the Bank to maintain a minimum Total Capital Adequacy Ratio of 13 per cent. and a minimum Tier I Capital Adequacy Ratio of 10 per cent., both computed based on the Bank's standalone financial statements prepared under Uzbekistan GAAP in accordance with CBU regulations and pronouncements.

The ALCO is the key governing body in respect of capital adequacy management and establishes internal limits for the Bank in addition to those set by the CBU. The management of capital adequacy is an integral part of the Bank's monthly reporting procedures as well as the Bank's annual and semi-annual budget approval and review processes. The Treasury Department, the Finance Block and the Risk Management Department are responsible for preparing capital adequacy actual reports, forecasts and budgets, and different stress testing scenarios, while the ALCO and the Management Board regularly review these matters, identify risks, and, if applicable, issue recommendations and propose action plans. The Finance Block reports directly to the Chairman of the Management Board and is also responsible for, among other things, regulatory and tax reporting, monitoring the Bank's business plan targets, preparing financial forecasts, management accounting and analysis, and supporting the Bank's business divisions.

The Investment Committee

The Investment Committee is a sub-committee of the ALCO. The Investment Committee is responsible for managing, monitoring and evaluating the quality of investments held by the Bank, and for managing the overall structure of the Bank's portfolio and ensuring a suitable diversification of risk. As well as overseeing the formation of the Bank's investment portfolio, the Investment Committee recommends and supervises certain portfolio limits. The Investment Committee, as a sub-committee of the ALCO, directly reports to the Management Board and provides recommendations to the Management Board (and ultimately to the Supervisory Board) as part of the process of approving the Bank's investment policy, such process being carried out at least once a year, and more often if required.

The Project Management Committee

The main objective of the Project Management Committee is to ensure effective project management in the Bank's daily activities and to ensure the control and provision of any necessary solutions in this area. The Project Management Committee is a supervising and management body which reports directly to the Management Board, and which executes coordination functions and provides organisational support to the Bank's project portfolio.

The Risk Management Department.

The Risk Management Department (the "RMD"), under the leadership of the Bank's Chief Risk Officer, is responsible for coordinating risk management within the Bank. The RMD is involved with developing the Bank's Risk Management Strategy as well as monitoring and ensuring day-to-day compliance with the same, and is therefore involved in each stage of the Bank's risk management architecture. The RMD reports to the Chairman of the Management Board and to the Supervisory Board and has separate structural units representing the Bank's main risk categories: credit risk, market risk, liquidity risk and operational risk, monitoring compliance with the Bank's policies in these areas, as set out below. The Credit Risk Division is responsible for the day-to-day monitoring of the Bank's portfolio.

The Bank's business units submit regular reports to the RMD, which is responsible for the oversight of the operations of this 'first line of defence'. The RMD is therefore responsible for ensuring that any risk and control issues in the Bank's business units are properly identified and, if necessary, highlighted to

the relevant committee. The RMD also sets the terms of interaction and the technical processes to be followed with the financial, credit and operations departments regarding, *inter alia*, the preparation of reports and results, and the calculation methods to be followed. In addition, the RMD promotes the Bank's risk culture by ensuring that employees receive the necessary training to meet their obligations independently, and by monitoring staff performance and ensuring a commonality in approach and terminology. The RMD also monitors any new products or services offered or employed by the Bank.

As well as ensuring compliance, the RMD is involved in reviewing and developing the Bank's risk management framework. The RMD advises the Management and Supervisory boards in respect of the Bank's risk appetite and Risk Management Strategy, and develops policies and procedures for approval by the Supervisory Board, based on the regulations and guidance of the CBU, applicable legislation, and international best practice. The RMD is responsible for defining scenarios for conducting stress tests and sensitivity analyses as well as participating in the development of the Bank's credit-scoring metrics. The RMD reports to the relevant bodies on the Bank's credit operations, the level of acceptable deviation from the Bank's specified limits, and the results of the stress testing and sensitivity analyses carried out monthly, and more frequently if required. In respect of operational risk, the RMD works closely with the Bank's Internal Audit Department.

The Internal Control Department

The Internal Control Department is responsible for developing proper systems to protect against risks arising from money laundering and terrorist financing ("AML/CTF"), regulatory sanctions and reputational damage, as well as other forms of operational risk. Equally, the Internal Control Department is responsible for monitoring and ensuring compliance by the Bank's various business units with the relevant systems, and ensuring that employees are fully aware of their obligations and responsibilities in this regard. In accordance with AML Regulation No.2886 dated 23 May 2017, the Internal Control Department is required to directly report to the Chairman of the Management Board. The Bank's overall internal controls system encompasses the internal control department of the Bank's head office and responsible staff in each branch.

The Internal Control Department is also responsible for the implementation of the Bank's AMLCTF programme, including the development of AMLCTF policies and procedures, transaction monitoring and reporting and employee training throughout the Bank and its subsidiaries. The AMLCTF programme is based on recommendations and requirements of international organisations including FATF and OFAC, as well as local regulations. The Bank's Internal Audit Department is authorised to make annual assessments of the Bank's AMLCTF systems and provides independent assurance of internal controls.

The Bank has adopted a risk-based approach in its policies and procedures aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the Department for Combatting Economic Crimes under the General Prosecutor's Office of the Republic of Uzbekistan (the "FIU"). The Bank's risk-based approach means that it applies enhanced due diligence procedures if it determines that there is a significant risk that particular customers are engaged in money laundering or financing terrorism. The Bank is obliged to report to the FIU of all transactions that meet the established reporting criteria. The Bank's core systems have been developed to incorporate the relevant tools required to facilitate the identification and reporting of any relevant transactions to the FIU. The reporting process is fully automated and is supported by a special software application.

Internal Audit Department

The Internal Audit Department is responsible for the regular audit of the Bank's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, as well as auditing the Bank's internal control systems and detecting infringements or errors on the part of the Bank's departments and divisions. It examines both the adequacy of, and the Bank's compliance with, those procedures, and conducts full assessments at least annually and, if necessary, more frequently. The Internal Audit Department discusses any identified deficiencies,

recommendations or examples of non-compliance with the Audit Committee of the Supervisory Board. The objective of the Internal Audit Department is to ensure the performance and efficiency of financial and economic activity of the Bank by monitoring the internal control system and audit, and providing independent professional advice on the possibility for improvements in respect of both the Bank's activities and its control procedures.

The Internal Audit Department is independent of the Management Board. The Head of the Bank's Internal Audit Department is appointed by the Supervisory Board and reports directly to the Supervisory Board, through the Audit Committee of the Supervisory Board. The Internal Audit Department also carries out independent audits of the Bank's subsidiaries.

As part of its auditing procedures, the Bank's Internal Audit Department is responsible for overseeing the following:

- policies and procedures related to identifying and assessing potential risks regarding the Bank's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Bank's policies, plans, procedures and business objectives, as well as with current legislation and regulation, and professional norms and ethics;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries;
- assessing and making recommendations to the policies and procedures to control the quality of the Bank's products;
- reviewing the reliability of the Bank's information technology systems in accordance with a predetermined schedule;
- assessing the controls on the reliability and security of financial information;
- monitoring the Bank's internal controls and reporting procedures;
- making recommendations to the Management Board, the Supervisory Board and the Audit Committee for improving internal controls, on the basis of the internal audits carried out;
- monitoring the compliance of the Bank with CBU regulations; and
- monitoring the implementation of any auditors' recommendations.

Bodies implementing the risk management system

The Bank's risk management system is implemented by the Risk Management Department, the Internal Control Department, the Treasury Department, and the Legal Department.

The Risk Management Department consists of five divisions aimed at managing particular types of risk: the Credit Risk Management Division, the Market and Liquidity Risk Management Division, the Operational Risk Management Division, the Social and Environmental Risk Management Divisions and the Risk Reporting and Analytics Division.

The Credit Risk Management Division

The Credit Risk Management Division manages credit risks with respect to particular borrowers and assesses risks relevant to the Bank's overall loan portfolio. It is responsible for ensuring compliance with the Bank's credit policies and the management of the quality of the Bank's loan portfolio and monitors the relevant credit indicators and limits, as set by the Bank's Credit Committee.

The Market and Liquidity Risk Management Division

The Market and Liquidity Risk Management Division manages liquidity risks, market risks, interest rate risks, and foreign exchange rate risks. It develops, manages and monitors stress-testing models and prepares contingency capital plans and liquidity-risk mitigation measures.

The Operational Risk Management Division

The Operational Risk Management Division is responsible for identifying operational risk, formulating operational risk management policies, evaluating results and recommending changes when appropriate. The Operational Risk Management Division identifies and assesses operational risk categories within the Bank's processes and operations. It also detects critical risk areas or groups of operations with an increased risk level and develops internal control procedures to address these risks through business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility. All new product initiatives are evaluated from a risk perspective.

The Social and Environmental Risk Management Division

The Social and Environmental Risk Management Division is responsible for assessing general social and environmental risks and the Bank's exposure to social and environmental risks in the context of its operations, as well as creating and maintain a system for managing such risks (such as forced labour or reallocation) to ensure they are not present in the Bank's activities. The Social and Environmental Risk Management Division is also responsible for developing policies, standards, procedures and tools for dealing with and managing social and environmental risks, providing relevant trainings for employees, and monitoring and reporting on the level and classification of social and environmental risks. The Social and Environmental Risk Management Division strives to ensure compliance with applicable standard and legislation in Uzbekistan, and to also ensure comply with the prevailing standards adopted by the IFC.

The Risk Reporting and Analytics Division

The Risk Reporting and Analytics Division is responsible for reviewing and preparing summary reports on the state of risk management in the Bank and coordinating with various functions of the Bank to ensure the Bank's approved risk appetite is aligned with its strategic objectives. The Risk Reporting and Analytics Division also analyses methods for modernising the Bank's risk management tools and implements such changes where possible, strengthening and enhancing the effectiveness of the Bank's risk management system, and identifies and collates information on any strategic risks and providing recommendations to tackle such risks.

The Treasury Department

The Treasury Department manages foreign currency exchange, money market, securities portfolio and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury Department is also responsible for the management of short-term liquidity and treasury cash flows.

The Legal Department

The Legal Department monitors all changes in applicable laws and regulations, and ensures that those changes are properly reflected in the Bank's procedures, instructions, manuals, templates and other relevant documentation. It also disseminates information on legislative and regulatory changes to the relevant departments within the Bank. The Legal Department also participates in drafting laws and regulatory documents upon the request of legislators and regulators, certain associations and other professional bodies.

Each of the foregoing departments is provided with policies and/or manuals that are approved by the Management Board or the Supervisory Board (as required). The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining

asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, retail banking operations procedures, the deposit policy and the credit policy.

Risk measurement and reporting

The Bank assesses risks using both qualitative and quantitative methods. Credit, market, liquidity and operational risks are usually considered to be quantifiable and therefore capable of assessment and measurement based on the nature of the business activity, usually through the use of key ratios and indicators. The Bank sets limits upon these metrics and specifies acceptable deviations in accordance with its overarching strategy and risk appetite.

The Bank uses methods that assess both the expected loss likely to arise in normal circumstances and unexpected losses which are an estimate of the ultimate actual loss based on different forecasting models. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also runs worst-case scenarios that could arise in cases of extreme events. The Bank also conducts ongoing monitoring and control, allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. In addition, the Bank monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Bank maintains a management reporting system that requires the RMD to prepare monthly reports on the Bank's structural liquidity gap, interest rate risk and financial statements. The Supervisory Board is also required to produce a quarterly report containing an analysis of the Bank's performance as compared to its budget.

The information compiled from all the businesses is examined and processed in order to analyse, control and identify risks at an early stage. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. The Management Board and the Supervisory Board receive a comprehensive monthly and quarterly risk reports for the purposes of providing all of the necessary information to assess and draw conclusions on the Bank's risk exposure.

The Bank is also required to prepare and submit standalone consolidated financial statements to the CBU on a monthly basis in order to monitor the Bank's risk exposure, such as credit risk.

As part of the Bank's transformation and modernisation strategy for 2023, the Bank also intends to develop its risk management to enhance its existing measurements and reporting functions, including but not limited to:

- the implementation of an early warning system to pre-empt any potential risks;
- automating the Bank's existing scoring models to facilitate a more efficient scoring assessment of customers;
- the development of the Bank's stress testing functions to implement various scenarios to cover credit risk, liquidity risk, currency risk, operational risk and interest rate risk.

Risk mitigation and excessive risk concentration

In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to the total outstanding balance of the respective financial instrument.

Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Any identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank may suffer a loss due to the failure of its customers or counterparties to discharge their contractual obligation. Credit risk arises mainly in the context of the Bank's lending activities and other transactions with counterparties in which a risk arises that the counterparty will not pay amounts owed to the Bank in full and/or when due.

Sources of credit risk can take various forms therefore and include deteriorations in the financial conditions of individual borrowers, high credit concentration in respect of certain industries or geographies and a reduction or the risk of a reduction in the value of any collateral held by the Bank. 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 the lending limits where appropriate.

The Bank 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 Supervisory Board approves limits on the level of credit risk by product, industry sector and by country on a quarterly basis.

The general principles of the Bank's credit policy are outlined in the Bank's credit risk management policy (the "**Credit Risk Management Policy**"), which is approved by the Supervisory Board and the CBU. The Credit Risk Management Policy also outlines the Bank's credit risk control, monitoring procedures and credit risk management systems. The Credit Risk Management Policy is reviewed annually or more frequently if necessary. The Bank identifies credit risk at both the individual borrower level and at the wider portfolio level by reference to common factors affecting certain industry sectors or geographies. The Credit Risk Management Policy provides the Bank's lending activities with risk-weighted limits and sets concentration limits. The Supervisory Board approves risk appetite/tolerance and concentration limits. In addition, the Bank's various operating segments define acceptable risk criteria in line with the Credit Risk Management Policy, including financial analyses and models, specified lending processes, client targets and monitoring reporting on a segment-specific basis. The banking segments are: corporate, retail, MSME, financial investments and public institutions.

The Credit Committee and the Risk Management Committee of the Management Board ensures that the Bank's operations and credit concentration are properly balanced, and develops and monitors the Bank's credit limits, requirements, and acceptable deviations, as approved by the Supervisory Board. The RMD, through the Credit Risk Division, monitors credit risk and the risk of concentration in the portfolio. The RMD monitors the portfolio on an ongoing basis by operating segment and reports to the Supervisory Board via the relevant Supervisory Board and Management Board committees. The Bank applies the CBU methodology for calculating risk-weightings of assets for the purposes of the capital adequacy ratio, credit classifications and reserve calculations, and ensures compliance with the regulations of the CBU. The Bank develops credit-scoring and modelling for its retail, MSME and corporate segments and it plans to implement automated credit scoring by the end of 2020. The RMD creates stress-testing models to assess and monitor credit risk, these models are reviewed by the Risk Management Committee and the Risk Oversight Committee.

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regular collateral revaluations. Counterparty limits are established on the basis of a credit risk classification system, which assigns a risk rating to each counterparty. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss resulting from the risks to which it is exposed and take corrective action. The Bank makes available to its customers guarantees or letters of credit which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of such instruments. Letters of credit and guarantees also expose the Bank to similar risks to loan

risks and, accordingly, these instruments are tested by the same control processes and policies as applied to the Bank's lending activities.

Loan approval procedures

The procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans are set out in the Bank's credit policies.

The Bank evaluates its corporate clients based on their financial condition, credit history, business operations, market position, management, degree of shareholder support, proposed business and financing plan and the quality of the proposed collateral. The relevant subcommittee of the Credit Committee is responsible for making the decision for loan approval based on the credit memorandum, and where appropriate, the Credit Risk Manager's report.

The loan approval procedures for retail loans depend on the type of retail lending product. Any applications for consumer loans, including credit cards and auto loans, are categorised under the "scoring" approval procedure. The Bank's Credit Committee determines the amount, terms and conditions of all loans. Any applications for mortgages by retail clients are completed by the mortgage loan officer and submitted to the Credit Risk Division which is responsible for evaluating the associated credit risks. In the case of micro-financing loans, the Bank's loan officers evaluate loan applications, prepare a project analysis and submit the proposals to the relevant branch credit committee, which makes the final credit decision. The individual members of each branch credit committee have equal voting authority and a credit decision will pass if a majority of the members vote in favour of it.

Each branch credit committee is entitled to approve exposures within the Bank's established limits for underwriting activities. The head office credit committee is responsible for approving exposures that exceed the Bank's established limits for underwriting activities, up to a maximum of 5 per cent. of the Bank's Tier I capital. The Management Board approves exposures up to a maximum of 15 per cent. of the Bank's Tier I capital, whereas the Supervisory Board approves exposures from 15 to 25 per cent. of the Bank's Tier I capital (provided that such exposure does not amount to more than 50 per cent. of the Bank's net assets).

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables, and the main form of collateral for retail lending is mortgage over residential property, insurance policies and letters of surety. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As at 30 June 2020, 100 per cent. of the Bank's loans to clients were collateralised (which, for these purposes, includes any credit support arrangements). While retail loans in the amount of up to UZS 33.5 million may be issued without an explicit collateral arrangement (such as charges over property or equivalent assets), credit support in the form of insurance policies or letters of surety from third parties are still required by the Bank before disbursing such loans.

The following table illustrates the Bank's total loan portfolio split by collateral type as at 30 June 2020 and 31 December 2019:

	As at 30 June	As at 31 December
	2020	2019
	<i>(per cent.)</i>	
Real estate.....	60.4	47.6
Future cash flow.....	1.1	16.6
State guarantee.....	8.3	8.9
Equipment and inventory.....	5.2	7.4
Letters of surety	8.4	7.1
Insurance	5.5	4.5
Cash deposits	4.2	3.4
Vehicles	3.8	3.3
Other assets.....	3.2	1.3

The following table illustrates the Bank's corporate banking and small business loan portfolios split by collateral type as at 30 June 2020 and 31 December 2019:

	As at 30 June	As at 31 December
	2020	2019
	<i>(per cent.)</i>	
Corporate Loans		
Future cash flow.....	3.5	42.2
State guarantee.....	27.4	22.6
Real estate.....	21.1	14.6
Insurance	6.6	0.1
Equipment and inventory.....	12.4	7.3
Letters of surety	7.4	3.3
Other assets.....	10.0	1.3
Small Business		
Real estate.....	68.3	52.7
Equipment and inventory.....	4.6	14.3
Letters of surety	10.9	10.7
Insurance	5.7	10.6
Vehicles	10.0	9.0
Future cash flow.....	0.1	0.1
Other assets.....	0.4	2.6

Prior to being accepted by the Bank, collateral is thoroughly analysed and physically verified, where applicable. Debt securities, treasury and other eligible bills are generally unsecured.

Measurement

Exposure and limits are subject to an annual or more frequent review. The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk Division on a continuous basis. The Bank establishes provisions for impairment losses of financial assets on a collective basis and on an individual basis when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial condition and the number of days the relevant loan is overdue. 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, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on an analysis of the assets at risk and reflects the amount which, in the judgement of the Bank's Management, is adequate to provide for the losses incurred.

Provisions are made against gross loan amounts and accrued interest. Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements for IFRS financial statements and CBU regulations for Uzbekistan GAAP financial statements, the Bank categorises its loan portfolio into significant and non-significant loans. The Credit Risk Division makes an individual assessment of all defaulted significant loans. Non-defaulted significant loans are given a collective assessment rate. For the purposes of provisioning, all loans are divided into different groups (for example mortgage, consumer and microfinancing loans).

The Credit Bureau “Credit Information Analytical Center” (the “CIAC”) serves as Uzbekistan’s centralised credit bureau. Since 2011 to date, 26 of the 31 commercial banks in Uzbekistan’s have held equal stakes in the CIAC’s charter capital. The automated information exchange system established by the CIAC encompasses all of Uzbekistan’s commercial banks, microfinance institutions and lombards. As at 1 January 2020, the CIAC database included more than 9 million individuals and 680 thousand legal entities.

Per the Bank’s policies, the Bank’s maximum risk to a single borrower or a group of affiliated borrowers shall not exceed 25 per cent. of the Bank’s Tier I regulatory 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 CBU requirements. The maximum risk for unsecured credits shall not exceed 5 per cent. of the Bank’s Tier I regulatory capital in accordance with CBU requirements. The Bank also provides that the total amount of all large exposures shall not exceed the Bank’s Tier I capital by more than 8 times, and the total amount of loans extended to related parties shall not exceed the Bank’s Tier I capital.

In order to monitor credit risk exposures, the Bank produces weekly reports based on a structured analysis focusing on the customer’s business and financial performance, which includes overdue balances, disbursements and repayments, outstanding balances and maturity of loans, as well as the grade of the loan and collateral. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Bank’s Management on daily basis. The Bank’s Management oversees the monitoring and recovery procedures of loans past due.

The internal rating tool assists the Bank’s Management in determining whether objective evidence of impairment exists under CBU standards and IFRS 9. The CBU standards that are used by the Bank are based on the following criteria: delinquency in contractual payments of principal or interest; cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales); breach of loan covenants or conditions; initiation of bankruptcy proceedings; and deterioration in the value of collateral. At the same time, under IFRS 9, financial assets are classified according to the business model for managing them and their cash flow characteristics. Therefore, the Bank classifies impairment based on a three-stage system:

- *Stage 1* – When a loan is originated or purchased, expected credit losses (“ECLs”) resulting from default events that are possible within the next 12 months are recognised and a loss allowance is established. All loans are classified in Stage 1 at initial recognition and remain in Stage 1 until the identification of factors that indicate a significant increase in credit risk, except for loans acquired or created credit-impaired. For such loans, impairment is recognised as the Bank’s expected credit losses over the next 12. For Stage 1 loans, the Bank calculates interest revenue on the loan’s gross carrying amount (that is the amount of the loan without deduction for ECLs).
- *Stage 2* – If a loan’s credit risk has increased significantly since initial recognition and is not considered low, the loan will be categorised in Stage 2. This will include, inter alia, loans in respect of which the payment of principal or interest is between 31 and 90 calendar days overdue, as well as loans to borrowers experiencing or expected to experience significant changes in operating results, or subject, or expected to be subject, to external credit rating downgrades of two or more classifications. For such loans, impairment is recognised as expected losses over the lifetime of the asset. The calculation of interest revenue is the same as for Stage 1.
- *Stage 3* – If an asset is in default or has signs of impairment, it will be categorised in Stage 3. This will include, inter alia, loans in respect of which payment of principal or interest is more than 90 days overdue, and loans in the category of “unsatisfactory”, “doubtful” or “bad” in accordance with the CBU’s classification procedure. For such loans, impairment is recognised as expected losses over the lifetime of the asset. If the loan’s credit risk increases to the point where

it is classified in Stage 3, the interest revenue on the loan is calculated on the loan net carrying amount (being the amount of the loan after deduction for expected credit losses).

The Bank's policy requires the review of individual financial assets that are above certain materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including reconfirmation of its enforceability) and the anticipated receipts for the respective individual account.

Collectively assessed impairment allowances are provided for: (a) portfolios of homogenous assets that are individually below materiality thresholds; and (b) losses that have been incurred but have not yet been identified, by using the available empirical data, experienced judgment and statistical techniques.

Off-balance sheet risk

The Bank applies fundamentally the same risk management policies to off-balance sheet risks as it does to its on-balance sheet risks. In respect of commitments to lend, customers and counterparties are subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the position of the counterparty and the nature of the transaction.

Market risk

The Bank is exposed to market risk (including currency exchange rate risk, interest rate risk and other price risk), which is the risk that the fair value or future cash flows of the Bank's assets, liabilities and other financial instruments will fluctuate due to changes in market variables. Market risk arises from exposure to fluctuations in interest rates, foreign exchange rates, credit spreads, stock and commodity prices, and various other factors which are susceptible to market volatility and difficult to predict. In the Bank's case, market risks arise from open positions in (a) currency, (b) interest rates, and (c) equity products, all of which are exposed to general and specific market movements.

The Bank develops an overarching Market Risk Management Policy. The Bank principally manages its market risk through limits established by the Supervisory Board and other relevant bodies of the Bank (including the ALCO Committee) on the value of risks that may be accepted. Market risk is subdivided below into three separate categories: exchange rate risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the value of the Bank's financial position and cash flows will fluctuate due to changes in foreign currency exchange rates. The Bank's financial position and cash flows are exposed to the effects of fluctuation in the prevailing foreign currency exchange rates, and in particular to fluctuations in the soum relative to the U.S. Dollar. The principal factor in assessing exchange rate risk is the net open position. The Bank's net open currency position is calculated according to the "Rules for Maintaining an Open Currency Position" No. 1497. In order to regulate currency risks, the Supervisory Board sets limits (in accordance with the CBU's regulations) on the level of exposure by currency and total position for both overnight and intra-day positions, which are monitored daily.

The RMD and the Treasury Department are responsible for monitoring this and for carrying out sensitivity analyses. The Treasury Department measures its currency risk by matching financial assets and liabilities denominated in the same currency and analysing the effect of actual annual appreciation (or depreciation, as the case may be) of that currency to the soum to the profit or loss of the Bank. As at 30 June 2020, the Bank's net open position in U.S. Dollars represented 20.1 per cent. of the Bank's regulatory capital and the Bank's total net (cumulative) open position in all currencies is 16.2 per cent. of the Bank's regulatory capital (whereas the CBU has set at a limit of 10 and 15 per cent., respectively for individual and cumulative foreign currency positions). As at 1 October 2020, the Bank's individual foreign currency position in U.S. Dollars and cumulative foreign currency position decreased to 13.3 per cent. compared to regulatory maximum of 10 per cent. and 12.3 per cent. compared to regulatory maximum of 15 per cent., respectively, as a result of repayments being made under the Decree 4487 On-

loans (as defined below). The purpose of Presidential Decree No. 4487 was to increase the capitalisation of certain state-owned banks and improve the financial stability of the banking sector in Uzbekistan. In 2019, the UFRD extended a U.S.\$143 million loan to the Bank (which was convertible into the Bank's shares) for the purposes of financing the Bank's extension of an equivalent aggregate principal amount of loans to two of its state-owned clients (the "**Decree 4487 On-loans**") in accordance with the regulatory requirements established by Presidential Decree No. 4487. On 30 December 2019, the UFRD loan was converted into UZS 1,353,924 million of the Bank's issued share capital in accordance with the terms of the loan. As at 31 December 2019, U.S.\$104.6 million of the Decree 4487 On-loans remained outstanding and denominated in U.S. Dollars which resulted in the Bank's foreign currency position exceeding the CBU's prescribed limits.

The CBU is aware of the circumstances relating to the Decree 4487 On-loan and has issued a formal waiver to the Bank which was initially due to expire on 1 July 2020 but was extended to 1 January 2021 upon request by the Bank. The Bank expects that the Decree 4487 On-loans will be repaid by the end of 2020 in accordance with their terms. While the Bank's cumulative foreign currency position has been remedied, there can be no assurance that the Bank will remedy its individual foreign currency position in U.S. Dollars by 1 January 2021, in which case the Bank will request an extension of the CBU's existing waiver.

Interest rate risk

The Bank's financial position and cash flows are exposed to the effects of fluctuations in the prevailing levels of market interest rates. Net interest margins may increase as a result of such changes but may reduce or create losses in the event of unexpected movements. The main form of interest rate risk arises from differences in loan maturities and the timing of re-pricing of the Bank's assets, liabilities and off-balance sheet positions. Repricing risk is often measured in terms of the pricing mismatches arising from the net time gap in different time ranges. The Bank monitors repricing risk on a monthly basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The RMD, Treasury Department and the ALCO are responsible for managing interest rate risk. The RMD monitors the Bank's financial performance, estimates its sensitivity to changes in fair value interest rates and its influence on the Bank's profitability and provides monthly reports to the Management Board and the Supervisory Board. The Bank carries out gap analyses to measure rate-sensitive assets and rate-sensitive liabilities and thereby assess the Bank's balance sheet structure. The Bank also carries out spread analysis on its assets and liabilities. This determines the difference between the weighted average interest rates for the Bank's active and passive operations. The spread is defined for transactions in all currencies denominated in soums on a consolidated basis.

Other price risk

The Bank is also subject to prepayment risk through providing fixed loans, including mortgages, which give the borrower the right of early repayment of the loans. The Bank's current year profit or loss and equity at the current balance sheet date would not be 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. As at the date of this Prospectus, the Bank does not have significant exposure to equity price risk.

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its obligations associated with outstanding financial liabilities. The risk arises where there is a mismatch between assets and liabilities, and in particular between short-term funding sources and longer-term loans, and a lack of high quality liquid assets to cover this gap. Liquidity risk may also arise as a result of the Bank being unable to raise new finance or maintain existing sources of finance, or struggling to do so on commercial terms.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as

experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Bank's liquidity risk management is governed in accordance with the Bank's Liquidity Financing Plan, and managed by the Treasury Department. Liquidity risk is regulated in accordance with the "Regulations on Requirements for Managing the Liquidity of Commercial Banks" (No. 2709 dated 13 August 2015). The Liquidity Financing Plan is a key component of the Bank's Business Strategy.

The Bank's Liquidity Financing Plan seeks to ensure that the Bank can meet its short-term liquidity and longer-term financing needs in a manner which supports the aim of increasing the Bank's net interest margin. The Bank also has a Contingency Financing Plan. This consists of scenarios for possible crisis situations and includes plans for the Bank in conditions of limited liquidity, including conditions of general market instability (systemic risk) and emergency situations. The measures envisaged by the Bank's Contingency Financing Plan include, without limitation, attracting long-term deposits of state funds from the Ministry of Finance and utilising short-term liquidity loans from the CBU (see Note 23 of the Interim Financial Information and "*Financial Review—Liquidity and Capital Resources*" for further information).

The main features of the Bank's liquidity management include:

- evaluating the cash flow profile of the Bank (including by means of dynamic liquidity analysis);
- ensuring a sufficient and diversified funding base and long-term liquidity within the framework of the Bank's budget and business plans;
- monitoring risk limits and taking necessary corrective actions in the case of violations;
- ensuring that the Bank complies with all regulatory requirements; and
- in case of exceeding any indicators, or any other unforeseen circumstances, preparing and implementing effective remedial action plans.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invests 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 Bank 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 Bank calculates liquidity ratios on a monthly basis in accordance with the requirements of the CBU. Such ratios are calculated based on Uzbekistan GAAP. The key metrics are:

- the Liquidity Coverage Ratio: this aims to ensure sufficient short-term liquidity, requiring the Bank to hold sufficient high-quality liquid assets to withstand a significant stress scenario lasting 30 calendar days (such stringent requirements on liquidity coverage ratio have been postponed to 2021 by the CBU as a result of the impact of the COVID-19 pandemic (see "*Financial Review—Liquidity and Capital Resources*" for further information on the scope of liquidity instruments made available by the CBU during the COVID-19 pandemic)); and
- the Net Stable Financing Ratio: this aims to ensure the Bank has sufficient stable funding to cover all of its liabilities with residual maturities of 12 months or more.

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 Bank as a whole. 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 RMD.

Mitigation

The Bank's capability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the CBU's refinancing facility. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBU, the amount of which depends on the level of customer funds attracted. As at 30 June 2020, in line with the CBU's requirements, up to 14 per cent. of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of up to 4 per cent. of its customers' deposits in soums at its correspondent account at the CBU.

Funding

In the Uzbek marketplace, the majority of working capital loans are short term and granted with the expectation of renewal at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

The Bank believes that its liquidity is sufficient to meet each of its present requirements. For information on the Bank's liquid assets, liabilities and maturity profile of the Bank's financial liabilities as well as further information on the liquidity risk of the Bank see Note 32 to the Annual Financial Statements and Note 23 to the Interim Financial Information.

Operational risk

Operational risk concerns the risk of loss arising due to inadequate or failed internal processes, human error, erroneous systems or external events. Operational risk includes legal and regulatory risk. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, and/or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but the Bank aims to manage such potential risks through a control framework and by monitoring and responding to the respective risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education, training and assessment processes, and the use of the internal audit function and carrying out inspections and reviews.

Mitigation

The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data back-up and disaster recovery arrangements.

The Bank has an integrated control framework encompassing operational risk management and control, AML compliance, corporate and information security and physical security, each of which is managed by a separate department.

The Internal Control Department has responsibility for the overall identification and assessment of operational risk categories within the Bank's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk areas to mitigate identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. The Internal Control Department is also responsible for developing and updating policies and procedures and ensuring that these policies and procedures meet legal and regulatory requirements and help to ensure that material operating risks are within acceptable levels. It also monitors and periodically reviews the Bank's internal control systems to detect errors or infringements by the Bank's departments and divisions. The Head of the Internal Control Department, who reports to the Chairman of the Management Board, is responsible for the oversight of the Bank's operational risks.

The RMD and the business units and support functions operate in coordination in applying a self-assessment process to identify the various operational risks inherent within their particular activities and to determine the likelihood and severity of any identified risks. The Bank maintains a database of operational risk through the Internal Audit Department and the RMD. To ensure clear classifications and uniformity, operational loss is classified by the Bank into the following seven main areas, in accordance with the guidance of the Basel Committee on Banking Supervision:

- Internal Fraud;
- External Fraud;
- Employment processes and workplace safety;
- Product and business experience and customer experience;
- Damage to physical assets;
- System failures and business interruption; and
- Managing processes, deliveries and operations.

MANAGEMENT

Overview

The governance of the Bank consists of various levels and sub-levels, each responsible for different aspects of the Bank's overall activities. The following section sets out the management structure of the Bank and its corporate governance reporting lines.

The highest level of governance is conducted through the General Meeting of Shareholders, the ultimate decision-making body. At the General Meeting of Shareholders, the shareholders elect the Supervisory Board, which is responsible for the general governance of the Bank, including the determination of strategy, coordination and general supervision thereof. The Supervisory Board elects the Management Board, which is the collegial executive body of the Bank. The Chairman of the Management Board and the Management Board as a whole are responsible for the day-to-day operations of the Bank.

General Meeting of Shareholders

The General Meeting of Shareholders is held in the form of an Annual (Regular) General Meeting of Shareholders. General Meetings of Shareholders held apart from the Annual (Regular) General Meeting of Shareholders are extraordinary.

The Annual (Regular) General Meeting of Shareholders is convened not later than six months after completion of the Bank's financial year.

The powers of the General Meeting of Shareholders are set forth in the Bank's Regulation on General Meeting of Shareholders and the Charter of the Bank. The procedure for convening, preparing for and conducting the General Meeting of Shareholders is stipulated in the Bank's Regulation on the General Meeting of Shareholders.

Shareholders have the power to decide on the following matters, among others:

- amendments and supplements to the Charter of the Bank or approval of the Charter of the Bank in new wording;
- reorganisation of the Bank;
- liquidation of the Bank, appointment of the Liquidation Commission and approval of interim and final liquidation balance sheets;
- determination of the quantitative composition of the Supervisory Board and committee of the minority shareholders, election of members thereof and early termination of their powers;
- determination of the maximum size of authorised shares;
- decrease in the authorised capital of the Bank;
- redemption of equity shares according to procedures established with the legislation;
- approval of the organisational structure of the Bank;
- election of members of the Inspection Commission and early termination of their powers as well as approval of the regulation on the Inspection Commission;
- approval of the annual report of the Bank;
- approval of the development strategy of the Bank for medium and long-term periods considering the main objectives of the Bank;
- distribution of profit and loss of the Bank;

- hearing of reports of the Supervisory Board and the Inspection Commission on matters within their competence including those related to compliance with requirements for management of the Bank established by applicable law;
- adoption of decision not to use pre-emptive right;
- approval of procedural rules in relation to General Meetings of Shareholders;
- splitting and consolidation of shares;
- determination of remuneration and/or compensation payable to the executive body of the Bank and the Inspection Commission as well as their maximum amounts;
- determination of the Bank's transactions in cases stipulated by Articles 8 and 9 of the Law of the Republic of Uzbekistan "*On joint stock companies and protection of shareholders' rights*"; and
- other issues included within the scope of the power of the General Meeting of Shareholders as prescribed by applicable law and regulations.

Decisions of the General Meeting of Shareholders are generally adopted by a simple majority of voting shareholders who are present at the meeting, unless the Regulation on the General Meeting of Shareholders of the Bank and Charter of the Bank require a qualified majority or set additional rules. Pursuant to the Regulation on the General Meeting of Shareholders of the Bank and the Charter of the Bank, motions such as amendment of the Charter, reorganisation and liquidation must be approved by a three quarters majority vote of the voting shares participating in the General Meeting of Shareholders of the Bank. All decisions of the General Meeting of Shareholders are adopted subject to satisfaction of a quorum of at least 50 per cent. of voting shareholders.

Supervisory Board

The Supervisory Board is responsible for general governance matters, with the exception of those matters that are designated by law and by the Bank's Charter as belonging to the exclusive competence of the General Meeting of Shareholders. The Supervisory Board makes its decisions by simple majority, so long as a quorum of at least three quarters of the elected members of the Supervisory Board is present, unless otherwise required by law or the Bank's Charter. The Chairman of the Supervisory Board has a casting vote. In accordance with the Charter of the Bank as amended on 30 September 2020, the Chairman of the Supervisory Board is elected and must be an independent member.

The Supervisory Board meets on a regular basis – in-person meetings are convened not less than once per quarter, and in year 2019, in-person meetings were convened eight times. Extraordinary Supervisory Board meetings can be held with the initiation of the chairman of the Supervisory Board, a member of the Supervisory Board, the Central Bank of the Republic of Uzbekistan, the Inspection Commission, the Management Board and in other cases as set out in Uzbek legislation and the Charter of the Bank.

The Bank's shareholders elect members of the Supervisory Board until the next annual shareholders' meeting, and such members may be re-elected an unlimited number of times. There is no fixed term of office for Supervisory Board members. The Supervisory Board currently has nine members. The Charter of the Bank, as amended on 30 September 2020, requires that at least five independent members are maintained and elected to the Supervisory Board, with each member having suitable experience in international banking. In accordance with its ongoing transformation and privatisation efforts, in 2019 and 2020, the Bank added five new independent directors with international experience to the Supervisory Board. The last election of the Supervisory Board took place on 30 September 2020.

The name, position and certain other information for each member of the Supervisory Board are set forth below.

Name	Year of Appointment	Position
Alexander Picker.....	30 September 2020	Chairman of the Supervisory Board (independent member of the Supervisory

Name	Year of Appointment	Position
Abdushukurov Jamshid Abdigalipovich	30 September 2020	Board)
Makhkamov Rustam Khusniddinovich.....	30 September 2020	Member of the Supervisory Board of Directors
Ibrahimzhanova Zumrat Amanbaevna.....	30 September 2020	Member of Supervisory Board
Abdullaeva Iroda Maratovna.....	30 September 2020	Member of Supervisory Board
Tatiana Dogan.....	30 September 2020	Independent Member of Supervisory Board
Wesley Davis.....	30 September 2020	Independent Member of Supervisory Board
Bereshchenko Yulia Valerina.....	30 September 2020	Independent Member of Supervisory Board
Tajiev Avazkhon Asadullaevich.....	30 September 2020	Independent Member of Supervisory Board

Alexander Picker (born 1962). Mr. Picker graduated from the University of Salzburg with two degrees in law and Slavonic philology in 1987 and 1989, respectively. Mr. Picker began his career in 1989 in the Bank of Austria and has more than 30 years of banking experience, which includes acting as a Chairman of Supervisory Council, CEO, CFO, CRO capacities in Unicredit Serbia, JSC ATF Bank Kazakhstan, Hypo Alpe-Adria Bank International AG, Hypo Bank Italy, Komercijalna Banka Serbia, Transparency International Austrian Chapter and others. Mr. Picker is the Chairman of the Committee on Strategy and Privatisation and a member of the Remunerations Committee of the Bank.

Abdushukurov Jamshid Abdigalipovich (born 1986). Mr. Abdushukurov is the Director of the Department for Coordination of Reforms of commercial banks with state participation, the Ministry of Finance. Mr. Abdushukurov graduated from the Tashkent Financial Institute in 2008. He started his career in 2008 in the People's Bank where he held different managerial positions until 2018. Between 2018 and 2019, Mr. Abdushukurov worked as Deputy head and then head of the banking system risk analysis department in the Prudential Regulation Division of the CBU. Mr. Abdushukurov is a member of the Committee on Risks, Related Party Transactions and Major Transactions and Committee on Strategy and Privatisation of the Bank.

Makhkamov Rustam Khusniddinovich (born 1980). Mr. Makhkamov is the Deputy Head of the Legal Department of the Ministry of Finance - Head of the Department of international and local financial institutions, judicial and contract support. Mr. Makhkamov graduated from the National Academy of Law, Ukraine in 2003 and Tashkent State University of economics in 2007. Mr. Makhkamov started his career in 2003 in the Ministry of Justice where he worked until 2005 as a senior adviser. Until 2013, before moving to the Ministry of Finance as Chief Legal Adviser in the Legal Department, he worked as a director of the "Rim Defence" law firm, a senior adviser in the Ministry of Justice, Konglamet law firm and Head of the Legal Department of the Central Securities Depository. Mr. Makhkamov is a member of the Corporate Governance and Nominations Committee of the Bank.

Ibrahimzhanova Zumrat Amanbaevna (born 1972). Ms. Ibrahimzhanova is Head of the Department of Expertise of Investment Projects of the Fund for Reconstruction and Development of the Republic of Uzbekistan. She graduated from the Samarkand Cooperative Institute in 1993 and later, the Tashkent Financial Institute in 2004. Ms. Ibrahimzhanova started her career in "Tashmetroproekt" in 1994 as an economist. Between 1997 and 2007, she held various positions in "Asaka" Joint Stock Commercial bank, and for a short period of time, in Infinbank. In 2008, Ms. Ibrahimzhanova joined the UFRD as a chief specialist in the Expert Group of the Department of Expertise of Investment Projects. Ms. Ibrahimzhanova is a member of the Audit Committee of the Bank.

Abdullaeva Iroda Maratovna (born 1968). Ms. Abdullaeva is Head of the Department of Co-Financing Investment Projects. She graduated from the Tashkent Railway Engineering Institute in 1990. Ms. Abdullaeva started her career in the Tashkent city branch of the Uzpromstroybank as a junior specialist of the construction department. Between 1993 and 2013, she held various positions, including managerial positions, at the National Bank of Uzbekistan before starting her career at the UFRD. Ms. Abdullaeva is a member of the Remuneration Committee of the Bank.

Tatiana Dogan (born 1973). Since 2014, Ms. Dogan has been an Independent Director of the Board of Directors of JSC "Kazakhstan Idjara Company", Almaty, Kazakhstan. Ms. Dogan graduated from the Kyrgyz State National University in 1995 and MBA degree from TRUIM, the Global Executive MBA program in 2012. Ms. Dogan started her career in JSC "AKB Kyrgyzstan", Bishkek in 1992. Since 1996,

Ms. Dogan held various senior level positions at the American-Kyrgyz gold mining joint venture Jerooy Gold, Demir Kyrgyz International Bank, Kyrgyzstan Bank, and Ernst & Young. She served as the Director of the Financial Planning and Risk Management Department and a member of the Executive Board at Demir Kazakhstan Bank from 2004 to 2006. Ms. Dogan joined BTA Bank JSC as a Risk Management Advisor to the Board of Directors in 2006. Ms. Dogan has been a member of the Board of Directors of Şekerbank T.A.Ş. since 2007 till 2012. Ms. Dogan is the Chairman of the Audit Committee of the Bank.

Wesley Davis (born 1966). Mr. Davis is the Finance director at APQ Global. Mr. Davis graduated from the University of Florida in 1988, Arizona State University in 1992, American Graduate School of International Management in 1993. For more than 25 years of his career in the financial sector, Mr. Davis has held different managerial positions at Chase Manhattan Bank, Deutsche Bank AG, Merrill Lynch, HSBC bank Plc, Renaissance Capital, Asia Pacific Investment Partners and Ulaanbataar. Mr. Davis is the Chairman of the Committee on Risks, Related Party Transactions and Major Transactions, and The Corporate Governance and Nominations Committee, a member of the Committee on Strategy and Privatisation of the Bank.

Bereshchenko Yulia Valerina (born 1971). Ms. Bereshchenko has been a senior adviser at Wood & Co, Eastern European Investment Bank since 2018 and is a member of the Directorate of Astarta Holding NV. Ms. Bereshchenko graduated from the Luhansk machine Building institute in 1994 and has been a CFA charterholder since 2003. Ms. Bereshchenko started her career in Fund Euroasia Kiev in 1994. Since 2007, Ms. Bereshchenko has held different managerial positions in Unicredit, EBRD and the Ukrainian Deposit Guarantee Fund for Individuals. Ms. Bereshchenko is the Chairman of the Remunerations Committee, a member of the Corporate Governance and Nominations Committee, Committee on Risks, Related Party Transactions and Major Transactions of the Bank.

Tajiev Avazkhon Asadullaevich (1972). Mr. Tajiev is General Director at “Saltanat Meva” Trading House LLC. He started his career in the National Bank of Uzbekistan in 1993, and worked in different managerial positions until 2006. Since 2007, he held various managerial positions, among others, as First Deputy Chairman at Azia-Invest Bank in Russia, Executive Director at “Svyaz Bank” OJSC in Russia, Chief Financial Officer at the Project Office of GlobalPlat LLC. He was also adviser to the Chairman of the Management Board at “Feedback”, a non-bank credit organization. Mr. Tajiev is a member of the Audit Committee of the Bank.

The business address of each member of the Supervisory Board is the Bank’s registered office. No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board owes to the Bank and such member’s private interests or other duties.

Management Board

The Management Board is the Bank’s collegial executive body, which consists of up to seven members. The members of the Management Board, including the Chairman are elected by the Supervisory Board. The Management Board meets as often as is considered necessary, and not less than once per month, and makes its decisions by simple majority, provided that a quorum of at least two thirds of the elected members of the Management Board is present. The Chairman of the Management Board has a casting vote. The Management Board is responsible for the Bank’s day-to-day management and administration. The Chairman of the Management Board represents the Bank and acts as its Chief Executive Officer. The Management Board has several committees that help it to carry out its management functions.

As at the date of this Prospectus, the Management Board consists of seven members. The name, position and certain other information for each member of the Management Board are set out below. Unless otherwise indicated, members of the Management Board do not perform any external functions. The members of the Management Board are elected for a one-year period and are subject to the annual decision of the Supervisory Board to terminate or extend the employment agreement of its members.

Name	Year of Appointment	Position
Atabaev Shukhrat Haldarovich.....	14 November 2018	Chairman of the Board
Inomjonov Elyor Isroilovich.....	7 January 2019	First Deputy Chairman of the Board

Name	Year of Appointment	Position
Zulfukarov Jura Ismailovich	24 August 2018	Deputy Chairman of the Board
Abdurakhmanov Mahmud Akhmatkhuzhayevich ..	13 October 2016	Deputy Chairman of the Board
Fayazov Jahongir Makhamadzhanovich	21 January 2008	Deputy Chairman of the Board
Normetov Elyor Zafarovich.....	13 October 2015	Chief Accountant
Murodov Humoyun Gairatovich	17 January 2017	Head of Legal Department

Atabaev Shukhrat Haldarovich (born 1978). Mr. Atabaev graduated from the Tashkent Financial Institute in 2000, the National Institute of Political Sciences of Japan in 2005, and the Academy of State and Social Construction under the President of the Republic of Uzbekistan in 2010. He began his career in 1995 as an English teacher in the 14th secondary school in the Navoi region. Between 1998 and 2000 he worked as the Chief Accountant of the Center of the Kamolot Society of the Tashkent Technical University. In 2001 he began his career in the Central Bank of Uzbekistan as an economist and in 2014 he was promoted as Head of the Financial and Economic Department of the Central Bank of the Republic of Uzbekistan. Between 2015 and 2017, Mr. Atabaev served as Deputy Chairman of the Board of the People's Bank, and then as Deputy Chairman of the Board of the Central Bank of Republic of Uzbekistan between June 2017 and 14 November 2018.

Inomjonov Elyor Isroilovich (born 1978). Mr. Inomjonov graduated from the Tashkent Institute of Engineers of Irrigation and Agricultural Mechanization in 1999, the Tashkent State University of Economics in 2003, the Graduate School of Business of the Academy of State and Social Construction under the President of the Republic of Uzbekistan in 2010 and Khitotsubashi University Japan in 2013. He began his career in 1999 as a specialist of the retail services department of the city branch of the National Bank of Uzbekistan. Between 2004 and 2019, he held different managerial positions, among others, the Head of the Department for monitoring the activities of commercial banks of the Tashkent City Main Administration of the Central Bank, manager of the Bank's Yunusabad branch of the Bank, the Head of Currency Exchange Operations and the Head of Department of Analysis at the Central Bank. At present, Mr. Inomjonov is also the Acting Head of Corporate Banking and Market Tools Block.

Zulfukarov Jura Ismailovich (born 1974). Mr. Zulfukarov graduated from the Tashkent Financial Institute in 1996 and the Graduate School of Business of the Academy of State and Social Construction under the President of the Republic of Uzbekistan in 2008. He began his career in the banking sector in 1993 in the Djizak branch of Agrosanoatbank. Between 1995 and 2018, he held various managerial positions, among others, in the Jizzakh branch of Pakhta Bank, the Jizzakh branch of the National Bank of Uzbekistan and as the Manager of the Jizzakh branch of Zamin Bank. Subsequently, Mr. Zulfukarov joined the Bank as the Director of the Crediting Department and Acting First Deputy Chairman of the Board. In September 2018, he was appointed the Deputy Chairman of the Board.

Abdurakhmanov Mahmud Akhmatkhuzhayevich (born 1976). Mr. Abdurakhmanov graduated from Tashkent State University in 1998 and the Academy of State and Social Construction under the President of the Republic of Uzbekistan in 2007. He began his career in the banking sector in 1998 at the CBU. Between September 2014 and 2016, Mr. Abdurakhmanov held various managerial positions, including the Head of the Department for Supervision and Regulation of the Activities of Commercial Banks, Credit Organizations and Pawnshops, Head of the Monitoring and Inspection of Capital of Commercial Banks and Deputy Director of the Internal Control Department. He was then promoted as Head of the Internal Control Department for coordinating internal control to counteract the legalization of income derived from criminal activities of the CBU.

Fayazov Jahongir Makhamadzhanovich (born 1969). Mr. Fayazov graduated from the National University of Uzbekistan and Tashkent State Economic University. He began his career in 1997 in the Department of Lending for the Construction of Residential Buildings of the city branch of Uzzhilsberbank. Subsequently, he held various positions in the Planning and Financial Analysis Department of Uzzhilsberbank branch. Since 2001, he worked as the Head of the Treasury Department at the head office of Uzzhilsberbank, and then the Bank.

Normetov Elyor Zafarovich (born 1982). Mr. Normetov graduated from the Tashkent Financial Institute in 2004. He began his career in January 2005 in the Yakkasaray branch of People's Bank as an accountant-controller. From April 2009 to December 2011, he held various positions in the Rakatsky

branch of Uzpromstroybank. In December 2011, Mr. Normetov was appointed as Chief Accountant of the Tashkent regional branch of Uzpromstroybank. From July 2013 to October 2015, Mr. Normetov was appointed as Deputy Head of the Internal Control Department in the Bank to counteract the legalisation of income derived from illegal activities. Since October 2015, Mr. Normetov has been working as the Chief Accountant at the Bank.

Murodov Humoyun Gairatovich (born 1983). Mr. Murodov graduated from the Tashkent State Law Institute. In 2006, he started practising as a lawyer in the Sergeli branch of the Bank. From August 2006 to June 2009, he initially worked as an acting officer, before being promoted as the Head of the Legal Department of the Tashkent city branch. From June 2009 to June 2011, he worked as a Chief Specialist, and also headed various units of the Legal Department of the Head Office of the Bank. From June 2011 to January 2017, he served as Acting Head of the Legal Department. In January 2017, he was appointed as the Head of the Legal Department of the Bank.

The business address of each member of the Management Board is the Bank's registered office. No actual or potential conflicts of interest exist between the duties that any member of the Management Board owes to the Bank and such member's private interests or other duties.

Corporate Governance

The Bank complies with the Uzbekistan corporate governance regime. Corporate governance at the Bank has been carried out in accordance with the requirements of the Regulation on the Management of the Bank rules governing the operation of joint-stock companies and credit organisations in Uzbekistan, the Bank's Charter and other internal documents of the Bank.

As a legal entity, whose shares and debt securities are listed on the Tashkent Stock Exchange, the Bank is required to comply with a number of corporate governance requirements applicable to issuers of securities that are traded on the Tashkent Stock Exchange.

As part of its corporate governance regime, the Bank follows the rules of:

- the Corporate Governance Code, which was approved by the Commission for Enhancement of Efficiency of the Joint-Stock Companies' Activity and Improvement of the Corporate Governance System No.9 dated 31 December 2015; and
- the Corporate Governance for State-owned Entities which was approved by the Committee on the improvement of the effectiveness of the Joint Stock Companies and development of the system of corporate governance No.15 dated 20 April 2018.

The Bank's Corporate Governance practice sets out the Bank's main corporate conduct principles, promoting better performance of the management bodies of the Bank. It was based on a balanced approach to the interests of the Bank's shareholders, management bodies and other interested parties, with a view to enhance reliability and client satisfaction, promote business culture, improve control over the Bank's performance and to ensure compliance with the highest ethical standards. The Corporate Governance system seeks to improve and systemise approaches to client satisfaction by providing high quality banking services and reliability in accordance with the Bank's plan to evolve as a modern financial institution. To keep client service in line with high financial, business and technological standards, the Bank voluntarily undertakes to follow the principles and rules of corporate governance set out in the Corporate Governance Code and the rules of the Corporate Governance for State-owned Entities. These principles and rules correspond to international best practices of corporate conduct and represent a high level of governance and performance control, business culture and compliance with high ethical standards. As corporate governance practice evolves in Uzbekistan and abroad, the Bank will seek to further improve its corporate governance rules and principles and achieve a higher level of compliance with the principles set out in the Corporate Governance Code.

Among other things, the Bank has implemented the following corporate governance features:

Independent Directors

According to the Regulation on the Supervisory Board of the Bank and the Corporate Governance Code, independent directors of the Bank are those Supervisory Board members who have no direct or indirect relationship with the Bank other than membership on the Supervisory Board, and who, among others:

- are not, and have not been in the past five years, employed by the Bank or its affiliates, where “affiliates” means, with respect to any person, any individuals or entities directly or indirectly controlling, controlled by or under common control with, that person and “control” means the power of an individual or entity, whether independently or jointly with other individuals or entities, directly or indirectly (through third parties), to influence activities of entities and/or individuals (including to determine the decision of the management or business policies of an entity through the direct or indirect (i.e. through third parties) ownership of more than 20 per cent. of its capital and/or by contract made between that individual or entity and the other individual(s) and/or entity(ies);
- are not a shareholder of the Bank, its subsidiaries or affiliated companies;
- are not associated with a major customer or supplier with the corresponding agreement for an amount exceeding five thousand times of the minimum wages established by law, with the Bank, its subsidiaries or affiliated companies;
- do not have service contracts with of the Bank, its subsidiaries or affiliated enterprises;
- are not a family member of a person who holds or held during the last five years a managerial position in the Bank, its subsidiaries or affiliated companies;
- are not a controlling person of the Bank (or a member of a group of persons and/or organisations that collectively exercise control over the Bank); and
- are not related to the Bank by civil law contracts and are not an employee of a major shareholder of the Bank or a superior sectoral department (company).

The requirement for independent directors also includes:

- at least 10 years’ experience and work experience in the banking/financial sector, including preferably in listed/public banks and other financial institutions as a member of a supervisory board, and/or in management positions;
- absence of conflict of interest in relation to the Bank by holding a position in competing banks or other financial institutions, or owning a package of shares (stakes) in their authorised capital;
- practical experience in implementing advanced corporate governance practices, improving the performance of banks, which will subsequently make a tangible contribution to the development of the Bank;
- possession of special skills in certain areas related to the functional duties of an independent member, membership in the committees of the Supervisory Board;
- possessing an impeccable reputation/positive achievements in the business or industry environment, adhering to the principles of corporate governance, including high ethical standards; and
- having sufficient time to participate in the work of the Supervisory Board not only during its meetings, but also to properly study the materials for its meetings.

The above independence criteria exceeds the requirements of the Bank’s regulation on the Supervisory Board and the CBU’s guidance. The Bank also complies with the independence criteria for directors

prescribed by the Tashkent Stock Exchange Listing Rules. The Bank's Supervisory Board currently has five independent directors.

Inspection Commission

According to the Charter and other internal regulations of the Bank, the Inspection Commission is elected to control the body of the Bank whose function is to inspect the results of financial and economic activities of the Bank. The Inspection Commission is elected only by the General Meeting of Shareholders and the number of members is determined by the charter of the company.

Inspections of the financial and economic activities of the Bank may be carried out under the initiative of the Inspection Commission, the General Meeting of Shareholders, the Supervisory Board or at the request of shareholders holding not less than five percent of voting shares of the Bank, by preliminary notification to the Supervisory Board according to the results of activity of the Bank for an annual or other period.

The Inspection Commission submits to the General Meeting of Shareholders or to the Supervisory Board a report of any inspection made along with, if necessary, recommendations for the elimination of any identified shortcomings as well as a conclusion on the compliance of the reports and other financial documents with the norms and rules of accounting and reporting, compliance of the financial and economic activities of the bank with the legal acts, together with recommendations for the approval thereof.

The activities of the Inspection Commission are regulated by the Bank's internal regulations approved by the annual General Meeting of Shareholders pursuant to Protocol No.24 of 23 June 2017. The results of inspections, and all decisions made by the Inspection Commission, are recorded in the minutes of its meetings. The minutes are signed by the Chairman and members of the Inspection Commission.

The amount and procedures for remuneration of the members of the Inspection Commission are established by the General Meeting of Shareholders.

Internal Audit Service

The Bank has an Internal Audit Service which is accountable to the Supervisory Board of the Bank. The Internal Audit Service controls and assesses compliance by the executive body, branches and representative offices of the Bank with the Charter of the Bank and other documents, ensuring the full and reliable reflection of data in accounting and financial reports, compliance with established rules and procedures for the implementation of economic operations and the keeping of assets as well as the work of the executive body, branches and representative offices of the Bank by monitoring and inspecting their compliance with requirements established in legislative acts related to the management of the Bank.

The Internal Audit Service's functions also include maintaining the Supervisory Board's control over activities of the Bank's executive bodies and ensuring co-operation with the Bank's executive bodies on matters within the committee's competence, supervision over the reliability and efficiency of the Bank's financial activity and internal control system, control over measures taken to ensure the Bank's financial statements are complete, accurate and true, implementing and promoting a culture of risk management within the Bank, ensuring independence and fairness of internal and external audit functions, controlling performance of, and measures taken by the Bank's executive management under, the system alerting of potential malfeasance by the Bank's staff (including abuse of insider or confidential information) or by third parties, and of other irregularities in its operations.

Corporate Consultant

The Corporate Consultant monitors the compliance with the corporate laws and his role is to enhance the efficiency of the Bank's development management in the interest of the shareholders, coordinate the Bank's actions aimed at the protection of shareholders' rights and interests, improve the Bank's corporate governance practices and standards, maintain the effective operation of the Bank's General

Meeting of Shareholders and Supervisory Board, as well as ensure active ongoing interaction with the Bank's shareholders, Supervisory Board members and the Bank's executive bodies.

Policy on Regulation of Transactions with Related Parties

The Bank approved the Policy on the Regulation of Transactions with Related Parties, which regulates the procedure for concluding transactions with related parties, principles of conflict of interest management, obligations of the Bank's officials related to conflicts of interest to disclose information about their affiliated (connected) parties, persons, the procedure for consideration, approval and disclosure of information, the procedure for monitoring in order to identify transactions with related parties, the grounds and conditions for the occurrence of liability of the officials of the Bank and other persons recognized as related to the Bank parties. At the same time, the management of the conflict of interests of the Bank's officials is based on the following principles:

- Mandatory disclosure by an official of information about a real or potential conflict of interest;
- Mandatory verification of transaction concluded by the Bank for compliance with the criteria for transactions with related parties;
- Investigation of each case of a conflict of interest and an unbiased assessment of guilt (where intentional or through negligence) in the actions of an official, as well as the amount of damage caused to the Bank by an official who violated his obligations towards the Bank;
- Protection from harassment of employees who reported a conflict of interest, information about which was not disclosed by an official in a timely manner; and
- Inadmissibility of an official's participation in the consideration and decision-making on the entry/participation of the Bank in legal relations when such an official has or is revealed to have a conflict of interest.

Code of Business Conduct and Corporate Ethics

On 13 August 2020, the Bank also adopted its Code of Business Conduct and Corporate Ethics (the "**Code of Ethics**"), which sets out the standards of the Bank's activities and employees' conduct with the focus on maintaining ethical standards, quality of service provided to customers, which has the effect of increasing the Bank's profitability, financial stability and efficiency. The objectives of the Code of Ethics include defining the Bank's mission and corporate values; ensuring the Bank's employees understand their personal responsibility to the Bank's customers, business partners, shareholders and their colleagues for executing their official duties and performing their functions; and setting forth the fundamental principles of the Bank's relationships with customers, business partners, state and municipal authorities, competitors and the Bank's employees, as well as protecting the interests of the Bank's shareholders, customers, business partners and employees. In addition, the Code of Ethics sets forth the key principles of handling the Bank's insider information and sets out the Bank's gifts policy.

The Code of Ethics applies to all employees of the Bank. Employees are required to act in accordance with the Code of Corporate Ethics and avoid situations where their personal interests conflict with the Bank's interests, and the Bank's managers of various levels are required to supervise and ensure their subordinates' compliance with the provisions of the Code of Ethics. Control over compliance with this Code is carried out directly by the heads of the Bank's structural divisions. The heads of structural divisions are obliged to report the facts of violations of this Code to the Bank's Management. When considering complaints and situations that negatively affect the business reputation of the Bank and / or are related to material damage, the culprits are identified and the decision is made whether to apply penalties. The Bank views the adoption of the Code of Ethics as an important development in continuing to improve the corporate governance of the Bank. The Code of Ethics also aims to assist with the integration of new employees into the Bank's corporate culture.

Remuneration

For the year ended 31 December 2019, aggregate remuneration (excluding social security costs) paid by the Bank to the members of its Supervisory Board and Management Board was UZS 3,092 million. For the years ended 31 December 2018 and 2017, the aggregate remuneration (excluding social security costs) paid by the Bank to the members of its Supervisory Board and Management Board was UZS 1,503 million and UZS 1,242 million, respectively.

Members of the Supervisory Board are remunerated according to the Regulation on remunerations and compensations payable to members of the Supervisory Board (approved by the annual General Meeting of Shareholders on 28 June 2019). The members of the Bank's Management Board enter into employment contracts with the Bank, which set forth their remuneration divided into non-performance related and performance-related components.

Litigation Statement Concerning Management

For the previous five years, none of the members of the Supervisory Board or the Management Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Other Interests

No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board or the Management Board owes to the Bank and such member's private interests or other duties.

PRINCIPAL SHAREHOLDERS

As at the date of this Prospectus, the Bank's charter capital consists of 2,809,392,130,434 ordinary shares and 8,052,000,000 preference shares, all of which are fully paid, issued and outstanding and have a nominal value of 1 soum per share. The ordinary shares of the Bank have been listed on the Tashkent Stock Exchange since 2003 under the symbol IPTB. As at 9 November 2020, the Bank's free float amounted to 2.6 per cent. of its share capital.

The following table sets forth the shareholders of record of the Bank as at 30 June 2020:

Shareholder	Number of shares	Percentage of the share capital (%)
Fund for the Reconstruction and Development of the Republic of Uzbekistan	2,294,983,001,813	81.5
Ministry of Finance of the Republic of Uzbekistan	296,964,321,085	10.5
JSC "Uzbekneftgaz" ⁽¹⁾	76,006,709,064	2.7
Others (individually less than 5 per cent.) ⁽²⁾	149,490,098,472	5.3
Total	2,817,444,130,434	100

Notes:

- (1) In accordance with Presidential Decree No. DP-4388 dated 9 July 2019, JSC "Uzneftmahsulot" (which held 2.7 per cent. of the Bank's issued share capital as at 31 December 2019) was merged into JSC "Uzbekneftgaz" in order to increase the effectiveness of their management procedures and systems, which also resulted in JSC "Uzbekneftgaz" becoming the holder of the abovementioned proportion of the Bank's issued share capital as at 30 June 2020.
- (2) As at 30 June 2020, there were a total of 16,031 shareholders that owned less than one per cent. of the Bank's issued share capital. Of this amount, 11,249 were individuals and 4,782 were legal entities.

In accordance with Presidential Decree No. PP-4112 dated 15 January 2019, the Ministry of Finance's ownership interests in the authorised share capital of the Bank was transferred to the Agency for State Assets Management of the Republic of Uzbekistan. The purposes of the transfer was to consolidate all of the state's shareholders under a single governmental body. As a result of the Bank's ongoing transformation and privatisation, however, these shares were transferred back to the Ministry of Finance in accordance with the Cabinet of Ministers No. 523 dated 25 June 2019.

The UFRD was founded, and is represented by, the Ministry of Finance. Its principal activity is to oversee the implementation of various projects designed to modernise various sectors of Uzbekistan's economy. JSC "Uzbekneftgaz" is majority owned by the Agency for State Assets Management of the Republic of Uzbekistan and its principal activities centre around providing guidance to, and coordinating work between, joint-stock companies, enterprises and organisations that are within its group as well as to determine strategy and development in relation to the Uzbek oil and gas industry.

As at 1 October 2020, the UFRD, the "Tashkent City Khokimiyat Municipal Assets Management Center" State Unitary Enterprise and Ministry of Finance together held a 92.3 per cent. ownership interest in the Bank's share capital, which together comprise the Government's shareholding. Pursuant to Presidential Decree No. 4487 dated 9 October 2020 and Presidential Decree No. 5992 dated 12 May 2020, the Ministry of Finance is responsible for the transformation and modernisation of the Bank (and other state-owned banks) and will exercise the functions of sole shareholder in respect of all shares held by or on behalf the Government for the purposes of addressing the objectives outlined in the abovementioned Presidential Decrees.

The Bank is not aware of any arrangements in existence as at the date of this Prospectus that could reasonably be expected to result in a change of control of the Bank.

CERTAIN TRANSACTIONS WITH RELATED PARTIES

The following is an overview of the Bank's transactions with related parties as at the dates indicated below. The financial information set forth herein has, unless otherwise indicated, been extracted without material adjustment from the Financial Statements. See also "Capitalisation".

The Bank applies a disclosure exemption regarding Government-related entities, where the Government has control or joint control of, or significant influence over, both the Bank and the other entities disclosed as government entities. See Note 37 of the Annual Financial Statements and Note 26 of the Interim Financial Information for further information. As at 30 June 2020, 31 December 2019, 2018 and 2017, the amount due from other banks in respect of deposits placed with state-owned banks totalled UZS 204,163 million, UZS 94,953 million, UZS 56,435 million and UZS 11,311 million, respectively.

As at 30 June 2020, 31 December 2019, 2018 and 2017, loans and advances to customers that are state-owned enterprises totalled UZS 3,182,270 million, UZS 3,298,438 million, UZS 5,633,935 million and UZS 5,140,147 million, respectively.

The table below sets out the outstanding balances as at 30 June 2020 and 31 December 2019, 2018 and 2017.

	As at 30 June 2020	As at 31 December		
	UZS millions (unaudited)	2019	2018	2017
			UZS millions (audited)	
Assets				
Debt securities of the Government of the Republic of Uzbekistan				
Entities with significant influence over the Group	664,055	131,149	154,610	-
Total	664,055	131,149	154,610	-
Liabilities				
Customer accounts				
Entities with significant influence over the Group	1,033,527	966,422	59,648	17,677
Total	1,033,527	966,422	59,648	17,677
Borrowings from government, state and international financial institutions				
Entities with significant influence over the Group	7,815,268	8,096,225	8,669,253	4,640,262
Total	7,815,268	8,096,225	8,669,253	4,640,262
Other borrowed funds				
Entities with significant influence over the Group	425,905	425,905	-	-
Total	425,905	425,905	-	-

Notes:

- (1) Entities with significant influence over the Group comprises legal entities and shareholders which have a significant influence on the Group through the Government.
- (2) Key management personnel comprises members of the Management Board and the Council of the Bank.

The table below sets out the income and expense items with related parties as at 30 June 2020 and 31 December 2019, 2018 and 2017.

	As at 30 June 2020	As at 31 December		
	UZS millions (unaudited)	2019	2018	2017
			UZS millions (audited)	
Interest income				
Entities with significant influence over the Group	27,355	44,351	187	-
Total	27,355	44,351	187	-
Interest expense				

Entities with significant influence over the Group.....	(158,046)	(257,081)	(171,542)	(75,558)
Total	(158,046)	(257,081)	(171,542)	(75,558)
Administrative and other operating expenses				
Key management personnel.....	(1,625)	(3,865)	(1,879)	(1,552)
Total	(1,625)	(3,865)	(1,879)	(1,552)
Share results of associates				
Associates.....	(33)	(62)	(59)	-
Total	(33)	(62)	(59)	-

Notes:

(1) Key management personnel comprises members of the Management Board and the Supervisory Board.

The table below sets out key management compensation as at 30 June 2020 and 31 December 2019, 2018 and 2017.

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
	<i>UZS millions</i>		<i>UZS millions</i>	
Short-term benefits				
Salaries and other short term benefits.....	1,300	3,092	1,503	1,242
Social security costs	325	773	376	310
Total key management personnel compensation.....	1,625	3,865	1,879	1,552

THE BANKING SECTOR AND BANKING REGULATION IN THE REPUBLIC OF UZBEKISTAN

The Uzbekistan financial sector consists mainly of Uzbekistan banks, non-bank depository institutions, microfinance organisations, qualified credit institutions and insurance companies. Non-bank depository institutions and microfinance organisations provide a limited range of banking services, such as accepting deposits from, and issuing loans to, their members only (in the case of non-bank depository institutions), or issuing micro-loans (in the case of microfinance organisations), while banks provide a wide range of banking services. The CBU acts as the regulator of the financial sector supervising the banking sector. The CBU issues licences, establishes mandatory economic ratios and reserve requirements, regulates accounting and reporting rules and supervises compliance with laws and regulations. The CBU also controls inflation, issues money and ensures the effective functioning of payment systems. The main objective of the CBU is the stability of the national currency.

History of the Uzbekistan Banking Sector

The Uzbekistan banking sector was transformed following Uzbekistan's independence from the Soviet Union on 31 August 1991, as a two-tier banking system was introduced and the CBU was established with the adoption of the law *"On banks and banking activity"*. Development of monetary policy and the payment system and formation of the commercial banking industry were among the main objectives of the newly established CBU.

The soum, introduced as the national currency on 1 July 1994, was a landmark in the formation of an independent banking system and the development of the economy of Uzbekistan as a whole. Afterwards, the CBU became an independent body and began to perform its function as a facilitator of the effective formation of the national monetary system. The law *"On the Central Bank of the Republic Uzbekistan"*, which was adopted in 1995, clearly defined new status, powers, goals and objectives of the CBU.

The law of the Republic of Uzbekistan *"On banks and banking activity"*, adopted in 1996, established the legal framework for the activity of commercial banks. The laws *"On the Central Bank of the Republic Uzbekistan"* and *"On the banks and banking activity"* were both drafted based on best practices of developed financial systems. These laws, as well as the law *"On the stock companies and protection of the rights of the shareholders"*, created favourable legal conditions to establish private banks. Due to the reforms implemented in 1996, the CBU became an independent authority for monetary regulation and banking supervision. The law *"On the banks and banking activity"* laid down principles for the formation of universal commercial banks based on the diversification of banking assets and the attraction of foreign capital.

In 1996, credit and financial institutions serving particular sectors of the economy, such as the automobile industry, aircraft building, agriculture and others, were created to finance these strategic sectors. More specialised banks were established to meet the needs of business environments and economic developments in a wider range of economy sectors.

In 1997, reforms were implemented to stimulate private capital inflows to the banking sector. This process was followed by the decree of the President of the Republic Uzbekistan *"On the arrangements on motivation to form private commercial banks"* in 1997 providing certain benefits to the banks which were 50 per cent. or more privately owned. From March 1997, after the introduction of new software and the conversion of all accounts to an electronic regime, banks were able to process payments within 15 minutes across the whole territory of the Republic and within three minutes across Tashkent.

The statutory acts regulating the activity of commercial banks were established on the basis of Basel recommendations on banking supervision and international practice, as well as by taking into consideration the framework of international standards on financial statements. Furthermore, the principle of prior detection of issues on commercial banks' balance sheets was introduced. In addition,

new measures were introduced with the aim of supporting the financial stability of commercial banks, including capital and liquidity control.

From 1999 to 2000, Uzbekistan implemented a mechanism for foreign exchange sales. This mechanism allowed authorised banks to purchase currency from their clients on a contractual basis.

In 2002, the law of the Republic of Uzbekistan “*On the guarantee of security of funds of citizens in the banks*” established the Deposit Security Fund, which covered all commercial banks operating on the territory of Uzbekistan.

From 2003 to 2004, the regulation and systematic development of banking activity focused on further liberalisation and intensification of the reforms in Uzbekistan. Its main objective was to strengthen confidence in the banking sector. In October 2003, the Republic of Uzbekistan assumed obligations under Article 8 of the IMF Articles of Association. The policy of the CBU at this time was aimed at setting incentives for export and effective use of currency resources, together with prevention of inflation and sharp fluctuations in currency exchange rates.

Between 2005 and 2006, an emphasis was made on the realisation of management of monetary policies, and improvement of stability of the national currency and its exchange rate.

From 2006 to 2007, the Banks expanded their mortgage loans portfolio. The law “*On mortgage*” and the law “*On consumer loans*” facilitated mortgage loans and consumer loans. As a result, such types of loans became very popular.

In 2006, the UFRD was established to finance and co-finance projects of the state investment program. The UFRD is a financial institution under the authority of the Cabinet of Ministers of the Republic of Uzbekistan, designed to ensure the implementation of projects for the modernisation and technical re-equipment of leading sectors of the economy, dynamic, sustainable and balanced socio-economic development of the country, as well as the implementation of an effective structural and investment policy. The UFRD provides loans for state-owned entities through commercial banks on concessional terms. The UFRD’s loans are granted for a period of between 7 and 15 years, including a grace period of 3 to 5 years, at a minimum rate of 2.3 per cent. The UFRD’s resources come from surplus tax revenues from the subsoil and export taxes, income from the sale of products under production sharing agreements with foreign partners and other revenue streams.

From 2008 to 2009, the main objective of the CBU was the development of retail banking. As a result, the range of services provided by the commercial banks of Uzbekistan expanded and new banking products were introduced.

From 2014 to 2017, the Government introduced reforms covering the corporate governance principles’ implementation, step-by step implementation of Basel III and the improvement of material resources of commercial banks by providing customs exemption for imports of software, ATMs and other bank equipment supporting settlement by plastic cards. Such measures were adopted to increase the financial stability of commercial banks and to improve their material base.

In 2015, commercial banks in the form of joint-stock companies were obligated to have foreign investors holding at least 15 per cent. of their share capital. Several banks started negotiations with foreign investors. Such requirement was repealed on 18 March 2020.

In 2017, in order to ensure the commercial banks’ liquidity, the requirement on mandatory deposits of funds by commercial banks with the CBU to cover potential losses on state assets was revoked.

In 2017, capital support received by Uzbekistan banks from the UFRD was approximately U.S.\$677.5 million. The UFRD provided additional capitalisation to Asakabank amounting to U.S.\$170million, Agrobank amounting to U.S.\$140million, Turonbank amounting to U.S.\$22million, National Bank for Foreign Economic Activity of the Republic of Uzbekistan amounting to U.S.\$51million and other banks amounting to U.S.\$223.5 million. In 2018, the health of the banking sector improved and the UFRD had

only to inject U.S.\$60 million into Turonbank. Such measures were done to support a capitalisation level of

commercial banks, to increase financial stability of the banking system, and expansion of the banks' participation in investment projects and services provided to SME.

In 2017, the CBU (jointly with the General Prosecution Office) approved the Rules on internal control in commercial banks to counteract a laundering of money generated by crime activities, terrorism financing and financing proliferation of weapons of mass destruction (registered with the Ministry of Justice No. 2886 dated 23 May 2017).

In the second half of 2017, the CBU began active reforms in the monetary sector. In order to reduce inflationary pressure, the CBU tightened monetary conditions by raising the refinancing rate from 9 per cent. as at June 2017 to 16 per cent. as of September 2018.

In 2018, the main regulatory changes that were designed to improve the population's access to retail banking across Uzbekistan were implemented. Access to banks' premises was simplified. Customers were able to enter client service areas without producing ID and other documents required before 2018. Banks were required to ensure transparency of loan approval process. Some fines, fees for considering loan application, loan extension and servicing and pre-payment of loans (microloans) were prohibited. The banks were encouraged to introduce new banking products for their consumers to meet their financing needs. The CBU approved the Regulation on minimum requirements for commercial banks to be applied during the interaction with consumers (registered with the Ministry of Justice of Uzbekistan No. 3030 dated 2 July 2018).

In 2019, to improve the regulation of the banking and financial sector the laws "On banks and banking activity" and "On Central Bank" were adopted in a revised version. The regulation of the payments and payment systems in Uzbekistan was set out in the law "On payments and payments systems". As per Presidential Decree No. UP-5877 dated 18 November 2019, Uzbekistan started transitioning to the inflation-targeting regime from 1 January 2020.

On May 2020, the Government adopted the Strategy on Banking Reforms for the period of 2020-2025. The main purposes of the strategy are to decrease state presence in the banking sector, improving access to and quality of the banking services and products for population, increasing the ranking of the Uzbek banking system.

The CBU also recently created a new platform for interbank monetary operations that connects all commercial banks into a single trading system and ensures transactional transparency. It also established a system of inflation forecasting using econometric models. The CBU has prioritised raising the efficiency of monetary policy in 2018 by minimising the impact of monetary factors on inflation, ensuring price stability and reducing inflationary pressure.

For information on recent reforms and developments in the Uzbekistan banking sector, see "*Recent and Expected Banking Reforms*" below.

Overview of the Banking Sector

As at the date of this Prospectus, the banking sector of the Republic of Uzbekistan consists of 32 active banks, comprising five wholly state-owned banks, 16 joint-stock commercial banks (certain of which are partly state-owned), five banks with foreign capital and six private banks. As at 1 January 2020, according to the CBU, the total number of credit institutions throughout the country, including microfinance organisations and branches of commercial banks, offices of banking services, mini-banks and self-service points was 2,954. As at 1 January 2020, according to the CBU, the aggregate assets of all banks in Uzbekistan amounted to approximately 309.7 trillion soums. The banking system of Uzbekistan remains closely controlled by the state through a complex set of regulatory actions, decrees, proclamations, and practices. Most banking assets remain in state-owned or controlled banks, and the majority of loans are directed or channelled by the Government to develop certain pre-selected industry sectors. The slow pace of reforms in the banking system limits the role that banks can play as financial

intermediaries, thus inhibiting the ability of individuals or private companies to obtain loans and other banking services. A significant portion of sector funding is attributable to the UFRD.

As of 30 June 2020, there was a high level of concentration in the banking sector, with the wholly and partly state-owned banks holding 85 per cent. of all of the banking sector's total assets, 89 per cent. of the banking sector's total loans, 85 per cent. of the banking sector's total share capital and 72 per cent. of the banking sector's total deposits, whereas the banks without state ownership held 15 per cent. of all of the banking sector's total assets, 11 per cent. of the banking sector's total loans, 15 per cent. of the banking sector's total share capital and 28 per cent. of the banking sector's total deposits.

Assets and Liabilities, Credit Quality and Interest Rates

The following table sets out certain data relating to the banking sector in Uzbekistan as at the dates indicated:

	2015	As at 31 December			As at 30 June	
		2016	2017	2018	2019	2020
		<i>(soums billions, except for ratio)</i>				
Total number of banks	26	27		29	29	31
Total equity of banks	7,345.3	8,981.3	20,676.1	26,578.9	51,030.7	54,925.6
of which:						
in national currency	5,376.4	6,697.6	14,488.1	26,312.1	50,726.2	54,600.0
in foreign currency	1,968.9	2,283.6	6,188.0	266.9	304.5	325.5
Total assets of banks	65,293.3	84,075.0	166,631.8	214,319.6	272,726.9	315,975.7
of which:						
in national currency	39,941.6	47,877.5	59,968.2	95,490.9	143,650.2	162,188.1
in foreign currency	25,351.7	36,197.5	106,664.6	118,828.7	129,076.7	153,787.6
Total loans to customers	39,718.3	52,610.5	110,572.1	167,390.6	211,580.5	244,906.2
of which:						
in national currency	23,591.5	30,104.4	41,733.9	73,863.6	110,633.2	122,881.1
in foreign currency	16,126.8	22,506.1	68,838.2	93,527.0	100,947.3	122,025.1
Total deposits	30,057.5	37,183.2	59,578.7	70,001.4	91,009.0	98,227.8
of which:						
in national currency	22,905.3	27,176.4	30,753.4	43,323.5	51,040.0	54,925.8
in foreign currency	7,152.2	10,006.7	28,825.3	26,677.9	39,969.0	43,302.0
Capital adequacy ratio ⁽¹⁾ (%)	14.7	14.7	18.8	15.6	23.5	20.5

Source: CBU

Notes

(1) Total regulatory capital to risk weighted assets.

Historically, the assets of Uzbekistan banks have been weighted in favour of loans to the public sector as compared to loans to the private sector. However, as at 31 December 2019, the distribution of assets was more even.

According to the CBU, loans to legal entities as at 30 June 2020 amounted to UZS 197,515.7 billion, as compared to UZS 171,646.9 billion in 2019, UZS 142,963.7 billion in 2018 and UZS 96,972.0 billion in 2017. Loans to individuals as of 30 June 2020 were UZS 47,390.4 billion, compared to UZS 39,933.6 billion in 2019, UZS 24,426.9 billion in 2018 and UZS 13,600.1 billion in 2017.

Due to increased lending by the banking sector to finance the economy, the loan portfolio growth of the banking sector amounted to 31.4 per cent., 49.2 per cent. and 48.9 per cent. in 2017, 2018 and 2019, respectively. As at 30 June 2020, this indicator amounted to 9.0 per cent.

Banking system soundness in terms of asset quality is characterised by the weighted average of NPLs. NPLs accounted for 2.9 per cent. (according to CBU standards) of total loans in the banking sector as at 1 August 2020, compared to 1.5 per cent. as at 31 December 2019, 1.47 per cent. as at 31 December 2018, 1.2 per cent. as at 31 December 2017. Loan portfolios of banks constituted UZS 211,581 billion as at 31 December 2019, and UZS 110,572.1 billion as at 31 December 2017.

As at 1 July 2020, the majority of aggregate liabilities in the banking sector were attributable to loans. 50.1 per cent. of all liabilities were made up of loans and 37.6 per cent. were comprised of deposits, while the remaining 12.3 per cent. was accounted for by other liabilities. A high concentration of loans is

more prevalent in state-owned banks due to the fact that the UFRD resources were provided to these banks in order to assist in financing the key strategic sectors of the economy. The total liabilities in the banking system have steadily increased in recent years, with, as at 31 December 2016, total liabilities being UZS 75,093.7 billion, as at 31 December 2017, UZS 145,955.7 billion, as at 31 December 2018, UZS 187,741.0 billion and as at 31 December 2019, UZS 221,696 billion. As of 1 September 2020, total liabilities in the banking system amounted to UZS 273,602.0 billion.

The following table sets out the consolidated balance sheet of the banking sector in Uzbekistan as at the dates indicated:

	As at 31 December				As at 30 June	
	2015	2016	2017	2018	2019	2020
	(soums billion)					
Interest Income	4,397.3	5,293.1	7,960.4	14,516.8	25,500.2	17,031.2
Interest Expense	2,500.5	3,075.4	4,623.1	8,354.9	15,601.8	10,522.1
Net profit margin	1,896.7	2,217.7	3,337.3	6,161.9	9,898.4	6,509.0
Fee and commission income	2,856.6	3,403.8	6,916.8	6,564.1	9,619.5	6,157.6
Fee and commission expense	569.3	629.3	1,942.7	1,342.6	2,855.8	1,607.9
Operating expense	2,561.6	3,014.4	4,137.7	5,583.0	6,814.3	3,522.3
Non-interest gain (loss)	(274.3)	(239.9)	836.5	(361.5)	(50.7)	1,027.4
Provision for impairment of loans and leases.....	414.6	438.9	1,631.7	1,746.3	3,855.7	4,055.2
Provision for losses other.....	52.8	73.7	279.0	195.6	298.9	166.8
Profit before tax	1,155.0	1,465.2	2,263.0	3,858.4	5,693.2	3,314.4
Income tax expense	240.5	311.3	379.7	658.9	1,012.5	692.1
Return adjustments	0.0	1.1	2.3	0.0	0.0	0.0
Net profit	914.6	1,152.8	1,881.0	3,199.5	4,680.7	2,622.3

Source: CBU

The current interest rate policy aims to ensure positive real interest rates and contributes to reducing dollarisation of the banking system. As of 20 October 2020, the refinancing rate - which is the main policy rate - was 14.0 per cent. Following the increase in the refinancing rate, the average interest rate on the interbank money market grew from 8.9 per cent. in 2016 to 13.1 per cent. in 2017, to 14.9 per cent. in 2018 and further to 17.5 per cent. in 2019. At the same time, due to the improvement of liquidity in commercial banks, the weighted average interest rate on soum-denominated time deposits with a term of up to one year increased to 17.9 per cent. as at 1 June 2020, from 15.5 per cent. as at 1 June 2019. The weighted average interest rate on soum-denominated time deposits with a term of over one-year increased to 19.1 per cent. as at 1 June 2020 from 17.3 per cent/ as at 1 June 2019.

The international reserves of Uzbekistan consist of foreign currency reserves and monetary gold. Total net foreign currency reserves and monetary gold reserves as at 30 June 2020 were U.S.\$31,620.7 million per CBU data (net international reserves do not include the foreign currency of commercial banks and government entities, except the Ministry of Finance and the UFRD). As at 30 June 2020, Uzbekistan's total official international reserves, including gold and the CBU's foreign currency reserves, amounted to U.S.\$32,331.7 million, an increase of 9.8 per cent. from the beginning of the year and 14.2 per cent compared to the same period of the last year mainly due to the increase of the gold price. Of this, U.S.\$12,454.5 million consisted of foreign currency assets and U.S.\$19,482.3 million was in gold.

Monetary and Exchange Rate Policy

The CBU is responsible for implementing monetary policy. The CBU focuses on ensuring macroeconomic stability and reducing monetary factors influencing inflation. In line with the President's Decree "On Measures to Drastically Improve Activities of the Central Bank of the Republic of Uzbekistan" dated 9 January 2018, the CBU's mandate was expanded to include the medium-term goal of transitioning to inflation targeting, as well as ensuring the stability and development of the banking and payment system.

Starting in 2018, the CBU began focusing its monetary policy on the stability of prices in the economy. Certain currency restrictions were abolished and/or waived, including (i) restrictions on foreign currency purchase and sale by residents and cash withdrawals from debit cards in both national and foreign

currencies for individuals were made available; (ii) the obligation to sell 50 per cent. of export hard currency revenues to commercial banks at CBU's exchange rate; and (iii) commercial banks were allowed to independently set their own tariffs and fees based on market conditions.

Foreign Exchange and International Reserves

From 2014 to 2015, the real effective exchange rate of the soum strengthened against the currencies of the major trading partners of Uzbekistan. As a result, the CBU accelerated the devaluation of the exchange rate of the soum by 67 per cent., from 2,810 soum per U.S. dollar as at 1 January 2016 to 4,210 soum per U.S. dollar as at 29 August 2017 to preserve the competitiveness of domestic products in domestic and international markets.

In September 2017, the CBU liberalised the foreign currency market. As a result, the exchange rate of the soum was devalued to UZS 8,100 per U.S. dollar as at 5 September 2018. As at 31 December 2018, the nominal exchange rate was UZS 8,339.55 per U.S. dollar and as at 9 November 2020, the nominal exchange rate was UZS 10,366.86 per U.S. dollar.

In 2018, soum-denominated notes issued by the IFC were listed on the London Stock Exchange. The CBU holds the international reserves of the Republic of Uzbekistan, including:

- gold and other precious metals;
- foreign currency in cash;
- foreign-currency bank account balances and deposits in foreign banks and international financial organisations; and
- foreign currency securities issued or guaranteed by foreign governments, banks and international financial organisations.

The CBU contributes to the maintenance of international reserves at a level sufficient for the implementation of the monetary and exchange rate policies of the Republic of Uzbekistan, as well as for international transactions.

Foreign Investment

Foreign investment into the banking sector is regulated by the laws “*On the Central Bank of the Republic of Uzbekistan*”, “*On the Banks and banking activities*”, “*On the Securities market*”, as well as the regulation of the Cabinet of Ministers No. 56 dated 10 March 2014 regarding the process of passing the licensing procedures in the sphere of banking activities and Regulation No.2014 dated 8 October 2009 regarding the registration and licensing procedures for banking activities. The new regulation, which replaces Regulation No.56 dated 10 March 2014 and Regulation No.2014 dated 8 October 2009, was adopted on 30 June 2020 and came into force on 1 October 2020. This regulation sets additional requirements regarding the licensing of banks, preliminary approval for the purchase of shares of banks, qualification requirements to the executive management of the banks in line with the new version of the law “*On banks and banking activity*”.

The amount of shareholders' equity of non-resident banks that intend to open banking subsidiaries and buy shares of the banks in the territory of Uzbekistan must be not less than the amount equivalent to EUR200 million. Non- resident banks are not permitted to open branches in the territory of Uzbekistan.

The CBU cooperates with a number of foreign financial institutions and central banks to assist with the transition to inflation targeting model as well as the development of the Uzbek banking system. In 2018, the CBU participated in seven joint projects with IMF regarding enhancement of monetary policy instruments, stress-testing models for commercial banks, financial statistics enhancement and balance of payments maintenance.

The CBU closely cooperates with the World Bank, as it provides technical assistance on issues of stress-testing methodology of the banking sector and a framework of rules and regulations on prudential supervision. The CBU also cooperates with the World Bank in digital banking and financial education.

The CBU also cooperates with the EBRD under the Memorandum of Understanding Regarding Cooperation in the Republic of Uzbekistan.

The ADB provided technical assistance and support in the implementation of a risk-based approach in bank supervision. The National Bank of Switzerland advises the CBU in respect of the implementation of inflation analysis and forecasting models.

The liberalisation of foreign exchange control in September 2017 evidences efforts by the Government to improve the foreign investment climate in the country.

Concentration within the Banking Sector

As at 1 June 2020, there was a high level of concentration in the banking sector, with the wholly and partly state-owned banks holding 85 per cent. of all of the banking sector's total assets, 89 per cent. of the banking sector's total loans, 86 per cent. of the banking sector's total share capital and 71 per cent. of the banking sector's total deposits, whereas private banks held 15 per cent. of all of the banking sector's total assets, 11 per cent. of the banking sector's total loans, 14 per cent. of the banking sector's total share capital and 29 per cent. of the banking sector's total deposits.

Payment Systems

There are two settlement systems currently in place in Uzbekistan. The first is the Interbank Payment System, which is designed for conducting electronic payments in soums among banks through their correspondent accounts at the CBU. The second system is the Unified Republic-wide Processing Center, which brings together the commercial banks that issue Uzbek soum cards. The centre established the interbank payment clearing system for soums plastic cards called "Uzcard" and "Humo", respectively.

Credit Ratings

In 2018, S&P affirmed its "BB-" long- and short-term foreign and local currency sovereign credit ratings of the Government, with a stable outlook. In 2018, Fitch affirmed Uzbekistan's long-term foreign and local currency issuer default ratings at "BB-" with a stable outlook. Fitch also affirmed the issuer default ratings on Uzbekistan's senior unsecured foreign- and local-currency bonds at "BB-" and the country ceiling was affirmed at "BB-".

Several Uzbekistan banks, including the Bank, have been rated by international rating agencies. In 2019, Fitch affirmed its long-term foreign and local issuer default rating at "BB-", and S&P has upgraded its rating of the Bank to "BB-" with a stable outlook in October 2019. On 5 June 2020, S&P changed the outlook from 'stable' to 'negative' and informed that during the next 12-24 months, there is a high risk that S&P will downgrade the credit rating of Uzbekistan.

Role of the Central Bank of Uzbekistan

The CBU is the head of the banking system for the Republic of Uzbekistan under Article 124 of the Constitution. The Constitution of the Republic of Uzbekistan, the law "*On the Central Bank of the Republic of Uzbekistan*" and other legislative acts determine the legal status, powers, principles of organisation and activities of the CBU.

The CBU is a legal entity owned by the state, but it carries out financial activities and makes decisions within its authority independently. The CBU issues banknotes in circulation, acts as a bank, adviser as well as a fiscal agent of the Government of the Republic of Uzbekistan, and stores and manages official foreign exchange reserves for the Republic of Uzbekistan. The CBU is responsible for most of the supervisory and regulatory functions in Uzbekistan's financial sector. Additionally, the CBU can buy and sell government securities on the open market, as well as debt obligations issued by the CBU itself.

The primary goals of the CBU are to ensure price stability and the development of the banking and payment systems. To accomplish these goals, the CBU: (i) implements monetary policy by managing liquidity in the interbank money market through interventions in the foreign currency market, short-term refinancing loans, foreign currency swaps, open market operations and setting reserve requirements; (ii) sets interbank operational policies; (iii) ensures the stability and development of the banking and payment systems; and (iv) sets foreign currency regulation.

Role of the CBU as the Supervisor of Uzbekistan's Financial Sector

The main objectives of the CBU as regulator of the finance market are:

- formation, acceptance and implementation of monetary and currency control;
- the implementation of an effective settlement system in the Republic of Uzbekistan;
- licensing and supervision of banks, microfinance organisations, non-bank depository institutions, qualified credit institutions and credit bureaus;
- storage and management of official gold and foreign exchange reserves of the Republic of Uzbekistan; and
- implementation of the state budget together with the Ministry of Finance.

The CBU has the right to:

- represent the interests of the Republic of Uzbekistan in central banks of other states, international banks and other financial institutions;
- enter into financial transactions and render banking services to foreign governments, foreign central banks and bodies of monetary control, and also the international organisations of which the Republic of Uzbekistan is a member;
- open representative offices in foreign states; and
- perform accreditation in the Republic of Uzbekistan of representative offices of foreign banks.

Relations of the CBU with banks and credit institutes of other states are performed according to international treaties of the Republic of Uzbekistan and interbank agreements.

Issuing Money and Regulating its Circulation

The CBU is exclusively entitled to issue monetary symbols in circulation in the form of banknotes and coins as legal means of payment in the territory of the Republic of Uzbekistan. Banknotes and coins in circulation are unconditional obligations of the CBU and are backed by all of its assets.

The CBU also establishes rules for the storage, transportation and collection of cash.

Monetary Policy

The CBU develops the main directions for the monetary policy of the Republic of Uzbekistan for the coming year no later than 30 days before the beginning of the next fiscal year.

The main directions of monetary policy should contain:

- analysis and forecast of economic conditions;
- limits on the volume of money in circulation;
- targets for the annual growth rate of the money supply, including changes in the internal assets of the CBU;

- main directions of currency and interest rate policy; and
- the main objectives for monetary and credit regulation.

Acting as Banker, Adviser and Fiscal Agent of the Government

The CBU may carry out banking operations to maintain the main accounts of state authorities and their agencies, organisations, authorities of the Ministry of Defence, Ministry of Internal Affairs, National Security Service, Ministry of Emergency Situations, State Customs Committee Republic of Uzbekistan, as well as enterprises, institutions and organisations subordinated to the CBU.

The CBU acts as a banker, adviser and fiscal agent of the Government of the Republic of Uzbekistan. The CBU also advises the Government on all-important issues related to its tasks and competencies. Furthermore, the CBU annually submits to the Government a report on economic and financial issues with recommendations on the preparation of the state budget.

The Government consults with the CBU on borrowing plans from internal and external sources, including the amounts that will be paid as part of such borrowing, on proposed terms and conditions for granting loans. The Ministry of Finance informs the CBU about all loans received by the Republic of Uzbekistan and its governmental bodies.

The CBU may accept deposits and currency values of the Government, as well as other government bodies, if they have permission from the Ministry of Finance. As a depository institution, the CBU receives and issues cash and currency values and keeps their records. It can pay interest on specified deposits.

The CBU, acting under the terms agreed with the Ministry of Finance, may act as a fiscal agent of the Government of the Republic of Uzbekistan and state bodies upon:

- placement of debt obligations issued by the Ministry of Finance and other state bodies, registration of placement and acting as an agent during their transfer;
- payment for the value, interest and other payments on specified securities;
- maintenance of accounts for the specified securities and execution of payment transactions with them; and
- implementation of other transactions with specified securities.

The CBU advises the Ministry of Finance on the schedule of issuance of government securities and the repayment of public debt, and considers their impact on the liquidity of the banking system and monetary policy priorities when doing so.

The CBU can also act as a lender to the Government through a specifically stipulated procedure, which includes, *inter alia*, confirmation of the amount by the Oliy Majlis (Parliament) of the Republic of Uzbekistan, coverage by asset security and with instruments of a maturity of up to one year.

Operation of Clearing and Settlement Facility

The CBU is entitled to assist banks in settlement and clearing services for interbank payments, including payment by cheques and other payment instruments. The CBU is entitled to determine at its discretion the procedure for conducting such operations and to give appropriate prescriptions.

Supervision and Licensing

The CBU regulates and supervises the activities of banks, microfinance organisations, lombards and credit bureaus in order to maintain the stability of the financial and banking system, protect the interests of depositors, borrowers and creditors, as well as monitor and control their compliance with internal rules and the procedures for providing information related to countering money laundering, terrorist financing and the proliferation of weapons of mass destruction.

The CBU establishes:

- binding rules for banks to conduct banking operations, accounting and banking statistical reporting, and the preparation of annual reports;
- binding rules for microfinance organisations to conduct financial operations, accounting and reporting; and
- binding rules governing activities and operations of lombards and credit bureaus.

The CBU is entitled to:

- receive and monitor reporting and other documents of banks, microfinance organisations, lombards and credit bureaus, and request and receive information about their activities;
- monitor activities of banks and microfinance organisations, their branches and affiliated entities, as well as the activities of lombards and credit bureaus, and to impose sanctions for violations;
- set requirements to internal audit of banks and credit bureaus;
- set requirements to implementation of the quality classification of bank assets and the creation of adequate reserves to cover potential losses on assets;
- define conditions and procedure for writing off loss or assets;
- issue instructions to eliminate the violations identified in their activities to banks, microfinance organisations, lombards and credit bureaus; and
- determine qualification requirements managers, members of the board, chief accountants of banks and their branches, heads of executive bodies of microfinance organisations and credit bureaus.

In order to start operations, a bank in Uzbekistan is required to be registered with the CBU and hold a general banking licence issued by the CBU. Establishment of a bank is subject to a prior authorisation of the CBU. A decision concerning the issuance of a prior authorisation should be rendered within a period not later than three months from the day of submission of the application with all necessary documents, and should be based on a valuation of the financial possibilities, reputation of the founders, professional qualifications of the directors of the bank, evaluation of the business plan, financial plan, structure of capital, and confirmation of assets required for banking activities (such as premises and equipment).

In order to register a bank and obtain a banking licence, the founders must within a period not exceeding six months from the date of receipt of prior authorisation, comply with the requirements established by law. The decision to register a bank and issue a banking licence is made by the CBU within a period not exceeding one month from the date of fulfilment of the requirements of the CBU.

Regulation of the Banking Sector

Capital Adequacy

In accordance with the law “*On the banks and banking activity*”, authorised capital of the Bank is formed by monetary funds of founders and shareholders of the Bank. Use of funds obtained through loans, pledges and other engaged funds is not allowed. Nevertheless, in exceptional cases and in accordance with legislation, budgetary funds may be used to form authorised capital of a bank. From 1 October 2017, the minimal amount of authorised capital of a bank is UZS 100 billion.

Liquidity and Reserve Requirements

Commercial banks must monitor and control liquidity risks for major currencies and regularly report to the CBU. Banks should take into account unexpected revenue and expenses that may occur when

monitoring and controlling the liquidity risk, including future transactions, repurchase agreements, devalued letters of credit, and letters of credit issued to unsatisfactory debtors and guarantees. Banks in Uzbekistan must comply with (i) liquidity compensation ratio; (ii) an instant liquidity ratio; (iii) net stable funding ratio; (iv) the ratio of high liquidity assets to the total assets. The instant liquidity ratio is defined as the ratio of the amount of cash and cash equivalents, securities of the Government of the Republic of Uzbekistan and the CBU and funds on the accounts of the bank with the CBU (except for mandatory reserves on the CBU accounts) to the amount of liabilities payable on demand. Only funds in the national currency, UZS, are counted towards instant liquidity ratio. Instant liquidity ratio shall not be less than 25 per cent.

Liquidity analysis of a bank should focus on trends in liquidity indicators analysed during a period (month, quarter, year) and should analyse the past and current strategies for resource allocation. Liquidity analysis should also assess the causes of changes from past status. Liquidity coefficients are part of the overall liquidity adequacy ratio.

In the calculation of liquidity, the liquid assets to total assets ratio, additional liquidity ratio, liquid assets to non-current liabilities ratio and loans to deposits ratio are used. The share of pledged securities in the total securities portfolio also helps the banks to determine their liquidity position. When managing its liquidity indicators, a bank's management should also take into account other factors affecting current liquidity individual to a specific bank's financial position.

Requirements on liquidity indicators

The liquidity coverage ratio (“LCR”) is defined as a ratio of high quality liquid assets to the total outflow payable within 30 days from the date of calculation. LCR shall not be less than 100 per cent. From 1 September 2019, this indicator shall be calculated in each of:

- all currencies;
- the national currency; and
- all foreign currency-denominated assets combined.

The net stable funding ratio is defined as the ratio of available stable funding to the required amount of stable funding. The net stable funding ratio shall not be less than 100 per cent. Available stable funding includes: total capital, liabilities with maturity of more than one year, 30 per cent. of loans and current accounts, as well as 30 per cent. of term deposits and loans with maturity of less than one year. The required amount of stable funding includes assets with maturity above one year, impaired loans and non-financial assets, assets subject to claims and legal proceedings, 30 per cent. of assets with maturity of less than one year, as well as 15 per cent. of off-balance sheet items.

Regulation on Liquidity Requirements of Commercial Banks in Uzbekistan

According to the regulation on liquidity requirements of commercial banks in Uzbekistan, the following are considered as liquid assets: cash, securities of the CBU and the Government of Uzbekistan, the deposit money of banks at the account of CBU, money deposited at corresponding accounts of banks, short-term inter-bank loans (up to 30 days) and deposits, sovereign bonds of low risk countries and central banks, as well as other intergovernmental requests and requests to the CBU, the bonds and securities of those leading companies in low-risk countries that are considered as low-risk list securities according to rating agencies such as Standard & Poor's, Fitch Ratings and Moody's Investors Service or any other rating agencies recognised by the CBU, securities of the IMF, World Bank Group (International Bank for Reconstruction and Development, International Development Association, International Finance Corporation) and Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, European Investment Fund, Islamic Development Bank, Council of Europe Development Bank.

According to the regulation on liquidity requirements of commercial banks in Uzbekistan, when the sovereign, banks or corporations have Standard & Poor's, Fitch Ratings, Moody's Investors Service and any other rating services recognised by the CBU, the lowest of them will be recognised and considered.

Mandatory Ratios

Mandatory economic ratios are established by the following regulations of the CBU:

- Capital Adequacy Regulation;
- “On requirements for liquidity management of commercial banks” No. 2709 dated 13 August 2015; and
- “On maximum risk level for a single borrower or a group of related borrowers” No. 2707 dated 5 August 2015.

A bank's regulatory capital serves as a base for calculation of the mandatory economic ratios and limits. A bank's regulatory capital consists of Tier I regulatory capital and Tier II regulatory capital. Tier I regulatory capital consists of Tier I main capital and Tier I additional capital and includes, among other items, charter capital, retained earnings and certain reserve funds. Tier II regulatory capital includes, among other items, reserves for standard loans (assets) and subordinated debt.

The following table sets forth the mandatory economic ratios that banks must observe on a daily basis and report to the CBU on the monthly basis. All mandatory economic ratios are calculated based on stand-alone financial statements prepared under Uzbekistan GAAP.

Mandatory Economic Ratio	Description	CBU Mandatory Economic Ratio Requirements
Total Capital Adequacy Ratio	Total Capital Adequacy Ratio is calculated as a ratio of Total capital to Risk-Weighted Assets. Total capital consists of Tier I and Tier II capital.	Minimum 13 per cent.
Tier I Capital Adequacy Ratio	The Tier I Capital Adequacy Ratio is calculated as a ratio of Tier I capital to Risk-Weighted Assets. Tier I capital consists of main capital and Tier I additional capital	Minimum 10 per cent.
Leverage Ratio	Leverage Ratio is reported to reflect how leveraged a bank is in relation to its consolidated assets. The leverage ratio is calculated as a ratio of Tier I capital to total assets.	Minimum 6 per cent.
Instant Liquidity Ratio	Instant Liquidity Ratio is calculated as the ratio of the total liquid assets (cash, cash at correspondence accounts, repo, government bonds) to total liabilities.	Minimum 25 per cent.
Maximum Exposure to a Single Borrower or a Group of Related Borrowers for unsecured loan portfolio	It is formulated as the ratio of credit exposure of the bank to one borrower or a group of related borrowers for unsecured loan portfolio and the maximum risk is 25 per cent. of Tier I regulatory capital.	Maximum 25 per cent.
Maximum Amount of Major Credit Risks	Major credit is defined as the sum of total exposure exceeding 10 per cent. of a bank's Tier I capital. Maximum amount of major credit risks is calculated as a ratio of the aggregate amount of major credit exposures to a bank's Tier I capital.	Maximum 8 times (800 per cent.)
Maximum Amount of Unsecured Credit and Factoring Services Risks	This ratio is intended to limit the aggregate credit exposure of a bank in connection with unsecured loans and factoring services. It is formulated as a ratio of the aggregate amount of a bank's unsecured loans to its Tier I regulatory capital.	Maximum 5 per cent.

Mandatory Reserve Deposit Requirements

In order to manage credit, currency, interest and financial risks in the banking sector, the CBU requires banks to form mandatory reserves and post them with the CBU to be held in designated accounts. Banks are required to report the calculation of reserves to the CBU promptly after the end of each month. The CBU's mandatory reserve requirements vary depending on the type of financial liabilities and range between 4 per cent. and 14 per cent. The CBU may fine a bank that fails to comply with reserve requirements and debit the insufficient reserve from its correspondent account with the CBU.

Audit of Banks

The audits of banks are carried out annually by auditors who are licensed to provide such inspection in accordance with the legislation of Uzbekistan. The audit includes, in particular, the assessment of the capital adequacy, classification of subsidies, securities of subsidy, risk measurement and liquidity measurement. In accordance with the law "On Banks and Banking activities", the banks are obliged to establish and implement their own internal audit programmes in addition.

According to the legislation, each bank should establish an internal audit service, approve by its management board and implement certain internal policies and regulations, including regulations on internal audit services and internal audit procedures.

Loan Loss Provisions

The CBU regulates the creation of provisions for loan losses under CBU standards and Uzbekistan GAAP and requires banks to classify their loans into the following categories and to create provisions for such loans in the corresponding amounts:

Category	Provision (%)
Standard	1
Substandard	10
Unsatisfactory.....	25
Doubtful	50
Hopeless.....	100

Loans must be classified into one of categories above and provisioned accordingly on the basis of criteria laid down by the CBU, which differs from IFRS criteria. Such criteria include, but are not limited to, absence of documentation required to ascertain the borrower's financial condition, existing non-performing or impaired loans of the borrower, negative trends in the borrower's industry and decline in the price of collateral.

Cancellation of Banking Licence

According to the law "On the banks and banking activity", the CBU is entitled to revoke a licence for carrying out banking activities in the following cases:

- delay in performance of banking transactions for more than 12 months from the issuance date of the bank's license, surrender of the license, or if the bank is not operating for more than 3 months;
- violation of the terms of the bank's license;
- violation of the requirements for the banks and their performance, which qualify as a major violation as per the Law "On the banks and banking activity";
- insolvency of the Bank;
- in the case of a subsidiary of a foreign bank, revocation of such foreign bank's license;
- liquidation of the bank due to reorganization;
- decision by the shareholders of the bank on voluntary liquidation of the bank; and

- bank incurs loss in the amount of more than 10 per cent. of the regulatory capital during three consecutive quarters or more than 50 per cent. of the regulatory capital during any period.

Annual Reporting

Banks shall publish financial statements under Uzbekistan GAAP in form and terms established by the CBU, as well as publish financial statements under IFRS, upon confirmation of reliability of information provided. Financial statements of banks shall include:

- consolidated balance sheet;
- consolidated statement of profits and expenses;
- consolidated statement on circulation of monetary funds;
- consolidated statement on changes in shareholder capital; and
- main policies and defining notes.

Banks shall publish annual financial statements together with the auditor's opinion no later than two weeks before annual shareholder meetings or any other governing body. Commercial banks shall provide copies of audit opinions together with audited financial statements to the CBU within 10 days after the audit inspection. Within three days of publication of an annual financial statement, a bank shall provide a copy of that edition to the CBU.

Anti-Money Laundering

Uzbekistan has made consistent efforts to meet international standards through new legislation. However, corruption and law enforcement's susceptibility to political influence limit the effectiveness of this legislative base. Connected individuals can circumvent established AML rules through private financial institutions, shell/mailbox companies, and bribery. Uzbekistan increased prosecutions on financial crimes; nevertheless, the Government's lack of transparency makes verifying the effectiveness of law enforcement in countering money laundering difficult.

Uzbekistan is not on the Financial Action Task Force ("FATF") List of Countries that have been identified as having strategic AML deficiencies. The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Uzbekistan was undertaken by FATF in 2010. According to that Evaluation, Uzbekistan was deemed Compliant for seven and Largely Compliant for 18 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for two of the six Core Recommendations. Uzbekistan is categorised by the U.S. State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

Credit Cards

The issuance, maintenance and use of bank cards (including credit cards and plastic cards) in the territory of the Republic of Uzbekistan are governed by the regulation "On the procedure for issuing bank cards by commercial banks and their circulation in the Republic of Uzbekistan" and other regulatory and legal acts of the Republic of Uzbekistan, as well as agreements concluded between participants of interbank payment systems and rules established by payment organisations.

There are two payment systems, Uzkart and Humo, for making payments with plastic cards with microchip modules and a four-step data encryption system, which exclude counterfeit and unauthorised access by unauthorised persons. The withdrawal and crediting of customer accounts using plastic cards takes place after processing in the united Republic-wide processing centre, which protects customers and merchants from fraud and deception.

Payment Systems

The banking telecommunication network plays a key role in processing messages and transferring information required for effective operation of payment systems and regulating information flow between banks. The main

distinctive feature of the banking telecommunications network is its structure, which unites branches of banks in Tashkent, regions and districts of Uzbekistan.

Due to implementation of a united balance system in real time and establishment of new branches in regional centres, the issue of BTS development in regional centres to provide high-speed data transfer was deemed necessary. To meet this need, between 2007 and 2008, specialists of the Head centre of Information of the CBU equipped regional centres and cities of the republic to provide BTS users with 192 kb/s and, in some cases, more.

In 2004, the Unified Nationwide Processing Center (“EOPTS”) was created, which allows a single mode of banking transactions in all outlets to be carried out, regardless of which bank is served by the organisation, the service sector, or the owner of a plastic card. Currently, the EOPTS comprises 25 commercial banks, which issue the soum plastic cards. The EOPTS established an interbank payment clearing system for Soum plastic cards: Uzkart.

Uzbekistan now has a quite widely-developed system of non-cash payments based on plastic cards and remote access to banking operations through internet banking and mobile applications.

Dollarisation of Uzbek Economy

High levels of dollarisation of the economy of Uzbekistan reduces effectiveness of the monetary policy of the CBU. Furthermore, the total assets in the banking sector are 57 per cent. nominated in foreign currency. Therefore, when implementing the monetary policy, the CBU affects only 43 per cent. of the sector’s assets.

To reduce the dollarisation of the sector, the CBU and the Government may implement reforms to reduce foreign borrowing in foreign currency, including government loans guaranteed by the Ministry of Finance.

Recent and Expected Banking Reforms

In October 2019, in line with the Strategy of Action for five priority areas of development of the Republic of Uzbekistan for 2017-2021, Presidential Decree No. 4487 was issued in order to improve the financial stability of state-owned banks, efficiency of financing of state development programs and the UFRD funding. The Decree, among other things, implemented certain measures to strengthen the financial standing of the banking sector which included a withdrawal of government directed low - margin and subsidised assets from the state owned banks, including the Bank, in order to improve their return on assets and performance.

In addition, as part of the on-going banking sector reforms, foreign investors have been allowed to acquire stakes not exceeding 5 per cent. of share capital of banking organisations in the Republic of Uzbekistan without receiving CBU consent. New types of regulated loan products were introduced to the banking sector, including long-term mortgage loans for individuals.

Furthermore, on 7 November 2019, new version of the law “*On banks and banking activities*” was adopted. The new edition of the law is generally much more sophisticated and comprehensive. As such, the law supplemented the list of financial operations conducted by banks with new types of services, including trust management of property and assets, purchase and sale of refined precious metals and operations with derivative financial instruments. Furthermore, the new law introduces the concept of banking groups and the concept of a systemically significant bank. In addition, the new law provides for a number of customer protection measures in the banking market, including regulations on limits for loan and deposits interest rates, commissions, disclosure of information, deposits protection, as well as the banks' liability for violation of consumer rights.

The new law also introduces a formal procedure for granting a licence. The licensing requirements are set out in law rather than in secondary legislation. In addition, it regulates the procedure of reorganisation and liquidation of banks, as well as expanding the forms of banking transactions. The new law clarifies and discloses the forms and procedure of supervision by the CBU. The CBU will further supervise:

- strategies, procedures and mechanisms used by banks to comply with the requirements of the law;
- the existing and potential risks of banks to determine the degree (level) of provision of sustainable management by the mechanisms of regulatory compliance, capital and liquidity of a bank and covering their risks; and

- compliance of banks with the requirements of legislation on risk management and corporate governance.

A separate chapter related to the corporate governance of banks was included. Articles regarding the competence of a bank's management bodies, the rules of ethical behaviour of bank employees, and measures to prevent corruption and to avoid conflicts of interest were incorporated. Banks now have to have a reliable, clearly defined organisational structure of corporate governance, which provides for:

- transparency regarding areas of responsibility;
- effective procedures for identifying, managing, monitoring and communicating the risks to which a bank is or may be exposed (scenarios of crisis imitation);
- the procedure for assessing capital adequacy to cover operational risk;
- relevant internal control mechanisms, including strict accounting procedures; and
- employee remuneration policies and methods that promote and comply with sound and efficient risk management.

Presidential Decree dated 12 May 2020 No.UP-5992 approved the Strategy of reforming the banking sector of the Republic of Uzbekistan during 2020-2025. The main objectives and key directions of banking reform is set out as to increase of the efficiency of the banking sector, to ensure the financial stability of the banking sector, to decrease the Government participation in the banking sector and to increase the accessibility and the quality of financial services, to improve the local and international rating of the banking system, to develop the banking and financial institutions.

In addition, Presidential Decree UP-5992 approved the road map on transformation of banking sector which includes the key objectives such as: to increase the shareholding of non-state assets in the banking sector from 15 per cent. as of now to 60 per cent. till 2025; to increase the liability of the banks in front of private business from 28 per cent. as of today to 70 per cent. till 2025; to increase the share of non-banking credit organizations from 0.35 per cent.as of today to 4 per cent. till 2025. The road map also sets out the step by step decrease of state share and privatization of 6 state owned banks such as JSCMB "Ipoteka Bank", JSCB "Uzpromstroybank", JSCB "Asaka", JSCB "Aloqabank", JSCB "Qishloq qurilish bank" and JSCB "Turonbank" till 2025. A special project office under the Ministry of Finance has been established that coordinates the bank sector transformation and privatization works.

Implementation of COVID-19 related measures by the CBU

The CBU has taken various measures to respond to the economic effects of the COVID-19 pandemic. On 14 April 2020, the CBU cut the main policy rate from 16 per cent. to 15 per cent. and further reduced the rate to 14 per cent. on 11 September 2020. In accordance with Presidential Decree No. PF-5978 dated 3 April 2020 "On additional measures to support the population, economic sectors and business entities during the coronavirus pandemic", the CBU has:

- provided commercial banks with additional liquidity resources valued at UZS 2.6 trillion (equivalent of U.S.\$260 million) by easing the requirements for mandatory reserves;
- introduced a special mechanism for providing liquidity to commercial banks with a period of up to 3 years valued up to UZS 2 trillion (equivalent of U.S.\$200 million);
- allowed the deferral of loan repayments by businesses to commercial banks valued at UZS 7.9 trillion (equivalent of U.S.\$790 million);
- allowed commercial banks to restructure loan repayments by businesses faced with financial hardships due to measures taken in Uzbekistan and other countries to combat COVID-19 and a sharp decline in economic activity valued at UZS 7 trillion (equivalent of U.S.\$700 million); and
- allowed the extension of loan repayments by individuals and individual entrepreneurs due in the next 6 months of 2020 valued at UZS 4.7 trillion (equivalent of U.S.\$470 million).

The CBU has also taken measures to create conditions and simplify procedures for:

- commercial loan repayment deferrals for businesses and individuals faced with financial hardships - until 1 October 2020; and
- waiver of penalties and enforcement measures in relation to overdue loans for borrowers adversely affected during the period of the quarantine measures introduced in the country.

Moreover, interest on loans accrued and deferred by commercial banks for payment will not be taxed. In addition, pursuant to the minutes of the Banking Supervision Committee of the CBU No. 226/1 dated 5 June 2020, the CBU suggested limits on interest rates for retail loans at 9 per cent. above the base rate and for corporate and individual entrepreneur loans at 6 per cent. above the base rate, in each case from 1 July 2020 until 1 January 2021 and the implementation of such rates being subject to the discretion of each commercial bank, provided that any loans issued with rates above such limits are subjected to increased risk weighting. The CBU further suggested limits on interest rates for retail deposits at 3 per cent. above the base rate and corporate deposits at 1 per cent. above the base rate, in each case from 1 July 2020 until 1 January 2021. The Bank did not lower the rates of its existing loans and deposits prior to 1 July 2020, but lowered the applicable rates for newly issued loans and newly attracted deposits after 1 July 2020 in line with the CBU's suggested limits. The Bank expects that these measures were intended to be directed at managing inflation rather than the effects of the COVID-19 pandemic, and it is not possible at this stage for the Bank to assess the effect of these policy changes on its financial position. As at the date of this Prospectus, the Bank's interest rates on such loans are in compliance with the CBU's suggested limits which, in turn, permits the Bank to access the CBU's liquidity instruments, pay a reduced quarterly contribution to the State Deposit Insurance Funds (from 0.25 per cent. to 0.05 per cent.) and not to increase the risk weight for any loans issued during the abovementioned period.

The CBU additionally introduced further measures in its statement 213/1 dated 7 April 2020 "*On additional measures in the banking system based on the Presidential Decree No. PF 5978 dated 3 April 2020*" which provides relief to corporate and individual borrowers, as well as commercial banks. The relief measures for commercial banks including the Bank consists of: (i) a deferral of any distribution of dividends to a bank's shareholders pending receipt of a special instruction from the CBU, and (ii) allowing commercial banks to implement amendments to existing loan agreements with individuals or corporate customers as a result of the effects of the pandemic without adversely affecting such customers' asset qualification under Uzbekistan GAAP, credit history and scoring indicator.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes, which, subject to amendment, will be endorsed on each Definitive Note and will (subject to the provisions thereof) apply to the Global Note.

The U.S.\$300,000,000 5.50 per cent. notes due 2025 (the “**Notes**”) which expression includes any further Notes issued pursuant to Condition 16 and forming a single series therewith of Joint-stock commercial mortgage bank “Ipoteka-bank” (the “**Issuer**”) were authorised by a written resolution of the Supervisory Board of the Issuer dated 26 March 2020 No. 16/2. The Notes are constituted by a trust deed to be dated 19 November 2020 (the “**Trust Deed**”) made between the Issuer and BNY Mellon Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes.

These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer will enter into a paying agency agreement, to be dated 19 November 2020 (the “**Agency Agreement**”) with the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the “**Principal Paying Agent**” and, together with any other paying agents appointed under the Paying Agency Agreement, the “**Paying Agents**”) and The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar and transfer agent (the “**Registrar**” and the “**Transfer Agent**”). The Registrar, Paying Agents and Transfer Agent are together referred to herein as the “**Agents**”, which expression includes any successor or additional paying and transfer agents or registrars appointed from time to time in connection with the Notes.

Copies of the Trust Deed and the Agency Agreement are available for inspection by appointment during normal business hours at the specified office of the Trustee, being at the date hereof One Canada Square, London, E14 5AL, United Kingdom, and at the specified offices of the Principal Paying Agent or at the Trustee’s or the Principal Paying Agent’s discretion such inspection can take place electronically. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

1. Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of U.S.\$200,000 or integral multiples of U.S.\$1,000 in excess thereof (“**authorised denominations**”). Title to the Notes shall pass by registration in the register (the “**Register**”) which the Issuer shall procure to be kept by the Registrar. The Notes are represented by registered definitive Notes (“**Definitive Notes**”) and, save as provided in Condition 3(c), each Definitive Note shall represent the entire holding of Notes by the same holder.

2. Status

The Notes constitute direct, general, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may arise by mandatory operation of law and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3. Register, Title and Transfers

- (a) **Register:** The Registrar shall maintain the Register in respect of the Notes in accordance with the provisions of the Agency Agreement. The Register shall be kept at the specified office for the time being of the Registrar and shall record the names and addresses of the holders of the Notes, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the “**holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.

- (b) **Title:** Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such holder.
- (c) **Transfers:** Subject to Conditions 3(f) and 3(g) below, a holding of Notes may be transferred in whole or in part in an authorised denomination upon surrender (at the specified office of the Registrar or the Transfer Agent) of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the “**Transfer Form**”), duly completed and executed, at the specified office of the Transfer Agent or of the Registrar, together with such evidence as the Transfer Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. In the case of a transfer of part only of a holding of Notes represented by one Definitive Note, a new Definitive Note shall be issued to the transferee in respect of the part transferred and a further new Definitive Note in respect of the balance of the holding not transferred shall be issued to the transferor. Neither the part transferred nor the balance not transferred may be less than the minimum authorised denomination. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Definitive Note representing the enlarged holding shall only be issued against surrender of the Definitive Note representing the existing holding. No transfer of a Note will be valid unless and until entered on the Register.
- (d) **Exercise of Options or Partial Redemption in Respect of Notes:** In the case of an exercise of a Noteholders’ option in respect of, and a partial redemption of, a holding of Notes represented by a single Definitive Note, a new Definitive Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Definitive Notes shall be issued in respect of those Notes of that holding that have the same terms. New Definitive Notes shall only be issued against surrender of the existing Definitive Notes to the Registrar or the Transfer Agent.
- (e) **Delivery of New Definitive Notes:** Each new Definitive Note to be issued pursuant to Condition 3(c) or 3(d) shall be available for delivery within three business days of receipt of a duly completed form of transfer or Change of Status Put Option Notice (as defined in Condition 7(h)) and surrender of the existing Definitive Note(s). Delivery of the new Definitive Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Change of Status Put Option Notice or Definitive Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or Change of Status Put Option Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Definitive Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 3(e), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent or the Registrar (as the case may be).
- (f) **Transfer or Exercise Free of Charge:** Definitive Notes, on transfer or exercise of an option and partial redemption, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent, but upon payment by the person making such application for transfer or exercise of an option of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the Transfer Agent may require).

- (g) **Closed Periods:** No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note, (ii) during the period of 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7(b), Condition 7(c), Condition 7(d) and Condition 7(e), (iii) after any such Note has been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date.
- (h) **Regulations concerning Transfer and Registration:** All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in Schedule 1 to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Agents (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified offices of the Registrar and at the specified office of the Transfer Agent.

4. Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Material Subsidiaries will create, or permit to arise or subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest including, without limitation, anything analogous to the foregoing under the laws of any jurisdiction (a “**Security Interest**”) other than a Permitted Security Interest upon the whole or any part of its property, assets or revenues, present or future, to secure any Indebtedness, unless in any such case at the same time or prior thereto, the Issuer’s obligations under the Notes are secured equally and rateably with such other Indebtedness or have the benefit of such other arrangement as (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

5. Covenants

(a) Regulatory Compliance

- (i) So long as any Note remains outstanding, the Issuer shall not permit its:
 - (A) CBU Capital Adequacy Ratio to fall below the minimum percentage set by the CBU;
 - (B) CBU Tier 1 Capital Adequacy Ratio to fall below the minimum percentage set by the CBU; and
 - (C) CBU Leverage Ratio to fall below the minimum percentage set by the CBU.
- (ii) The Issuer shall comply with all other financial and prudential ratios set by the CBU applicable to banks generally in Uzbekistan except where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

(b) **Restricted Payments:** So long as any Note remains outstanding, the Issuer will not, and will not permit any of its Subsidiaries, directly or indirectly, to make a Restricted Payment, unless at the time of and after giving effect to such Restricted Payment:

- (i) no Event of Default shall have occurred and be continuing (or would result therefrom); and
- (ii) the aggregate amount of such Restricted Payment made during any financial year of the Issuer would not exceed 50 per cent. of the Consolidated Net Profit for the previous financial year determined by reference to the Issuer’s audited consolidated financial statements for the previous financial year delivered to the Trustee pursuant to Condition 5(c),

provided, however, that in any financial year where the Issuer is required under the Law on the State Budget, the Presidential Decree dated 29 June 2018 No. UP-5468, as amended or

superseded from time to time (the “**Decree**”), the Presidential Resolution dated 15 April 2020 No. PP-4679 (the “**Resolution**”) or any law, Presidential or Governmental resolution having similar effect, to make any Restricted Payments to its shareholders and the mandatory amount of such Restricted Payments exceeds the threshold set out in paragraph (ii) above, such higher threshold as specified in the Law on the State Budget, the Decree, the Resolution or any law, Presidential or Governmental resolution having similar effect shall apply for the purposes of this Condition 5(b).

(c) **Financial Statements etc.:** So long as any Note remains outstanding, the Issuer shall deliver to the Trustee:

(i) not later than 180 days after the end of the Issuer’s financial year, copies (in English) of the Issuer’s audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period, and all such annual financial statements of the Issuer shall be accompanied by the audit report (in English) of the Auditors thereon and supplemented with information as to (A) the CBU Capital Adequacy Ratio, (B) the CBU Tier 1 Capital Adequacy Ratio and (C) the CBU Leverage Ratio; and

(ii) not later than 120 days after the end of the first six months of each of the Issuer’s financial years, copies (in English) of the Issuer’s unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period and all such financial statements of the Issuer shall be accompanied by the review report (in English) of the Auditors thereon and supplemented with information as to (A) the CBU Capital Adequacy Ratio, (B) the CBU Tier 1 Capital Adequacy Ratio and (C) the CBU Leverage Ratio,

in the case of each of (i) and (ii) above, together with a written notice in the form of an Officer’s Certificate in the form set out in the Trust Deed stating whether since the date of the last certificate or, if none, the Issue Date an Event of Default or a Potential Event of Default shall have occurred and be continuing, describing all such Events of Default or Potential Events of Default and what action the Issuer is taking or proposes to take with respect thereto; and

(iii) the Issuer shall also post such financial statements on its website within the time periods referred to in Condition 5(c)(i) or 5(c)(ii) above, as the case may be.

(d) **Limitation on Mergers:**

(i) So long as any Note remains outstanding, the Issuer shall not (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms may be construed under applicable Uzbek law) or undergo any other type of corporate reconstruction, or (y) in a single transaction or a series of related transactions, directly or indirectly, merge, consolidate, amalgamate or otherwise combine with or into another Person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer or the Group, to another Person, unless:

(A) (i) the surviving or resulting entity or the transferee (the “**Successor Entity**”) is the Issuer or, (ii) if not the Issuer, the Successor Entity (x) assumes all the obligations (if any) of the Issuer under the Notes and the Trust Deed, and (y) retains or succeeds to all of the rights and obligations of the Issuer under all of its material government permits, licenses, consents and authorisations; and

(B) such transaction(s) would not, individually or in the aggregate, have a Material Adverse Effect; and

- (C) immediately after such transaction(s), the Successor Entity certifies to the Trustee that the transaction complies with these Conditions (upon which certification the Trustee shall be entitled to rely without further enquiry and without liability to any person).
- (ii) So long as any Note remains outstanding, the Issuer shall ensure that none of the Material Subsidiaries shall (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms may be construed under applicable law) or undergo any other type of corporate reconstruction or (y) in a single transaction or a series of related transactions, merge, consolidate, amalgamate or otherwise combine with or into another Person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of such Material Subsidiary, unless:
 - (A) (i) such Material Subsidiary is the Successor Entity or (ii) the Successor Entity (if not such Material Subsidiary) retains or succeeds to all of the rights and obligations of such Material Subsidiary under all of its material government permits, licenses, consents and authorisations (if any); and
 - (B) such transaction(s) would not, individually or in the aggregate, have a Material Adverse Effect; and
 - (C) immediately after such transaction(s), the Issuer (on behalf of the Successor Entity) certifies to the Trustee that the transaction complies with these Conditions (upon which certification the Trustee shall be entitled to rely without further enquiry and without liability to any person).
- (iii) Notwithstanding the foregoing:
 - (A) The Issuer may perform acts set out in Condition 5(d)(i) if required to do so by statute or a Government resolution applicable to the Issuer, provided that (i) the Issuer is the Successor Entity or (ii) if not the Issuer, the Successor Entity (x) assumes all the obligations (if any) of the Issuer under the Notes and the Trust Deed, and (y) retains or succeeds to all of the rights and obligations of the Issuer under all of its material government permits, licenses, consents and authorisations;
 - (B) Any Material Subsidiary of the Issuer may perform acts set out in Condition 5(d)(ii) if required to do so by statute or a Government resolution applicable to the Issuer or such Material Subsidiary, provided that (i) such Material Subsidiary is the Successor Entity or (ii) the Successor Entity (if not such Material Subsidiary) retains or succeeds to all of the rights and obligations of such Material Subsidiary under all of its material government permits, licenses, consents and authorisations (if any); and
 - (C) Any Subsidiary of the Issuer may consolidate with, merge with or into, amalgamate or otherwise combine with or sell, assign, transfer, convey or otherwise dispose of all of its assets to the Issuer or another Subsidiary of the Issuer.

(e) **Asset Sales**

- (i) So long as any Note remains outstanding, the Issuer shall not, and shall ensure that none of its Material Subsidiaries shall, directly or indirectly, consummate an Asset Sale, unless:
 - (A) the terms of such Asset Sale are substantially no less favourable to the Issuer or the relevant Subsidiary, as the case may be, than those which would be obtained in a comparable arm's length transaction and on commercially reasonable terms; and

- (B) the Issuer delivers to the Trustee a resolution of the appropriate decision-making body of the Issuer or the relevant Material Subsidiary (in the English language) along with an Officer's Certificate certifying that such Asset Sale complies with this Condition 5(e); and
 - (ii) The Trustee may rely on such resolution and such Officer's Certificate referred to in this Condition 5(e) without further enquiry and will not be responsible or liable to any person for so doing.
- (f) **Affiliate Transactions:** So long as any Note remains outstanding, the Issuer will not, and will not permit any of its Material Subsidiaries to, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer or such Material Subsidiary (an "**Affiliate Transaction**") unless:
- (i) the terms of the Affiliate Transaction are no less favourable to the Issuer or such Material Subsidiary than those that could be obtained at the time of the Affiliate Transaction in a comparable arm's-length transaction with a Person who is not an Affiliate of the Issuer or such Material Subsidiary; and
 - (ii) the Issuer delivers to the Trustee with respect to any Affiliate Transaction, or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.\$75,000,000 (or its U.S. Dollar Equivalent), a resolution of the Issuer's Board of Directors (in the English language) along with an Officer's Certificate certifying that such Affiliate Transaction complies with this Condition 5(f) and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Issuer's Board of Directors or such Material Subsidiary's Board of Directors (or, in the event there is only one disinterested member of the Issuer's or Material Subsidiary's Board of Directors, approved by such disinterested member); provided, however, that the provisions of these Conditions 5(f)(i) and 5(f)(ii) shall not apply to:
 - (A) any Affiliate Transaction where the Affiliate in question is an Agency of the Republic of Uzbekistan or a Person which is a Subsidiary of, or is otherwise controlled by an Agency of the Republic of Uzbekistan;
 - (B) any employment agreement, employee compensation arrangements, consulting agreement, employee benefit plan, officer and director indemnification agreement or any similar arrangement entered into by the Issuer or any of its Material Subsidiaries in the ordinary course of business and compensation (including bonuses and equity compensation) paid to and other benefits (including retirement, health and other benefit plans) and indemnification arrangements provided on behalf of directors, officers, consultants and employees of the Issuer or any of its Material Subsidiaries;
 - (C) transactions between or among or solely for the benefit of the Issuer and/or its Subsidiaries;
 - (D) any issuance of Capital Stock of the Issuer to Affiliates of the Issuer or the receipt of capital contributions by the Issuer from Affiliates of the Issuer;
 - (E) Restricted Payments permitted to be made pursuant to Condition 5(b);
 - (F) agreements and arrangements, and transactions pursuant thereto, existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereof; provided that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are, on the whole, no less favourable to the Issuer and its Material Subsidiaries, as applicable, than the original agreement or arrangement as in effect on the Issue Date.

- (iii) The Trustee may rely on such resolution and such Officer's Certificate referred to in this Condition 5(f) without further enquiry and will not be responsible or liable to any person for so doing.
- (g) **Maintenance of Authorisations:** So long as any Note remains outstanding, the Issuer shall, and shall ensure that each of its Material Subsidiaries will, take all action which may be necessary to ensure the obtaining and continuance of, all consents, licences, approvals and authorisations required in or by the laws of the Republic of Uzbekistan or any relevant jurisdiction or Agency having regulatory authority in respect of the Issuer or any Material Subsidiary of the Issuer in order to carry out its business activities.
- (h) **Change of Business:** So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not make any material change to the general nature of the Issuer's business from that carried on at the Issue Date.

6. Interest

The Notes bear interest on their outstanding principal amount from and including the Issue Date at the rate of 5.50 per cent. per annum, payable semi-annually in arrear on 19 May and 19 November in each year (each an "**Interest Payment Date**"), commencing on 19 May 2021 and will amount to U.S.\$27.50 per Calculation Amount (as defined below). Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Definitive Note representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.\$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

7. Redemption and Purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on 19 November 2025 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 7.
- (b) **Redemption for tax reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 17 and to the Trustee and Agents (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to (but excluding) the date fixed for redemption, if (i) immediately prior to the giving of such notice that the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Republic of Uzbekistan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or

regulations, which change or amendment has become or becomes effective on or after the Issue Date and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (x) an Officer's Certificate of the Issuer stating that the Issuer is entitled to effect such redemption and that the conditions precedent to the right of the Issuer to so redeem set out in (i) and (ii) above have occurred and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept and rely absolutely, without further enquiry and without liability to any person, upon such opinion and certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Noteholders. All Notes in respect of which any such notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

- (c) **Redemption at Make Whole:** At any time prior to the date falling three months prior to the Maturity Date, the Issuer may, at its option, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (the "**Call Option Notice**") in accordance with Condition 17 and to the Trustee and the Agents redeem the Notes in whole but not in part, at the price which shall be the following (as calculated by the Issuer):

- (i) the aggregate principal amount of the outstanding Notes; plus
- (ii) interest and other amounts that may be due pursuant to these Conditions (if any) accrued but unpaid to but excluding the date on which the call option is to be settled (the "**Call Settlement Date**"); plus
- (iii) the Make Whole Premium.

The Call Option Notice shall specify the Call Settlement Date.

For the purposes of this Condition 7(c):

"**Make Whole Premium**" means, with respect to a Note at any time, the excess of (a) the present value of the Notes at the Call Settlement Date, plus the present value of any required interest payments that would otherwise accrue and be payable on such Notes from the Call Settlement Date through to the Maturity Date, in each case calculated using a discount rate equal to the Treasury Rate at the Call Settlement Date plus 50 basis points, over (b) the outstanding aggregate principal amount of the Notes at the Call Settlement Date, provided that if the value of the Make Whole Premium at any time would otherwise be less than zero, then in such circumstances, the value of the Make Whole Premium will be equal to zero.

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the Call Settlement Date to the Maturity Date. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least three business days (but not more than five business days) prior to the Call Settlement Date and shall notify the Noteholders (in accordance with Condition 17) and the Trustee and the Agents thereof not less than two business days prior to the Call Settlement Date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith); provided, however, that if the period from the Call Settlement Date to the Maturity Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the Call Settlement Date to the Maturity Date is less than one year, the weekly average

yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

- (d) **Optional Redemption at Par:** the Issuer may, at any time on or after the date falling three months prior to the Maturity Date, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (which notice shall specify the date fixed for redemption (the "**Par Optional Redemption Date**") in accordance with Condition 17 and to the Trustee and Agents, redeem the Notes in whole or in part, at the principal amount thereof, together with interest and additional amounts (if any) accrued but unpaid to but excluding the Par Optional Redemption Date.

In the case of a partial redemption the notice to Noteholders shall also specify the nominal amount of Definitive Notes drawn and the serial numbers of the Definitive Notes to be redeemed, which shall have been drawn individually by lot in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (e) **Redemption of Residual Amount Outstanding at the Option of the Issuer:** If 80 per cent. or more of the aggregate principal amount of the Notes then outstanding shall have been redeemed on the Change of Status Put Date in accordance with the provisions of Condition 7(h), the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (which notice shall specify the date fixed for redemption) in accordance with Condition 17 and to the Trustee and Agents, redeem all, but not some only, of the Notes that remain outstanding at the principal amount thereof, together with interest and additional amounts (if any) accrued but unpaid to but excluding the date of such redemption.
- (f) **Purchase:** the Issuer and its Subsidiaries may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 13(a).
- (g) **Cancellation:** All Definitive Notes representing Notes purchased pursuant to this Condition 7 shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Definitive Notes so cancelled may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.
- (h) **Redemption at the option of Noteholders upon a Change of Status:** If at any time while any Note remains outstanding a Change of Status occurs, the Issuer shall, at the option of the holder of any such Note (the "**Change of Status Put Option**"), redeem or purchase such Note on the Change of Status Put Date (as defined below) at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Status Put Date.

If a Change of Status occurs then, within 14 days of the occurrence of the Change of Status, the Issuer shall give notice (a "**Change of Status Notice**") to the Noteholders in accordance with Condition 17 specifying the nature of the Change of Status and the procedure for exercising the Change of Status Put Option.

To exercise the Change of Status Put Option, a holder of Notes must deliver at the specified office of any Paying Agent, on any business day (being a day on which commercial banks are open for business in the city where such Paying Agent has its specified office) falling within the period commencing on the date on which the Change of Status Notice is given to Noteholders as required by this Condition 7(h) and ending 60 days after such date (the "**Change of Status Put Period**"), a duly signed and completed notice of exercise in the form obtainable from any specified office of any Paying Agent (a "**Change of Status Put Option Notice**") and in which the holder must specify a bank account to which payment is to be made under this paragraph accompanied by the applicable Definitive Note or Notes or evidence

satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Change of Status Put Option Notice, be held to its order or under its control.

The Issuer shall redeem or purchase (or procure the purchase of) the Notes the subject of each Change of Status Put Option Notice on the date (the “**Change of Status Put Date**”) 14 days after the expiration of the Change of Status Put Period unless previously redeemed or purchased and cancelled. A Change of Status Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Status Put Option Notice and require the applicable Definitive Note or Notes to be returned.

For the purposes of this Condition 7(h):

- (i) “**Change of Status**” means the occurrence of both (x) a Change of Control, and (y) an Adverse Ratings Event;
- (ii) a “**Change of Control**” will occur upon the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that the Republic of Uzbekistan ceases to beneficially own (directly or indirectly) at least 50 per cent. plus one share of the issued and outstanding voting Capital Stock of, or otherwise to control, the Issuer; and
- (iii) an “**Adverse Ratings Event**” will occur if on, or within six months after, the date, or the announcement of the occurrence of the Change of Control (which period shall be extended so long as the rating of the Issuer or any Rated Security is under publicly announced consideration for possible downgrade by reason of such Change of Control by any of the Rating Agencies), the rating of the Issuer or any Rated Security is withdrawn or downgraded by any Rating Agency by reason of such Change of Control.

8. Payments

(a) Method of Payment

- (i) Payments of principal shall be made (subject to surrender of the relevant Definitive Notes at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Definitive Notes) in the manner provided in paragraph (ii) below.
- (ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the business day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Note shall be made by transfer to an account in U.S. Dollars maintained by the payee with a bank.
- (iii) If the amount of principal being paid upon surrender of the relevant Definitive Note is less than the outstanding principal amount of such Definitive Note, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Noteholder) issue a new Definitive Note with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

- (b) **Payments subject to fiscal laws:** All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law

implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

- (c) **Agents:** The initial Agents and their initial specified offices are listed below. The Issuer reserves the right (subject to prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed)) to vary or terminate the appointment of all or any of the Agents at any time (provided that no Agent shall be responsible for any costs or liabilities occasioned by any such termination) and appoint additional or other payment or transfer agents, provided that they will maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved by the Trustee (such approval not to be unreasonably withheld or delayed). Notice of any such change will be provided as described in Condition 17 below.
- (d) **Delay in Payment:** Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a business day, or if the Noteholder is late in surrendering or cannot surrender its Definitive Note (if required to do so).
- (e) **Non-Business Days:** If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 8, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Principal Paying Agent is located and on which foreign exchange transactions may be carried on in U.S. Dollars in New York City.

9. Taxation

All payments of principal, interest and other amounts in respect of the Notes by the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Republic of Uzbekistan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Definitive Note:

- (i) held by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Republic of Uzbekistan other than the mere holding of such Definitive Note; or
- (ii) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days.

Notwithstanding any other provision of the Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

“**Relevant Date**” in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that

on which notice is duly given to the Noteholders in accordance with Condition 17 that, upon further surrender of the Definitive Note representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition. If the Issuer becomes subject in respect of payments of principal or interest on the Notes to any taxing jurisdiction other than (or in addition to) the Republic of Uzbekistan, references in these Conditions to the Republic of Uzbekistan shall be construed as references to such other jurisdiction.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer that the Notes are, and they shall immediately become, due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each, an “**Event of Default**”):

- (a) the Issuer fails to pay any amounts payable on any of the Notes when due and if such failure continues for a period of five days in relation to principal and 14 days in relation to interest; or
- (b) the Issuer does not perform or comply with any of its other obligations in the Notes or the Trust Deed which default (i) is (in the opinion of the Trustee) incapable of remedy and, in the case of a breach of an obligation under the Trust Deed, (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders or (ii) if in the opinion of the Trustee capable of remedy is not remedied within 30 days or such longer period as the Trustee may agree after notice of such default having been given to the Issuer by the Trustee in writing requesting the same to be remedied; or
- (c) (i) any other present or future Indebtedness of the Issuer or any of its Material Subsidiaries becomes due and payable prior to its stated maturity by reason of any default (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness, provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.\$25,000,000 or its U.S. Dollar Equivalent; or
- (d) the occurrence of any of the following events:
 - (i) (A) the Issuer or any Material Subsidiary of the Issuer seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidator or a similar officer; (B) the presentation or filing of a petition in respect of the Issuer or any Material Subsidiary of the Issuer in any court or before any agency for its bankruptcy, insolvency, dissolution or liquidation which, in the case of a petition presented or filed by a Person other than the Issuer, or such Material Subsidiary, as the case may be, is not dismissed or discharged within 60 days from the date of presentation or filing; (C) the institution of supervision, external management, examinership or bankruptcy management to the Issuer or any Material Subsidiary of the Issuer; (D) the convening of a meeting of creditors generally of the Issuer or any Material Subsidiary of the Issuer for the purposes of considering an amicable settlement with its creditors generally; and/or (E) any extra judicial liquidation or analogous act in respect of the Issuer or any Material Subsidiary by any Agency in the Republic of Uzbekistan; or
 - (ii) the Issuer or any of its Material Subsidiaries: (A) fails or is unable or admits its inability to pay its debts generally as they become due; (B) consents by answer or

otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of a substantial part of its property;

- (iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or for the appointment of a custodian in respect of the Issuer or any Material Subsidiary of the Issuer or a substantial part of their respective property and such order or decree remains undischarged for a period of 30 days;
 - (iv) the shareholders of the Issuer approve any plan for the liquidation or dissolution of the Issuer (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring permitted by Condition 5(d)); or
 - (v) the revocation of the banking licence of the Issuer or, if applicable, any Material Subsidiary of the Issuer.
- (e) a judgment, order, decree of a court or other appropriate law enforcement body from which no further appeal or judicial review is permissible under applicable law for the payment of any amount in excess of U.S.\$25,000,000 (or its U.S. Dollar Equivalent) is rendered against the Issuer or any of its Material Subsidiaries and continues unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment or on which such judgment or order otherwise becomes enforceable; or
- (f) an order of a court of competent jurisdiction is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring permitted by Condition 5(d)) which event in the case of a Material Subsidiary of the Issuer is in the opinion of the Trustee materially prejudicial to the interests of the Noteholders; or
- (g) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in the courts of the Republic of Uzbekistan, is not taken, fulfilled or done; or
- (h) the validity of the Notes or the Trust Deed, as the case may be, is contested by the Issuer, or the Issuer shall deny any of its obligations thereunder or it is, or will become, unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed or any of such obligations shall become unenforceable or cease to be legal, valid and binding; or
- (i) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) and (f) above.

11. Prescription

Claims for the payment of principal and interest in respect of any Definitive Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) from the appropriate Relevant Date in respect of them.

12. Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

13. Meetings of Noteholders, Modification and Waiver

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by the Trustee upon receipt of a written request by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding (subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction against all costs and expenses). The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes or (v) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).
- (b) The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than two-thirds in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.
- (c) **Modification and Waiver:** The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

14. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such steps, actions and/or proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take, nor shall the Trustee be bound to take or omit to take, any such steps, actions and/or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (ii) it shall have been indemnified and/or provided with security and/or prefunded in each case to its satisfaction. No Noteholder may

proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trust Deed also contains a provision permitting the Trustee to request a compliance certificate from the Issuer related to compliance with the Conditions in the circumstances described in the Trust Deed. The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer and the Noteholders.

16. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall be constituted by a deed supplemental to the Trust Deed.

17. Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange, notices will be published in a manner which complies with the rules and regulations of the Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

18. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer, shall indemnify each Noteholder on the written demand of such Noteholder, addressed and delivered to the Issuer, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. Governing Law

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with any of them are governed by, and shall be construed in accordance with, English law.

21. Arbitration, Consent to Enforcement and Waiver of Immunity

- (a) **Arbitration:** Any dispute arising out of or connected with the Notes and the Trust Deed, including a dispute as to the validity, existence or termination of the Notes and the Trust Deed and/or this Condition 21 or any non-contractual obligation arising out of or in connection with the Notes and the Trust Deed (a “**Dispute**”), shall be referred to and finally resolved by arbitration whose seat shall be in London, England, conducted in the English language by three arbitrators pursuant to the rules of the London Court of International Arbitration (“**LCIA**”) (such arbitration to also be administered by the LCIA in accordance with those rules), which rules are deemed to be incorporated by reference into this Condition with the exception that any provision of such rules relating to the nationality of an arbitrator shall, to that extent, not apply and save that, unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If the third arbitrator is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, the third arbitrator shall be chosen by the LCIA. Sections 45 and 69 of the UK Arbitration Act 1996 shall not apply.
- (b) In any such arbitration, in the event of a declared public health emergency by either the World Health Organisation (the “**WHO**”) or a national government, as a consequence of which it is inadvisable or prohibited for the parties and/or their legal representatives to travel to, or attend any hearing ordered by the tribunal, the following shall apply:
 - (i) any such hearing shall be held via video or telephone conference upon the order of the tribunal;
 - (ii) the parties agree that no objection shall be taken to the decision, order or award of the tribunal following any such hearing on the basis that the hearing was held by video or telephone conference; and
 - (iii) in exceptional circumstances only the tribunal shall have the discretion to order that a hearing shall be held in person, but only after full and thorough consideration of the prevailing guidance of the WHO and any relevant travel or social distancing restrictions or guidelines affecting the parties and/or their legal representatives and the implementation of appropriate mitigation.
- (c) **Agent for Service of Process:** The Issuer has appointed the Ambassador of the Republic of Uzbekistan to the Court of St. James’s from time to time at the Embassy of the Republic of Uzbekistan, currently located at 41 Holland Park, London, W11 3RP as its agent in England to receive service of process in any Proceedings in England in connection with the Notes and the Trust Deed.
- (d) **Consent to enforcement etc.:** The Issuer consents generally in respect of any Disputes to the giving of any relief or the issue of any process in connection with such Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Disputes.
- (e) **Waiver of immunity:** To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of a judgment or award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its respective assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity.

22. Definitions

In these Conditions, the following terms shall have the following meanings:

“**Affiliate**”, in respect of any specified Person, means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, “**control**”, as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms “**controlling**”, “**controlled by**” and “**under common control with**” shall have correlative meanings;

“**Agency**” means any agency, authority, central bank, department, committee, government, legislature, ministry, minister, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

“**Asset Sale**” means

- (a) the sale, lease, conveyance or other disposition of any tangible or intangible assets or rights or revenues of the Issuer or a Material Subsidiary of the Issuer in one or more transactions or series of transactions (whether related or not);
- (b) the issuance of Capital Stock in any Material Subsidiary of the Issuer or the sale of Capital Stock in any of its Material Subsidiaries.

Notwithstanding the foregoing, none of the following items will be deemed to be an Asset Sale:

- (c) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than 7.5 per cent. of the consolidated total assets of the Issuer (as calculated by reference to the most recent consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c));
- (d) any sale or other disposition of Capital Stock in a Subsidiary not involved in carrying out banking business or any sale or other disposition of other assets that are not used or useful in the conduct of banking business or are no longer useful in the conduct of the business of the Issuer or its Subsidiaries;
- (e) a transfer of assets between or among the Issuer and its Subsidiaries;
- (f) any sale, lease, conveyance or other disposition of any assets of the Issuer or any of its Subsidiaries or property pledged as collateral by or to the Issuer or any of its Subsidiaries in the ordinary course of the Issuer’s or, as the case may be, the relevant Subsidiary’s business;
- (g) an issuance or other disposition of Capital Stock by a Material Subsidiary of the Issuer to the Issuer or to a Subsidiary of the Issuer;
- (h) the creation of a Security Interest;
- (i) a payment or other disposition that does not violate Condition 5(b) and Condition 5(d);
- (j) a transaction that does not violate Condition 55(f)(ii)(A);
- (k) the sale or other disposition of assets received by the Issuer or any of its Material Subsidiaries in compromise or settlement of claims of the Issuer or any of its Material Subsidiaries; and
- (l) the sale, transfer or other disposition of any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by the Issuer or any of its Material Subsidiaries whereby all payment obligations are to be discharged primarily from such assets or revenues, provided that the value of such assets or revenues, asset-backed financing, or similar financing structures, when aggregated with the value of all assets or revenues subject to a Security Interest permitted under

paragraph (h) of the definition of “Permitted Security Interest”, does not, at any time, exceed 20 per cent. of the Group’s total loans and advances to customers before provision for expected credit losses as calculated by reference to the most recent consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c).

“**Auditors**” means the auditors for the time being of the Issuer or, if they are unable or unwilling promptly to carry out any action requested of them under these Conditions, such other firm of accountants of international standing as may be selected by the Issuer for the purpose and notified in writing to the Trustee;

“**Board of Directors**” means with respect to the Issuer, its Council (Supervisory Board); with respect to a corporation, the board of directors or managers of the corporation and, in the case of any other corporation having both a supervisory board and an executive or management board, the executive or management board (except where the supervisory board is expressly indicated); with respect to a partnership, the board of directors of the general partner of the partnership; and with respect to any other Person, the board or committee of such Person serving a similar function;

“**business day**” means (except where expressly defined otherwise) a day which banks and foreign exchange markets are open for business in the place in which the specified office of the Principal Paying Agent is located and on which foreign exchange transactions may be carried on in U.S. Dollars in New York City;

“**Capital Stock**” means, with respect to any Person, any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any Preferred Stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into or exchangeable for such Capital Stock;

“**CBU**” means the Central Bank of Uzbekistan;

“**CBU Capital Adequacy Ratio**” means a ratio of the Issuer’s CBU Regulatory Capital to the CBU Risk Weighted Assets calculated by reference to the Uzbek accounting standards;

“**CBU Capital Regulation**” means the Regulation of the Central Bank of Uzbekistan No. 14/3 dated 13 June 2015, as amended, supplemented or restated or superseded from time to time;

“**CBU Leverage Ratio**” means a ratio of the Issuer’s CBU Tier 1 Capital to total assets and off-balance sheet instruments and derivative (financial) instruments less intangible assets and the sum of all investments in capital of unconsolidated economic entities, including debt obligations, which form capital of such economic entities and capital investments of other banks, calculated in accordance with the CBU Capital Regulation;

“**CBU Regulatory Capital**” means the regulatory capital (*regulyativ kapital*) as such term is defined in the CBU Capital Regulation;

“**CBU Risk-Weighted Assets**” means the aggregate of balance sheet assets and off-balance sheet engagements, weighted for credit, market and operational risk in accordance with the CBU Capital Regulation;

“**CBU Tier 1 Capital**” means the Tier 1 Capital (*regulyativ kapital I darajali kapital*) as such term is defined in the CBU Capital Regulation;

“**CBU Tier 1 Capital Adequacy Ratio**” means a ratio of the Issuer’s CBU Tier 1 Capital to the CBU Risk-Weighted Assets;

“**Code**” means the United States Internal Revenue Code of 1986, as amended;

“**Consolidated Net Profit**” means, for any period, the net profit of the Issuer and its Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS;

“**control**” shall have the meaning provided in the definition of “Affiliate” and “**controlled**” shall be construed accordingly;

“**Deferred Capital Stock**” means a dividend or distribution declared by the Issuer and which a shareholder of the Issuer has irrevocably instructed the Issuer to retain and apply towards consideration for any future Capital Stock to be issued by the Issuer to such shareholder;

“**Fair Market Value**” means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors of the Issuer or the relevant Material Subsidiary of the Issuer (unless otherwise provided in these Conditions) whose determination shall be conclusive;

“**Group**” means the Issuer and its consolidated Subsidiaries taken as a whole;

“**guarantee**” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

- (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or
- (b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

The term “**guarantee**” used as a verb has a corresponding meaning. The term “**guarantor**” shall mean any Person guaranteeing any obligation.

“**Hedging Obligations**” means, with respect to any Person, the obligations of such Person under:

- (a) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements;
- (b) other agreements or arrangements designed to protect such Person against fluctuations in interest rates; and
- (c) any foreign currency futures contract, option or similar agreement or arrangement designed to protect such Person against fluctuations in foreign currency rates;

“**IFRS**” means International Financial Reporting Standards (formerly International Accounting Standards), issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

“**Indebtedness**” means, with respect to any Person at any date of determination (without duplication):

- (a) all indebtedness of such Person for borrowed money;
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (c) all Lease Obligations of such Person;
- (d) all indebtedness of other Persons guaranteed or indemnified by such Person, to the extent such indebtedness is guaranteed or indemnified by such Person;
- (e) to the extent not otherwise included in this definition, all Hedging Obligations of such Person, provided, however, that if and to the extent that netting is permitted by applicable laws (including the laws of the Republic of Uzbekistan), the amount of any such Hedging

Obligations for the purposes of this paragraph (e) shall be equal at any time to the net payments under such agreement or arrangement giving rise to such Hedging Obligation that would be payable by such Person at the termination of such agreement or arrangement;

- (f) any amount raised by acceptance under any acceptance credit facility; and
- (g) any amount raised under any other transaction having the economic or commercial effect of a borrowing,

and the amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations, as described above, and with respect to contingent obligations, as described above, the maximum liability which would arise upon the occurrence of the contingency giving rise to the obligation;

“Issue Date” means 19 November 2020;

“Lease Obligation” means, at the time any determination thereof is to be made, the amount of the liability under any lease contract that would at that time be required to be treated as a balance sheet liability in accordance with IFRS;

“Material Adverse Effect” means a material adverse effect on (a) the business, condition (financial or otherwise), results of operations or prospects of the Issuer or the Group, (b) the ability of the Issuer to perform its obligations under the Trust Deed and the Notes or (c) the validity or enforceability of the Trust Deed and the Notes;

“Material Subsidiary” means any Subsidiary of the Issuer:

- (a) which, according to the most recent audited consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c) accounted for more than 5 per cent. of the profit before tax of the Group or which, according to the most recent audited consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c), was the owner of more than 5 per cent. of the consolidated total assets of the Group; or
- (b) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction).

The Issuer does not have any Material Subsidiaries as of the Issue Date;

“Officer” means the chief financial officer, the chairman or the first deputy chairman of the Board of Directors, the chairman or the first deputy chairman of the Management Board or other person holding a corresponding or similar position of responsibility;

“Officer’s Certificate” means a certificate executed on behalf of the Issuer by one Officer;

“Permitted Security Interest” means:

- (a) any Security Interest in existence on the Issue Date;
- (b) any Security Interests granted by any Material Subsidiary of the Issuer in favour of the Issuer or any Material Subsidiary of the Issuer;
- (c) any Security Interests imposed or required by statute, operation of law or any Government resolution;
- (d) any Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Material Subsidiary of the Issuer or becomes a Material Subsidiary of the Issuer, provided that such Security Interests (i) were not created in contemplation of such merger or consolidation or event; and (ii) do not extend to any assets or property of the Issuer or any Material Subsidiary of the Issuer (other than those of the Person acquired and its Material Subsidiaries (if any));

- (e) any Security Interests already existing on assets or property acquired or to be acquired by the Issuer or a Material Subsidiary of the Issuer, provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);
- (f) any netting or set-off arrangement entered into by the Issuer or any of its Material Subsidiaries in the ordinary course of its banking business for the purpose of netting debit and credit balances;
- (g) Security Interests arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;
- (h) any Security Interest upon, or with respect to, any present or future assets or revenues of the Issuer or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest, are to be discharged solely from such assets or revenues, provided that the value of assets or revenues subject to such Security Interest when aggregated with the value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Condition 5(e), does not, at any such time, exceed 20 per cent. of the Group's total loans and advances to customers before provision for expected credit losses as calculated by reference to the most recent consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c);
- (i) any Security Interest granted upon or with regard to any property hereafter acquired by the Issuer or any Material Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- (j) any Security Interest arising in the ordinary course of banking business including without limitation: Security Interests pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Issuer or any Material Subsidiary of the Issuer), in connection with (x) contracts entered into substantially simultaneously for sales and purchases at market prices of securities or precious metals (y) the establishment of margin deposits and similar securities in connection with trading in securities or precious metals or (z) the Issuer's foreign exchange dealings or other proprietary trading activities including, without limitation in the case of (x), (y) and (z), Repos;
- (k) any Security Interest in respect of Hedging Obligations entered into for non-speculative purposes;
- (l) any Security Interest on property acquired (or deemed to be acquired) under a finance lease, or claims arising from the use or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease;
- (m) any Security Interests arising in relation to any Project Finance Debt;
- (n) any Security Interests arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, provided that the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest; and

- (o) any Security Interests not otherwise permitted by the preceding paragraphs (a) through (n), provided that the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed 20 per cent. of the Group's consolidated total assets as published in the most recent consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c);

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity;

"Potential Event of Default" means an event or circumstance which, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10, would constitute an Event of Default;

"Preferred Stock", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person;

"Project Finance Debt" means any Indebtedness incurred in relation to any asset solely for purposes of financing the whole or any part of the acquisition, creation, construction, improvement or development of such asset where the financial institutions to which such indebtedness is owed have recourse solely to the applicable project borrower (where such project borrower is formed solely or principally for the purpose of the relevant project) and/or to such assets (or any derivative asset thereof) or any other similar non-recourse Indebtedness which is properly regarded as project finance debt;

"Rated Security" means the Notes and any Indebtedness of the Issuer or any of its Subsidiaries having an initial maturity of one year or more which is rated by a Rating Agency;

"Rating Agency" means each of S&P Global Ratings Europe Limited, Moody's Investors Service Limited, Fitch Ratings Limited, any of their affiliates or successors;

"Repo" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for purposes of this definition, the term "securities" means any Capital Stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any private or public company, any government or Agency or instrumentality thereof or any supranational, international or multilateral organisation;

"Restricted Payment" with respect to the Issuer or any of its Subsidiaries means:

- (a) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock, Deferred Capital Stock or in options, warrants or other rights to purchase such stock, (B) dividends or distributions payable solely to the Issuer or a Wholly-Owned Subsidiary of the Issuer and (C) pro rata dividends or other distributions made by a Subsidiary of the Issuer that is not a Wholly-Owned Subsidiary of the Issuer to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));
- (b) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Issuer held by any Person (other than by a Subsidiary) or of any Capital Stock of a Subsidiary of the Issuer held by any Affiliate of the Issuer (other than by a member of the Group), including in connection with any merger or consolidation and including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Issuer that is not Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of Indebtedness of such Capital Stock), or upon the happening of any event, matures or

is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the first anniversary of the Maturity Date);

- (c) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity or scheduled repayment of any Subordinated Obligations of the Issuer or any Subsidiary of the Issuer (except for the repayment of inter-company debt owed by any member of the Group to any other member of the Group from time to time).

“Stock Exchange” means the London Stock Exchange plc;

“Subordinated Obligations” means, with respect to any Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes pursuant to a written agreement to that effect;

“Subsidiary” means, in relation to any Person (the **“first person”**), at any particular time, any other Person (the **“second person”**) (i) which the first person controls or has the power to control and (ii) which is (or is required under IFRS to be) consolidated in or with the financial statements of the first person;

“Taxes” means any taxes, levies, duties, imports or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto);

“U.S. Dollars”, **“dollars”** or the sign **“\$”** means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts;

“U.S. Dollar Equivalent” means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with the applicable foreign currency as quoted by Reuters at approximately 11:00 am (New York time) on the date not more than two business days prior to the date of determination; and

“Wholly-Owned Subsidiary” of any specified Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which shall at the time be owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES WHEN IN GLOBAL FORM

The Notes will be evidenced on issue by the Global Note, deposited with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of such common depositary.

Beneficial interests in the Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Book-entry Procedures for the Global Note*”.

By acquisition of a beneficial interest in the Global Note, the purchaser thereof will be deemed to represent, among other things, that it is purchasing such beneficial interests in an offshore transaction in accordance with Rule 903 of Regulation S.

Beneficial interests in the Global Note will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement, and the Notes will bear the legends set forth thereon regarding such restrictions.

Save in the case of the issue of replacement Notes pursuant to Condition 12, the Issuer, the Transfer Agents and the Registrar shall make no charge to the holders for the registration of any holding of Notes or any transfer thereof or for the issue of any Notes or for the delivery thereof at the specified office of a Transfer Agent or the Registrar or by uninsured post to the address specified by the holder, but such registration, transfer, issue or delivery shall be effected against such indemnity from the holder or the transferee thereof as the Registrar or the relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration, transfer, issue or delivery. Except in the limited circumstances described below, owners of beneficial interests in the Global Note will not be entitled to receive physical delivery of Note certificates in definitive form (the “**Definitive Notes**”). The Notes are not issuable in bearer form.

Amendments to Conditions

The Global Note contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by the Global Note will be made to the person who appears on the register of Noteholders at the close of business on the Record Date as holder of the Global Note against presentation and (if no further payment falls to be made in respect of the relevant Notes) surrender of the Global Note to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose), which shall endorse such payment or cause such payment to be endorsed in the appropriate schedule to the Global Note (such endorsement being prima facie evidence that the payment in question has been made). Interest in respect of the Notes represented by the Global Note will be paid from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by the Global Note, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Notices

So long as the Notes are evidenced by the Global Note and the Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by the notice to entitled account holders rather than in the manner specified in the Conditions and shall be deemed to be given to holders of interests in the Global Note with the same effect as if they had been given to such Noteholder in accordance with the Conditions; provided, however, that as long as the Notes are listed on the London Stock Exchange, all notices will also be given in accordance with the rules of the London Stock Exchange. Any such notice will be deemed to have been given on the day the same has been delivered to the relevant clearing systems.

Record Date

Notwithstanding Condition 8(a)(ii), “Record Date” shall mean the Clearing System Business Day before the relevant due date for payment, where “Clearing System Business Day” means a day when Euroclear and Clearstream, Luxembourg is open for business.

Meetings

The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each U.S.\$1,000 in principal amount of Note represented by the Global Note.

Trustee’s Powers

Notwithstanding anything contained in the Trust Deed, in considering the interests of Noteholders while the Global Note is held on behalf of a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests, and treat such accountholders, as if such accountholders were the holders of the Global Note.

Issuer’s Option

So long as the Notes are evidenced by the Global Note and the Global Note is held by or on behalf of a clearing system, any option of the Issuer provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders and the relevant clearing systems (or procuring that such notice is given on its behalf) within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and, accordingly, no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

Noteholder’s Option

So long as the Notes are evidenced by the Global Note and such Global Note is held by or on behalf of a clearing system, the exercise of the option of Noteholders provided for in Condition 7(h) will be subject to the normal rules and operating procedures of such clearing system.

Electronic Consent and Written Resolution

While the Global Note is registered in the name of any nominee for a clearing system, then:

- (a) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than two-thirds in principal amount of the Notes outstanding (an “**Electronic Consent**” as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting in respect of which the special quorum provisions specified in the Notes apply) take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing system with entitlements to the Global Note and/or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries. For the purpose of establishing the entitlement to give any such consent or instruction,

the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the “**relevant clearing system**”) and in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Exchange for Definitive Notes

Exchange

The Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent.

The Registrar will not register the transfer of, or exchange of interests in, the Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“**Exchange Date**” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Note must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon.

Book-entry Procedures for the Global Note

For each series of Notes evidenced by the Global Note, custodial and depositary links are to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—*Settlement and Transfer of Notes*”.

Euroclear and Clearstream, Luxembourg

The Global Note will have an ISIN and Common Code. The Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of such common depositary. The address of Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the Global Note directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**” and, together with Direct Participants, “**Participants**”) through organisations that are accountholders therein.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by the Global Note must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Note, the common depository by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or holders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in the Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system’s records. The ownership interest of each actual purchaser of each such note (the “**Beneficial Owner**”) will in turn be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes unless and until interests in the Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants,

and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than two business days following the date of pricing. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident of a purchase of Notes, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of Notes. The following is a general description of Uzbekistan withholding tax laws relating to the Notes as in effect on the date hereof, and does not purport to be a comprehensive discussion of the tax treatment of the Notes.

Withholding Tax in Uzbekistan

Pursuant to Articles 304, 351, 369 and 464 of the Tax Code, principal, interest or premium payable under international bonds (such as the Notes) by an Uzbek legal entity to non-resident or resident legal entities or individuals is not subject to any withholding tax in Uzbekistan.

If interest payments in respect of any Notes become subject to Uzbekistan withholding tax, the Bank shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such withholding been required as more fully described in Condition 9. The Tax Code does not permit contractual provisions imposing on residents of the Republic of Uzbekistan an obligation to bear expenses in relation to tax obligations of foreign natural persons who are Non-Uzbek natural persons. Whilst tax gross-up provisions of Condition 9 are expressed to impose on the Bank an obligation to pay additional amounts rather than to bear expenses in relation to tax obligations of the non-Uzbek natural persons, there is no assurance that an Uzbek court will agree with this interpretation and, therefore, there is a risk that such gross-up provisions may not be enforceable. So far as the Bank is aware, there has been no court case in the Republic of Uzbekistan in which tax gross-up or similar provisions were considered.

SUBSCRIPTION AND SALE

The Joint Bookrunners have, pursuant to a Subscription Agreement dated 17 November 2020 (the “**Subscription Agreement**”), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Notes at the issue price of 100 per cent. of their principal amount.

The Issuer has agreed to pay to the Joint Bookrunners a combined management, underwriting and selling commission in respect of the Notes. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has in the Subscription Agreement agreed to indemnify the Joint Bookrunners against certain liabilities incurred in connection with the issue of the Notes.

Each of the Joint Bookrunners and its respective affiliates may, from time to time in the ordinary course of their respective businesses, engage in further transactions with, and perform services for, the Issuer and its affiliates. In particular, the Joint Bookrunners and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer or its affiliates (including their respective shareholders) and for which they will receive customary fees.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Bookrunner has severally represented that it has not offered or sold, and agrees that it will not offer or sell, the Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S. Accordingly, neither such Joint Bookrunner, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

Each Joint Bookrunner severally represented that it has not entered and agreed that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer.

United Kingdom

Each Joint Bookrunner has severally represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA and U.K. Retail Investors

Each Joint Bookrunner has severally represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA or in the U.K. For these purposes the expression “retail investor” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the IDD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Republic of Uzbekistan

Each Joint Bookrunner has severally represented, warranted and undertaken with the Issuer and each other Joint Bookrunner that it has not offered and will not offer the Notes for circulation, distribution, placement, sale or purchase in the territory of the Republic of Uzbekistan.

Singapore

Each Joint Bookrunner has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Bookrunner has severally represented, warranted and undertaken with the Issuer that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

General

Neither the Issuer nor any Joint Bookrunner has made any representation that any action has been or will be taken in any jurisdiction by the Joint Bookrunners or the Issuer that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Bookrunner will comply in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

INDEPENDENT AUDITORS

The Bank's Annual Financial Statements included elsewhere in this Prospectus have been audited by Deloitte, of Business Center "Inkonel", 75, Mustakillik Avenue, Tashkent 100000, Republic of Uzbekistan, independent auditor, as stated in their report appearing herein. The report has been included on page F-5 of this Prospectus with the consent of Deloitte who has authorised the contents of that part of this Prospectus for the purposes of this Prospectus. For the purposes of Prospectus Regulation Rule 5.3.5R(2)(f) Deloitte accept responsibility for the information contained in their report as part of this Prospectus and declare that to the best of their knowledge, the information contained in their report is, in accordance with the facts and the report contains no omission likely to affect its import.

The Bank's Interim Financial Information included elsewhere in this Prospectus has been reviewed by Deloitte, independent auditor, as stated in their review report appearing on page F-109 of this Prospectus.

Deloitte has a licence authorising audit of companies registered by the Ministry of Finance of the Republic of Uzbekistan under registration number 00776 dated 5 April 2019 and a certificate authorising audit of banks registered by the CBU under registration number 3 dated 14 October 2013.

Following the General Meeting of Shareholders on 30 September 2020, the Bank approved the appointment of KPMG of International Business Center, 11th floor, block A, 107-B Amir Temur Street, Tashkent 100084, Republic of Uzbekistan, as independent auditor for the Bank for the financial year ending 31 December 2020 (such appointment being subject to signing of a contract between the Bank and KPMG).

GENERAL INFORMATION

- (1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or before 19 November 2020, subject only to the issue of the Global Note. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. The expenses related to the admission to trading of the Notes are expected to be approximately £7,515.
 - (2) The issue of the Notes was authorised by resolution of the Supervisory Board of the Issuer passed on 26 March 2020 No. 16/2.
 - (3) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg.
 - (4) The indication of yield in relation to the Notes is 5.50 per cent. per annum. This yield is calculated at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.
 - (5) The International Securities Identification Number (“ISIN”) of the Global Note is XS2260457754 and the Common Code of the Global Note is 226045775.
 - (6) The Legal Entity Identifier is 213800UWVX5JSNXJS434.
 - (7) Save as disclosed in “*Financial Review—Impact of COVID-19*” and “*Business—COVID-19 Response*”, there has been no material adverse change in the prospects of the Group since 31 December 2019 and no significant change in the financial performance of the Group since 30 June 2020 and to the date of this Prospectus.
 - (8) Save as disclosed in “*Financial Review—Impact of COVID-19*” and “*Business—COVID-19 Response*”, there has been no significant change in the financial position of the Group since 30 June 2020.
 - (9) As at the date of this Prospectus, there are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the previous 12 months which may have, or have had in the recent past, significant effects on the Bank’s financial position or profitability.
 - (10) For so long as any Notes are outstanding, copies of the following will be available for inspection on the Issuer’s website (<https://www.ipotekabank.uz/en/>):
 - a copy of this Prospectus along with any supplement to this Prospectus;
 - the charter documents of the Issuer; and
 - the Financial Statements, including the related independent auditor’s report and review report in respect thereof.
 - (11) For so long as any Notes are outstanding, copies of the following will be available for inspection by appointment, and may be obtained free of charge, during normal business hours on any weekday, at the specified office of the Principal Paying Agent in London or at the Principal Paying Agent’s discretion such inspection may take place, and any copies of documents may be provided, electronically:
 - the Trust Deed to be entered into with the Trustee; and
 - the Paying Agency Agreement to be entered into with the paying agents and the Trustee.
- This Prospectus will also be published on the website of the Regulatory News Service operated by the London Stock Exchange at <https://www.londonstockexchange.com/news?tab=news-explorer>.
- (12) No natural or legal person has an interest that is material to the issue of the Notes.

- (13) The Issuer has obtained all necessary consents, approvals and authorisations in Uzbekistan in connection with its entry into, and performance of its obligations under, the Trust Deed and the Agency Agreement.
- (14) There are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders under the Notes.
- (15) Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.
- (16) The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.
- (17) The Issuer does not intend to provide any post-issuance transaction information regarding the Notes.
- (18) The Bank of New York Mellon SA/NV, Luxembourg Branch will act as Registrar in relation to the Notes.
- (19) There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer towards the Issuer and their private interests and/or other duties.
- (20) The Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with and may perform services of the Issuer in the ordinary course of business. In the ordinary course of their business activities, the Joint Bookrunners and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer.

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JOINT-STOCK COMMERCIAL
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“IPOTEKA BANK”

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THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2019, 2018
AND 2017

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND
2017

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Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries

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:

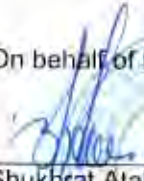
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient 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

30 September 2020
Tashkent, Uzbekistan


Elyor Normetov
Chief Accountant

30 September 2020
Tashkent, Uzbekistan

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

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.

How the matter was addressed in the audit

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.

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:

- 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.

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 & 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

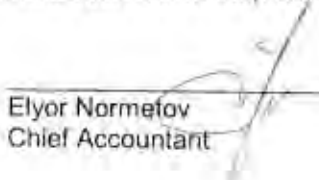
Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries
Consolidated Statement of Financial Position as at 31 December 2019, 2018 and 2017

<i>In millions of Uzbekistan Soums</i>	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

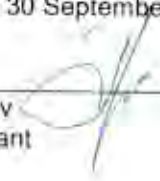

Elyor Normetov
Chief Accountant

Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the years ended
31 December 2019, 2018 and 2017

<i>In millions of Uzbekistan Soums</i>	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
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
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

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

<i>In millions of Uzbekistan Soums</i>	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

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

	Notes	Attributable to owners of the Bank					Total	Non-controlling interest	Total equity	
		Share capital	Share subscription reserve	Share premium	Share capital reserve	Retained earnings				Revaluation reserve of financial assets at fair value through other comprehensive income
<i>In millions of Uzbekistan Soums</i>										
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

In millions of Uzbekistan Sums	Notes	Attributable to owners of the Bank						Total	Non- controlling interest	Total equity
		Share capital	Share subscription reserve	Share premium	Share capital reserve	Retained earnings	Revaluation reserve of financial assets at fair value through other comprehensive income			
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

Joint Stock Commercial Mortgage Bank "Ipoteka Bank"

Consolidated Statement of Cash Flows for the years ended 31 December 2019, 2018 and 2017

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	677,878
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)	(155,589)	-
Proceeds from debt securities of the Government of the Republic of Uzbekistan		402,925	-	-
Dividend income received		181	981	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	-
Repossessioned 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

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Notes to the Consolidated Financial Statements for the years ended 31 December 2019, 2018 and 2017

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: Shahrizabz 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.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Notes to the Consolidated Financial Statements for the years ended 31 December 2019, 2018 and 2017

1. Introduction (Continued)

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

Name	31 December 2019	Ownership 31 December 2018	31 December 2017	Year of incorporation	Industry	Country
<i>Bank's direct interest in subsidiaries:</i>						
Ipoteka Sarmoyasi LLC	100%	100%	100%	2017	Investment	Uzbekistan
Ipoteka Leasing LLC	100%	100%	100%	2017	Leasing	Uzbekistan
Imkonsugurta LLC	100%	-	-	2019	Insurance	Uzbekistan
<i>Bank's indirect interest in subsidiaries via IpotekaSarmoyasi LLC</i>						
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
<i>Bank's interest in associates:</i>						
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 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.

Reposessed 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.

The Group as lessor. 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 positions were 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	Reclassifi- cation	Remeasu- rement	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 <i>Prepayment Features with Negative Compensation</i>	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 <i>Long-term Interests in Associates and Joint Ventures</i>	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).
<i>Annual Improvements to IFRS Standards 2015–2017 Cycle</i>	The Group has adopted the amendments included in the <i>Annual Improvements to IFRS Standards 2015–2017 Cycle</i> for the first time in the current year. The <i>Annual Improvements</i> include amendments to four Standards:
Amendments to IAS 12 <i>Income Taxes</i>	IAS 12 <i>Income Taxes</i> . 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 <i>Uncertainty over Income Tax Treatments</i>	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	<i>Insurance Contracts</i>
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IFRS 3	<i>Definition of a business</i>
Amendments to IAS 1 and IAS 8	<i>Definition of material</i>
Conceptual Framework	<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>

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 of 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 IASB 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.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Notes to the Consolidated Financial Statements for the years ended 31 December 2019, 2018 and 2017

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:**

<i>In millions of Uzbekistan Soums</i>	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:**

<i>In millions of Uzbekistan Soums</i>	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:**

<i>In millions of Uzbekistan Soums</i>	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

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6 Reclassifications and restatements (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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.

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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

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Notes to the Consolidated Financial Statements for the years ended 31 December 2019, 2018 and 2017

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 attributable to changes in parameters (PD, LGD), changes in EAD and adjustment of ECL due to transfer to new stages.

** “Transfer of new originations” 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.

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7. Provisions for Expected Credit Losses (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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

<i>In millions of Uzbekistan Soums</i>	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

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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:

	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
<i>In millions of Uzbekistan Soums</i>				
<i>Neither past due nor impaired</i>				
- 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:

	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
<i>In millions of Uzbekistan Soums</i>				
<i>Neither past due nor impaired</i>				
- 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

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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:

<i>In millions of Uzbekistan Soums</i>	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
<i>Neither past due nor impaired</i>				
- 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

<i>In millions of Uzbekistan Soums</i>	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.

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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:

<i>In millions of Uzbekistan Soums</i>	31 December 2019	31 December 2018	31 December 2017
<i>Neither past due nor impaired</i>			
- 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.

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10. Loans and Advances to Customers

<i>In millions of Uzbekistan Soums</i>	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.

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10. Loans and Advances to Customers (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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

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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 originations” 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	
<i>In millions of Uzbekistan Soums</i>	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.

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10. Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2019 was as follows:

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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

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Notes to the Consolidated Financial Statements for the years ended 31 December 2019, 2018 and 2017

10. Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2017 was as follows:

<i>In millions of Uzbekistan Soums</i>	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.

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10. Loans and Advances to Customers (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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
<i>Past due loans</i>					
- 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
<i>Loans individually determined to be impaired (gross)</i>					
- 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%)).

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10. Loans and Advances to Customers (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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
<i>Past due loans</i>					
- 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
<i>Loans individually determined to be impaired (gross)</i>					
- 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

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10. Loans and Advances to Customers (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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
<i>Past due loans</i>					
- 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
<i>Loans individually determined to be impaired (gross)</i>					
- 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

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10. Loans and Advances to Customers (Continued)

<i>In millions of Uzbekistan Soums</i>	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

<i>In millions of Uzbekistan Soums</i>	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 neftgaz 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.

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13. Investment in Associates

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

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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)

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14. Premises, Equipment and Intangible Assets

	Building and premises	Office and Computer equipment	Motor vehicles	Construction in progress	Intangible assets	Total
<i>In millions of Uzbekistan Soums</i>						
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

<i>In millions of Uzbekistan Soums</i>	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

<i>In millions of Uzbekistan Soums</i>	31 December 2019	31 December 2018	31 December 2017
Prepayments	22,305	13,072	16,565
Assets for finance lease	16,317	4,831	-
Reposessed 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).

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17. Due to Other Banks

<i>In millions of Uzbekistan Soums</i>	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

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	31 December 2019		31 December 2018		31 December 2017	
	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.

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19. Debt Securities in Issue

<i>In millions of Uzbekistan Soums</i>	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

<i>In millions of Uzbekistan Soums</i>	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.

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21. Other Borrowed Funds

<i>In millions of Uzbekistan Soums</i>	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.

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22. Other Liabilities

<i>In millions of Uzbekistan Soums</i>	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.

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23. Share Capital

<i>In millions of Uzbekistan Soums except for number of shares</i>	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.

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24. Interest Income and Expense

<i>In millions of Uzbekistan Soums</i>	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.

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25. Fee Commission Income and Expense

<i>In millions of Uzbekistan Soums</i>	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

<i>In millions of Uzbekistan Soums</i>	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

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27. Administrative and Other Operating Expenses

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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.

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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.

<i>In millions of Uzbekistan Soums</i>	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.

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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%).

	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
<i>In millions of Uzbekistan Soums</i>												
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:

<i>In millions of Uzbekistan Soums</i>	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.

<i>In millions of Uzbekistan Soums</i>	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.

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32. Financial Risk Management (Continued)

<i>in millions of Uzbekistan Soums</i>	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

<i>in millions of Uzbekistan Soums</i>	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

<i>in millions of Uzbekistan Soums</i>	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 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:

<i>In millions of Uzbekistan Soums</i>	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	

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32. Financial Risk Management (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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
<i>In millions of Uzbekistan Soums</i>	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.

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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.

<i>In millions of Uzbekistan Soums</i>	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

<i>In millions of Uzbekistan Soums</i>	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

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32. Financial Risk Management (Continued)

<i>In millions of Uzbekistan Soms</i>	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)

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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:

<i>In % p.a.</i>	31 December 2019		
	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			
<i>In % p.a.</i>	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			
<i>In % p.a.</i>	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:

<i>In millions of Uzbekistan Soums</i>	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

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32. Financial Risk Management (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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.

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32. Financial Risk Management (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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.

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32. Financial Risk Management (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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	-

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32. Financial Risk Management (Continued)

Remaining contractual maturities at 31 December 2017:

<i>In millions of Uzbekistan Soums</i>	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:

	31 December 2019 (unaudited)	31 December 2018 (unaudited)	31 December 2017 (unaudited)
<i>In millions of Uzbekistan Soums</i>			
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:

<i>In millions of Uzbekistan Soums</i>	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:

<i>In millions of Uzbekistan Soums</i>	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.

<i>In millions of Uzbekistan Soums</i>	2019	2018	2017
<i>Information about subsidiary:</i>			
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
<i>Summarised financial information:</i>			
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.

Financial Assets/Liabilities as at 31 December 2019	Carrying value	Fair value		Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		Fair value	Fair value hierarchy			
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

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36. Fair Value of Financial Instruments (Continued)

Financial Assets/Liabilities as at 31 December 2018	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	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.

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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	
	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
<i>In millions of Uzbekistan Soums</i>						
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	-	-	-	-	-

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Notes to the Consolidated Financial Statements for the years ended 31 December 2019, 2018 and 2017

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	
	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
<i>In millions of Uzbekistan Soums</i>						
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:

<i>In millions of Uzbekistan Soums</i>	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”.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Notes to the Consolidated Financial Statements for the years ended 31 December 2019, 2018 and 2017

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
<i>Bank's direct interest in subsidiaries:</i>		
Ipoteka Sarmoyasi LLC	100%	Investment
<i>Bank's indirect interest in subsidiaries via IpotekaSarmoyasi LLC</i>		
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
<i>The financial assets at fair value through other comprehensive income</i>		
Chilonzor buyum savdo kompleksi JSC	14.36%	Trade
Qo'qon neftgaz 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.



IPOTEKA BANK



**Interim condensed consolidated
financial information
for six months ended
30 June 2020 (unaudited)**

**JOINT-STOCK COMMERCIAL
MORTGAGE BANK**

“IPOTEKA BANK”

AND ITS SUBSIDIARIES

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Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the consolidated financial position of JSCMB "Ipoteka bank" ("the Bank") and its subsidiaries (collectively – "the Group") as at 30 June 2020, the results of its operations, changes in equity and cash flows for the six months then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

In preparing the interim condensed consolidated financial information, 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 IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated 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 interim condensed consolidated financial information of the Group comply with IAS 34;
- Maintaining accounting records in compliance with the legislation 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 interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 was authorized for issue by the Management Board on 22 October 2020.

On behalf of the Management Board:


Shukhrat Atabaev
Chairman of the Board

22 October 2020
Tashkent, Uzbekistan


Elyor Normetov
Chief Accountant

22 October 2020
Tashkent, Uzbekistan

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries ("the Group") as at 30 June 2020 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



"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

22 October 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

Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries
Interim Condensed Consolidated Statement of Financial Position as at 30 June 2020 (unaudited)

	Notes	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>			
ASSETS			
Cash and cash equivalents	6	2,911,565	2,630,173
Due from other banks	7	762,581	845,018
Loans and advances to customers	8	20,883,011	19,839,756
Debt securities of the Government of the Republic of Uzbekistan	9	664,055	131,149
Financial assets at fair value through other comprehensive income		6,114	6,572
Investment in associates		1,931	1,964
Premises, equipment and intangible assets	10	278,550	276,601
Current income tax prepayment		-	8
Deferred income tax asset		66,422	57,451
Other financial assets		11,732	5,210
Other non-financial assets	11	88,401	51,076
Total assets before assets held for distribution to owners		25,674,362	23,844,978
Assets held for distribution to owners	12	53,496	-
TOTAL ASSETS		25,727,858	23,844,978
LIABILITIES			
Due to other banks	13	664,664	284,533
Customer accounts	14	7,908,442	7,935,719
Debt securities in issue		4,658	14,850
Borrowings from government, state and international financial institutions	15	12,787,873	11,530,321
Other borrowed funds		425,905	425,905
Other financial liabilities	16	10,685	53,050
Other non-financial liabilities	16	59,428	52,445
Total liabilities before liabilities associated with assets held for distribution to owners		21,861,655	20,296,823
Liabilities associated with assets held for distribution to owners	12	18,816	-
TOTAL LIABILITIES		21,880,471	20,296,823
EQUITY			
Share capital		2,815,810	2,815,810
Share capital reserve		151,807	90,656
Retained earnings		884,465	644,542
Revaluation reserve of financial assets at fair value through other comprehensive income		(589)	(225)
Net assets attributable to the Bank's owners		3,851,493	3,550,783
Non-controlling interest		(4,106)	(2,628)
TOTAL EQUITY		3,847,387	3,548,155
TOTAL LIABILITIES AND EQUITY		25,727,858	23,844,978

Approved for issue and signed on behalf of the Management Board on 22 October 2020.

Shukhrat Atabaev
Chairman of the Board

Elyor Normetov
Chief Accountant

Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the
six months ended 30 June 2020 (unaudited)

	Notes	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
<i>In millions of Uzbekistan Soums</i>			
Interest income	17	1,169,386	919,008
Interest expense	17	(481,643)	(422,815)
Net interest income before provision for credit losses		687,743	496,193
Charge for credit losses on loans and advances to customers	5	(252,330)	(128,989)
Net interest income		435,413	367,204
Fee and commission income	18	122,819	119,356
Fee and commission expense	18	(33,712)	(21,452)
Net gain from trading in foreign currencies		3,250	2,157
Net gain from foreign exchange translation		25,380	4,247
Dividend income		10	117
Impairment charge on other financial assets and contingencies	5	(6,316)	(7,833)
Other operating income		26,609	14,533
Administrative and other operating expenses	19	(291,540)	(240,796)
Share of result of associates		(33)	(48)
Profit before tax		281,880	237,485
Income tax expense	20	(43,435)	(39,369)
NET PROFIT FOR THE PERIOD		238,445	198,116
Profit attributable to:			
- Owners of the Bank		239,923	199,078
- Non-controlling interest		(1,478)	(962)
NET PROFIT FOR THE PERIOD		238,445	198,116
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Fair value adjustment on financial assets at fair value through other comprehensive income		(456)	128
Tax effect		92	(44)
Total other comprehensive (loss) / income for the period		(364)	84
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		238,081	198,200
Total comprehensive income attributable to:			
- Owners of the Bank		239,559	199,162
- Non-controlling interest		(1,478)	(962)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		238,081	198,200
Basic and diluted earnings per ordinary share in UZS	21	0.08	0.18

Approved for issue and signed on behalf of the Management Board on 22 October 2020.

Shukhrat Atabaev
Chairman of the Board

Elyor Normetov
Chief Accountant

Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries
Interim Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2020 (unaudited)

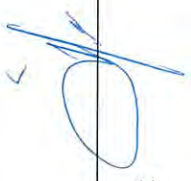
<i>In millions of Uzbekistan Sourms</i>	Share capital	Share subscription reserve	Share premium	Share capital reserve	Retained earnings	Revaluation reserve of financial assets at fair value through other comprehensive income	Total	Non- controlling interest	Total equity
31 December 2018	983,979	124,723	754	60,873	443,726	(731)	1,613,324	(1,199)	1,612,125
Net profit /(loss) for the period	-	-	-	-	199,078	-	199,078	(962)	198,116
Other comprehensive income for the period	-	-	-	-	-	84	84	-	84
Total comprehensive income / (loss) for the period	-	-	-	-	199,078	84	199,162	(962)	198,200
Share subscription deposit - ordinary shares	-	-	-	56,036	-	-	56,036	-	56,036
Ordinary shares issued	417,199	(124,723)	-	-	-	-	292,476	-	292,476
Dividends declared - ordinary shares	-	-	-	-	(111,580)	-	(111,580)	-	(111,580)
Share decrease in subsidiaries with non-controlling interest	-	-	-	-	-	-	-	(518)	(518)
30 June 2019 (unaudited)	1,401,178	-	754	116,909	531,224	(647)	2,049,418	(2,679)	2,046,739

Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries
Interim Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2020 (unaudited)

	Attributable to owners of the Bank							Total equity
	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	
<i>In millions of Uzbekistan Soms</i>								
31 December 2019	2,815,810	-	-	90,656	644,542	(225)	3,550,783	3,548,155
Net profit / (loss) for the period	-	-	-	-	239,923	-	239,923	238,445
Other comprehensive loss for the period	-	-	-	-	-	(364)	(364)	(364)
Total comprehensive income / (loss) for the period	-	-	-	-	239,923	(364)	239,559	238,081
Share subscription deposit - ordinary shares	-	-	-	61,151	-	-	61,151	61,151
30 June 2020 (unaudited)	2,815,810	-	-	151,807	884,465	(589)	3,851,493	3,847,387

Approved for issue and signed on behalf of the Management Board on 22 October 2020.


Shukhrat Atabaev
 Chairman of the Board


Elyor Normetov
 Chief Accountant

Joint Stock Commercial Mortgage Bank "Ipoteka Bank"

Interim Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2020 (unaudited)

<i>In millions of Uzbekistan Soms</i>	Notes	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Cash flows from operating activities			
Interest received		899,921	817,032
Interest paid		(500,042)	(405,337)
Fees and commissions received		115,580	113,447
Fees and commissions paid		(33,712)	(21,452)
Income received from trading in foreign currencies		3,250	2,157
Other operating income received		25,371	14,413
Staff costs paid		(215,457)	(160,714)
Administrative and other operating expenses paid		(80,848)	(58,781)
Cash flows from operating activities before changes in operating assets and liabilities		214,063	300,765
Net decrease / (increase) in due from other banks		79,891	(415,041)
Net increase in loans and advances to customers		(697,613)	(3,531,919)
Net decrease in other financial assets		7,751	4,251
Net increase in other non-financial assets		(17,000)	(15,894)
Net increase in due to other banks		367,690	-
Net (decrease) / increase in customer accounts		(169,514)	430,166
Net decrease in other financial liabilities		(2,459)	(7,072)
Net increase / (decrease) in other non-financial liabilities		28,164	(7,686)
Net cash used in operating activities		(189,027)	(3,242,430)
Cash flows from investing activities			
Purchase of premises, equipment and intangible assets		(82,276)	(37,184)
Proceeds from disposal of premises, equipment and intangible assets		1,265	5,169
Net cash inflow associated with assets held for distribution to owners		7,188	-
Purchase of debt securities of the Government of the Republic of Uzbekistan		(530,099)	(164,415)
Proceeds from debt securities of the Government of the Republic of Uzbekistan		10,000	-
Dividend income received		10	117
Net cash used in investing activities		(593,912)	(196,313)
Cash flows from financing activities			
Proceeds from borrowings from government, state and international financial institutions		2,585,101	3,404,376
Repayment of borrowings from government, state and international financial institutions		(1,622,620)	(551,074)
Proceeds from issue of debt securities		-	7,650
Repayment of debt securities		(10,100)	(500)
Dividends paid		(21)	-
Share decrease in subsidiaries non-controlling interest		-	(518)
Proceeds from stock subscription		-	292,817
Net cash from financing activities		952,360	3,152,751
Effect of exchange rate changes on cash and cash equivalents		111,971	21,709
Net increase in cash and cash equivalents		281,392	(264,283)
Cash and cash equivalents at the beginning of the year	6	2,630,173	1,315,362
Cash and cash equivalents at the end of the period	6	2,911,565	1,051,079
Non-cash transactions			
Repossessioned assets		4,624	4,054
Utilization of share subscription reserve to increase share capital		-	124,723

Approved for issue and signed on behalf of the Management Board on 22 October 2020.

Shukhrat Atabaev
Chairman of the Board

Elyor Normetov
Chief Accountant

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

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 (“the 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 30 June 2020 (unaudited) (31 December 2019: 39 branches). As at 30 June 2020 (unaudited) and 31 December 2019, the number of employees of the Bank was 4,452 and 4,461, respectively.

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: Shahrizabz Street 30, Tashkent, 100000, Uzbekistan.

Presentation currency. This interim condensed consolidated financial information is presented in millions of Uzbekistan Soums (“UZS millions”), except for earnings per share amounts and unless otherwise indicated.

Shareholders. As at 30 June 2020 and 31 December 2019, the interest of the shareholders in the Bank’s capital was as follows:

	30 June 2020 (unaudited)	31 December 2019
Shareholders		
Fund for the Reconstruction and Development of the Republic of Uzbekistan (UFRD)	81.5%	81.5%
Ministry of Finance of the Republic of Uzbekistan	10.5%	10.5%
Uzbekneftgaz JSC	2.7%	-
Uzneftmahsulot JSC	-	2.7%
Others (individually less than 5%)	5.3%	5.3%
Total	100%	100%

Subsidiaries and associates. During the six months ended 30 June 2020 (unaudited), the composition and ownership share in the Bank’s subsidiaries and associates remained unchanged except for establishment of a new associate with 20% ownership - Joint stock company “Mortgage Refinancing Company of Uzbekistan” based on the decision of the Supervisory Board made in June. Subsequent to the reporting date, the Bank has invested UZS 20,000 million into the share capital of the new associate.

The subsidiaries controlled by the Group are consolidated in this condensed consolidated financial information and associates are accounted for using an equity method.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

1. Introduction (Continued)

Operating Environment. 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 has 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 has already started to face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets.

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 (UZS 10,173,380 million at the exchange rate prevailing as at the reporting date) in additional government spending in response to the coronavirus pandemic. In addition, in April and September 2020, the CBU reduced the refinancing rate from 16% to 15% and from 15% to 14%, respectively.

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 intends to adapt strategies as needed to continue to drive the business and meet obligations.

Management of the Group is monitoring developments in the current environment and taking the following measures, it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

- Towards the end of Q1 2020, the Group has implemented remote work arrangements and restricted business travel effective mid-March.
- Based on application of customers, the Group has also provided holidays till the end of Q3 2020 for repayment of interest and/or principal of loans.
- expanded offering of banking products through digital and distance channels, which were previously provided exclusively at the Bank's branches.

Going concern. This interim condensed consolidated financial information have been prepared on the assumption that the Group will continue to operate as a going concern for the foreseeable future.

For the six months ended 30 June 2020 (unaudited), 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 5%.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

1. Introduction (Continued)

As at 30 June 2020 (unaudited), the Group had a cumulative liquidity deficit up to one year of UZS 3,721,110 million of which UZS 362,847 million was attributable to a non-compliance with the cost-to-income ratio stipulated in the tripartite subsidiary loan agreements #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 15.

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 30 June 2020, 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.

Due to the on-going 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). Subsequent to 30 June 2020, the updated Action Plan for 2019 – 2024 covering these two covenants was agreed with ADB and the Ministry of Finance. In addition, the State confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants. The Management believes that such non-compliance is not expected to adversely affect the Group’s financial performance, and in particular its liquidity position.

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 30 June 2020 (unaudited), 92% of the Bank’s issued share capital is owned by the State through the UFRD and the Ministry of Finance of the Republic of Uzbekistan (“the Ministry of Finance”). 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 30 June 2020 (unaudited), total current accounts and borrowings with maturities up to one year of the State and State controlled entities amounted to UZS 1,941,029 million. The State lends most of the borrowings of the Group (as at 30 June 2020 (unaudited): UZS 7,815,268 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 the amount of UZS 1,780,080 million.
- In 2020, the Group entered into an agreement with the International Financial Corporation (“IFC”) for a USD 35 million (UZS 356,068 million at the exchange rate prevailing as at the reporting date) 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.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

1. Introduction (Continued)

- 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.

2. Summary of Significant Accounting Policies

Basis of preparation.

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

In preparing this interim condensed consolidated financial information, the Group has applied the same accounting policies and methods of computation as those applied in the annual consolidated financial statements of the Group for the year ended 31 December 2019.

The interim condensed consolidated financial information is unaudited and does not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards (“IFRS”), such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Group's annual consolidated financial statements for the year ended 31 December 2019 prepared in accordance with IFRS. Management believes that the disclosures in this interim condensed consolidated financial information is adequate to make the information presented not misleading if this interim condensed consolidated financial information is read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019 prepared in accordance with IFRS. In management's opinion, this interim condensed consolidated financial information reflects all adjustments necessary to present fairly the Group's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

The Group is required to maintain its records and prepare its financial information for regulatory purposes in Uzbekistan Soums in accordance with Uzbekistan Accounting Legislation and related instructions (“UAL”). This interim condensed consolidated financial information is based on the Group's UAL books and records, adjusted and reclassified in order to comply with IFRS.

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

	30 June 2020	31 December 2019
Closing exchange rates – [UZS]		
1 USD	10,173.38	9,507.56
1 EUR	11,411.48	10,624.70
Average exchange rates for the six months ended 30 June - [UZS]	2020	2019
1 USD	9,790.22	8,426.84
1 EUR	10,784.89	9,519.18

3. Critical Accounting Estimates and Judgements in Applying Policies

In preparing this interim condensed consolidated financial information, 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 2019 prepared in accordance with IFRS. There have been no changes to the basis upon which the significant accounting estimates have been determined compared with 31 December 2019, except for those disclosed in this Note below.

Measurement of allowances for expected credit losses (“ECL”).

Almost all sectors of the economy of Uzbekistan, both in terms of individuals and legal entities, have been adversely affected by the unprecedented economic and social disruption resulting from Covid-19 which has led to significant government interventions and support. This has caused an increased level of uncertainty and volatility in the economic activity of Uzbekistan during Q2 2020.

In addition, currently limited observable data available to inform a supportable, fully-modelled view on how the economic impacts of this pandemic might affect customers has further exacerbated the ability of the banking sector of Uzbekistan to assess the levels of ECL. The Group incorporates forward-looking information into a measurement of ECL when there is a statistically proven correlation between the macro-economic variables and the NPL. As at the reporting date, statistical tests have failed and ECL across all loan portfolios has not been adjusted for forward-looking information and macroeconomic scenarios. The Management updates its statistical tests for correlation as at each reporting date.

Therefore, due to the increased risk and uncertainties at this time to incorporate the specific effects of the pandemic and the related government support measures, the Management of the Group considered to apply additional overlay in measuring the ECL by introducing the following adjustments in its methodology.

As discussed in Note 8, in line with the government resolution, the Group has provided the borrowers with holidays till the end of Q3 2020 for repayment of interest and/or principal on loans with the outstanding balance of nearly 37% of the total loan portfolio as at 30 June 2020 (unaudited).

The calculation of the PD rates applied across all portfolios (corporate, small business loans and consumer loans) of the Group except for residential mortgage loans and the loans provided to the State-owned enterprises (“SOEs”) was based on the Management's assumption that the payment holidays granted during the lockdown were the evidence of a significant increase in credit risk (SICR). However, the Management is of the view that the actual default rates could materialize to be lower due to:

- the retail loans (consumer and residential mortgage loans) have automatically received the payment holidays as instructed by the government and not by the direct request of the individual borrowers;
- some legal entities (corporate and small businesses) could have requested the restructuring due to temporary liquidity constraints as a result of the lockdown effect and not as a result of deterioration of the credit risk.

As a result of the assumptions used above the PD rates across all portfolios have been adjusted to reflect the increased credit risk by classifying all Stage 1 loans restructured due to the effects of the pandemic (except for loans to the SOEs and mortgage loans) as Stage 2, but in measuring the ECL the Management has applied an overlay by moving these restructured loans back to Stage 1.

Additional overlay was applied to the restructured loans to the SOEs and the residential mortgage loans by retaining their pre-pandemic staging and assuming that restructuring is not an automatic evidence of significant increase in their credit risk. The basis for this overlay was that the Management believes the government will continue to support the SOEs to meet their obligations and for residential mortgage loans the payment holidays were automatically granted without the request of the individual borrowers but rather as the government policy. These residential mortgage loans were predominantly provided to the families with stable income and employed by the state-owned enterprises and organizations funded by the state budget and, therefore, the Management expects that the government will ensure a stable income for the borrowers to retain their dwellings that have been impacted by the pandemic. As such, the restructuring that took place during the period of the pandemic in these two categories of borrowers did not automatically move them to Stage 2 for a life-time loss calculation.

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

The Management has also adjusted the calculation of loss given default rates (LGD) by excluding the loan recovery results of the second quarter of 2020, assuming the recovery pattern during the lockdown period does not accurately reflect the financial performance of the borrowers. Cash flows and turnover of customer accounts observed during pre and post quarantine periods suggest that significant slow-down in the recovery of loans were mainly attributable to factors other than the financial standing of the borrowers. This adjustment to LGD has been applied across all portfolios of the Group.

The Management will closely monitor the servicing of the loan portfolio to assess the adequacy of the overlay during Q4 2020, and update the ECL measurement as more information becomes available to support an update, incorporating alternative economic scenarios.

Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods.

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

The following amended standards and interpretations became effective for the Group from 1 January 2020, but did not have any significant impact on the Group's interim condensed consolidated financial information for the six months ended 30 June 2020:

- Amendments to IFRS 3 Definition of a business;
- Amendments to IAS 1 and IAS 8 Definition of material;
- Amendments to References to the Conceptual Framework in IFRS Standards.

The Group did not early adopt any other standards, amendments or interpretations that have been issued and are not yet effective.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries

Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

5. Provisions for Expected Credit Losses

The following table illustrates the movement in provisions for loans and advances to customers and for financial assets for the six months ended 30 June 2020.

	Loans and advances to customers (Note 8)			Cash and cash equivalents (Note 6)	Due from other banks (Note 7)	Guarantees (Note 16, 25)			Other financial assets	Debt securities of the Government of the Republic of Uzbekistan (Note 9)	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 1	Stage 2	Stage 3	Stage 3	Stage 1	Total
1 January 2020	246,381	57,931	237,674	73	8,799	594	236	628	392	1,124	553,832
Transfer to stage 1	27,181	(26,298)	(883)	-	-	-	-	-	-	-	-
Transfer to stage 2	(2,266)	88,763	(86,497)	-	-	-	-	-	-	-	-
Transfer to stage 3	(5,150)	(13,187)	18,337	-	-	-	-	-	-	-	-
New originations	265,475	-	-	66	2,029	1,061	-	-	942	3,248	272,821
Transfer of new originations**	(76,399)	6,923	69,476	-	-	-	-	-	-	-	-
Derecognition of financial assets	(95,904)	(12,230)	(33,479)	(52)	(9)	(164)	(236)	-	-	(80)	(142,154)
Other changes*	11,216	(40,993)	158,245	6	(767)	69	-	169	-	34	127,979
Recovery of bad debt written-off / (Bad debt written off)	-	-	-	-	-	-	-	-	-	-	-
Currency translation difference	4,271	3,525	1,488	2	10	72	-	91	-	-	9,459
30 June 2020 (unaudited)	374,805	64,434	364,361	95	10,062	1,632	-	888	1,334	4,326	821,937
Total			803,600	95	10,062			2,520	1,334	4,326	821,937

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

** “Transfer of new originations” 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.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries

Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

5. Provisions for Expected Credit Losses (Continued)

The following table illustrates the movement in provisions for loans and advances to customers and for financial assets for the six months ended 30 June 2019.

	Loans and advances to customers (Note 8)			Cash and cash equivalents (Note 6)	Due from other banks (Note 7)	Guarantees (Note 16, 25)	Other financial assets	Debt securities of the Government of the Republic of Uzbekistan (Note 9)	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 1	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	64,242	(8,589)	(55,653)	-	-	-	-	-	-
Transfer to stage 2	(435)	1,884	(1,449)	-	-	-	-	-	-
Transfer to stage 3	(2,477)	(604)	3,081	-	-	-	-	-	-
New originations	63,127	-	-	14	7,368	197	155	1,424	72,285
Transfer of new originations**	(13,946)	386	13,560	-	-	-	-	-	-
Derecognition of financial assets	(2,937)	(547)	(3,428)	(11)	(592)	(93)	-	(463)	(8,071)
Other changes*	(14,938)	1,416	86,296	(26)	(441)	209	-	92	72,608
Recovery of bad debt written-off / (Bad debt written off)	-	-	(7,470)	-	-	152	-	-	(7,318)
Currency translation difference	318	6	212	-	-	-	-	-	536
30 June 2019 (unaudited)	218,773	3,791	168,161	27	10,141	780	175	2,013	403,861
Total			390,725	27	10,141	780	175	2,013	403,861

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

6. Cash and Cash Equivalents

	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>		
Cash on hand	522,606	485,924
Cash balances with the CBU (other than mandatory reserve deposits)	1,787,815	895,114
Correspondent accounts and overnight placements with other banks	360,659	874,388
Placements with other banks with original maturities of less than three months	240,580	374,820
Less – Provision for expected credit losses (Note 5)	(95)	(73)
Total cash and cash equivalents	2,911,565	2,630,173

The credit quality of cash and cash equivalents, excluding cash on hand, as at 30 June 2020 (unaudited) is summarized below:

	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
<i>In millions of Uzbekistan Soums</i>				
<i>Neither past due nor impaired</i>				
- Central bank of Uzbekistan	1,787,815	-	-	1,787,815
- "Aa2" (Moody's)	-	1,297	-	1,297
- "Aa3" (Moody's)	-	5,042	-	5,042
- "A1" (Moody's)	-	66,508	-	66,508
- "A2" (Moody's)	-	197,116	-	197,116
- "A3" (Moody's)	-	42,476	-	42,476
- "Ba1" (Moody's)	-	5,514	-	5,514
- "B1" (Moody's)	-	3,123	100,000	103,123
- "B2" (Moody's)	-	-	120,000	120,000
- "B2" (Standard & Poors)	-	651	-	651
- "Baa3" (Moody's)	-	2,151	-	2,151
- "BB-" (Standard & Poors)	-	-	20,000	20,000
- "B" (Standard & Poors)	-	36,781	580	37,361
Less – Provision for expected credit losses (Note 5)	(45)	(38)	(12)	(95)
Total cash and cash equivalents, excluding cash on hand	1,787,770	360,621	240,568	2,388,959

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

6. 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:

	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
<i>In millions of Uzbekistan Soums</i>				
<i>Neither past due nor impaired</i>				
- 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 5)	(22)	(26)	(25)	(73)
Total cash and cash equivalents, excluding cash on hand	895,092	874,362	374,795	2,144,249

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

7. Due from Other Banks

	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>		
Long term placements with other banks	484,439	447,769
Short term placements with other banks with original maturities of more than three months	178,632	90,692
Mandatory reserve deposit held with CBU	109,572	315,356
Less – Provision for expected credit losses (Note 5)	(10,062)	(8,799)
Total due from other banks	762,581	845,018

Due to the effect of the pandemic, the commercial banks of Uzbekistan 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 that it could use to fund its operations.

As at 30 June 2020 (unaudited) long term placements with other banks include long term loans provided to other local banks in the amount of UZS 259,796 million (31 December 2019: UZS 276,600 million) 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.

As at 30 June 2020 (unaudited), due from other banks include investments in debt securities of commercial banks of Uzbekistan with the balance of UZS 2,074 million (31 December 2019: UZS 2,301 million).

As at 30 June 2020 (unaudited), due from other banks include deposits placed with State owned banks in the amount of UZS 204,163 million (31 December 2019: UZS 94,953 million).

Analysis by credit quality of amounts due from other banks outstanding at the end of the periods are as follows:

	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>		
<i>Neither past due nor impaired</i>		
- Central Bank of Uzbekistan	109,984	315,356
- "A1" (Moody's)	43	40
- "A2" (Moody's)	26	24
- "A3" (Moody's)	-	14,930
- "BBB-" (Fitch)	-	747
- "Ba1" (Moody's)	2	1,997
- "BB-" (Fitch)	8,615	6,391
- "BB-" (Standard & Poors)	14,585	7,111
- "B1" (Moody's)	7,744	7,200
- "B" (Fitch)	48,900	48,400
- "B2" (Standard & Poors)	-	1,000
- "B2" (Moody's)	426,698	279,050
- "B3" (Moody's)	37,964	43,700
- "B" (Standard & Poors)	3,700	3,500
- "B-" (Standard & Poors)	72,190	24,200
- "B-" (Fitch)	15,000	15,000
- Unrated	27,192	85,171
Less – Provision for expected credit losses (Note 5)	(10,062)	(8,799)
Total due from other banks	762,581	845,018

Geographical analyses of due from other banks are disclosed in Note 23.

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8. Loans and Advances to Customers

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)	31 December 2019
Corporate loans	6,579,108	7,998,400
Residential mortgage loans	7,153,135	5,169,389
Small business loans	6,671,401	6,391,443
Consumer loans	1,282,967	822,510
Total loans and advances to customers before provision for expected credit losses	21,686,611	20,381,742
Provision for expected credit losses (Note 5)	(803,600)	(541,986)
Total loans and advances to customers	20,883,011	19,839,756

In line with the Presidential Decree #5978 dated 3 April 2020, the Group has also provided holidays till the 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 26% of the loans to individuals as at 30 June 2020 (unaudited). As at the same date, the amount of principal, the repayment of which the Group has extended beyond Q3 2020, was UZS 1,377,739 million (10.4%) and UZS 144,216 million (1.7%) of the loans to legal entities and individuals, respectively.

In relation to restructured loans above, interest continued to accrue on the outstanding principal of the loans and was distributed over the remaining period of the loans with final maturities predominantly extended by six months.

Deterioration in Non-performing loans (“NPL”) to gross loans and in NPL coverage ratios at 30 June 2020 was mainly driven by the increase in non-performing borrowers during the second quarter of 2020 on the back of COVID-19 pandemic outbreak. NPLs are loans in which the borrower is in default due to the fact that they have not made the scheduled payments for 90 days or more.

The following table presents information about NPLs as at 30 June 2020 and as at 31 December 2019:

	30 June 2020 (unaudited)	31 December 2019
Non-performing loans (in millions of Uzbekistan Soums)	741,182	380,202
Non-performing loans ratio (Non-performing loans balance divided by the gross loan portfolio)	3.4%	1.9%
NPL coverage ratio	108%	143%

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8. Loans and Advances to Customers (Continued)

As at 30 June 2020 (unaudited), loans and advances to customers include loans provided to State owned enterprises in the amount of UZS 3,182,270 million (31 December 2019: UZS 3,296,426 million).

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)	31 December 2019
Stage 1	19,892,431	18,668,575
Stage 2	820,795	997,929
Stage 3	973,385	715,238
Total loans and advances to customers before provision for expected credit losses	21,686,611	20,381,742
Less: Provision for expected credit losses (Note 5)	(803,600)	(541,986)
Total loans and advances to customers	20,883,011	19,839,756

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

Loans and advances to customers				
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2019	18,668,575	997,929	715,238	20,381,742
Transfer to stage 1	578,316	(574,292)	(4,024)	-
Transfer to stage 2	(174,338)	505,865	(331,527)	-
Transfer to stage 3	(288,126)	(211,177)	499,303	-
New financial assets originated or purchased	8,293,469	-	-	8,293,469
Transfer of new originations*	(273,464)	129,403	144,061	-
Derecognition of financial assets	(6,263,883)	(86,169)	(69,858)	(6,419,910)
Changes in EAD	(648,118)	59,236	20,192	(568,690)
Bad debt written off	-	-	-	-
Gross carrying amount as at 30 June 2020 (unaudited)	19,892,431	820,795	973,385	21,686,611

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8. Loans and Advances to Customers (Continued)

	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

* “Transfer of new originations” 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:

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)		31 December 2019	
	amount	%	amount	%
Individuals	8,436,102	38.9	5,991,899	29.4
Manufacturing	7,395,214	34.2	6,440,904	31.6
Trade and services	2,062,307	9.5	1,638,102	8.0
Construction	1,783,394	8.2	4,794,719	23.5
Agriculture	1,475,224	6.8	993,322	4.9
Transport and communication	287,532	1.3	281,290	1.4
Municipal services	196,646	0.9	214,403	1.1
Oil & Gas	30,652	0.1	9,242	0.0
Other	19,540	0.1	17,861	0.1
Total loans and advances to customers before provision for expected credit losses	21,686,611	100	20,381,742	100

As at 30 June 2020 (unaudited), the Group had 10 borrowers (31 December 2019: 10 borrowers) with the aggregate loan balance of UZS 4,607,103 million (31 December 2019: UZS 7,473,199 million) or 21% (31 December 2019: 37%) of total loans and advances to customers.

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8. Loans and Advances to Customers (Continued)

Information about collateral at 30 June 2020 (unaudited) was as follows (unaudited):

<i>In millions of Uzbekistan Soums</i>	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Loans collateralised by:					
-real estate	1,385,715	7,146,922	4,556,090	868	13,089,595
-letters of surety	488,293	1,842	725,238	598,793	1,814,166
-state guarantee	1,804,681	-	-	-	1,804,681
-insurance	431,694	4,145	381,153	371,693	1,188,685
-equipment and inventory	818,160	-	306,237	-	1,124,397
-cash deposit	679,510	-	1,147	232,988	913,645
-vehicles	87,236	-	664,922	78,556	830,714
-other assets	655,984	-	28,530	69	684,583
-future cash flow	227,835	226	8,084	-	236,145
Total loans collateralised	6,579,108	7,153,135	6,671,401	1,282,967	21,686,611
Total loans and advances to customers before provision for expected credit losses	6,579,108	7,153,135	6,671,401	1,282,967	21,686,611

Information about collateral at 31 December 2019 was as follows:

<i>In millions of Uzbekistan Soums</i>	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

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.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
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8. Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 30 June 2020 is as follows (unaudited):

<i>In millions of Uzbekistan Soums</i>	Corporate loans	Residential mortgage loans	Small business loans	Consumer loans	Total
Not past due loans	5,778,655	6,935,646	6,161,503	1,236,547	20,112,351
Total not past due loans	5,778,655	6,935,646	6,161,503	1,236,547	20,112,351
<i>Past due loans</i>					
- less than 30 days overdue	662,865	35,074	51,704	3,245	752,888
- 31 to 90 days overdue	10,483	1,732	29,793	11,878	53,886
- 91 to 180 days overdue	7,333	142,220	220,461	21,313	391,327
- 181 to 360 days overdue	4,805	36,123	171,100	7,907	219,935
- more than 360 days overdue	9,238	2,340	36,840	2,077	50,495
Total past due loans	694,724	217,489	509,898	46,420	1,468,531
<i>Loans individually determined to be impaired (gross)</i>					
- less than 30 days overdue	26,304	-	-	-	26,304
- 91 to 180 days overdue	20,124	-	-	-	20,124
- 180 to 360 days overdue	59,301	-	-	-	59,301
Total individually impaired loans (gross)	105,729	-	-	-	105,729
- Impairment provisions for individually impaired loans	(36,864)	-	-	-	(36,864)
- Impairment provisions assessed on portfolio basis	(107,468)	(335,572)	(268,864)	(54,832)	(766,736)
Less provision for expected credit losses	(144,332)	(335,572)	(268,864)	(54,832)	(803,600)
Total loans and advances to customers	6,434,776	6,817,563	6,402,537	1,228,135	20,883,011

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)

8. Loans and Advances to Customers (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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
<i>Past due loans</i>					
- 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
<i>Loans individually determined to be impaired (gross)</i>					
- less than 30 days overdue	155,838	-	-	-	155,838
- 30 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

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9. Debt securities of the Government of the Republic of Uzbekistan

<i>In millions of Uzbekistan Soums</i>	<i>%</i>	<i>Maturity</i>	30 June 2020 (unaudited)	31 December 2019
Government bonds of the Ministry of Finance of the Republic of Uzbekistan	15% - 16%	September, 2020 - July, 2022	616,395	132,273
Bonds of Central bank of Uzbekistan	16%	August, 2020	51,986	-
Less - Provision for expected credit losses (Note 5)			(4,326)	(1,124)
Total debt securities of Government of the Republic of Uzbekistan			664,055	131,149

As at 30 June 2020 (unaudited), the Government bonds of the Ministry of Finance with the carrying value of UZS 400,000 million were pledged under the repurchase agreement that the Group has entered into with the CBU (Note 13). The carrying value of these debt securities approximate their fair value.

10. Premises, Equipment and Intangible Assets

As at 30 June 2020 (unaudited), Premises, Equipment and Intangible assets amounted to UZS 278,550 million UZS (31 December 2019: UZS 276,601 million) and increased mainly due to:

- Purchase of automated teller machines amounting to UZS 13,822 million;
- Purchase of point of sale terminals amounting to UZS 11,549 million;
- Renovation of the Bank's branches amounting to UZS 7,578 million.

As at 31 December 2019, Premises, Equipment and Intangible assets relating to Assets held for distribution to owners in the amount of 28,573 net of depreciation was included within Premises, Equipment and Intangible assets.

As at 30 June 2020 (unaudited), Premises, Equipment and Intangible assets in the amount of UZS 28,553 million net of depreciation was shown within Assets held for distribution to owners (Note 12).

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11. Other Non-Financial Assets

	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>		
Prepayments	43,568	22,305
Assets for finance lease	19,410	16,317
Reposessed assets	11,972	7,348
Prepayment for intangible assets	6,500	1,043
Inventories	2,612	2,841
Insurance assets	534	76
Other	3,805	1,146
Total other non-financial assets	88,401	51,076

As at 30 June 2020 (unaudited), prepayments include advance payments for leasing equipment in the amount of UZS 28,440 million (31 December 2019: UZS 3,656), for purchase of plastic cards in the amount of UZS 4,699 million (31 December 2019: 3,527 million) and for renovation of branches in the amount of UZS 3,614 million (31 December 2019: 3,042 million).

As at 30 June 2020 (unaudited) and 31 December 2019, assets for finance lease include vehicles and equipment purchased by subsidiary company “Ipoteka Leasing” LLC for the purpose of finance lease.

12. Assets Held for Distribution to Owners

In 2020, as planned in the “Strategy for reforming of the banking system of the Republic of Uzbekistan for 2020 to 2025” the government in its capacity as a shareholder 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 the Decree of the Cabinet of Ministers # 362 dated 5 June 2020, it has been agreed and approved that the Bank to transfer its shareholding in a number of subsidiaries, predominantly in the fisheries, and equity securities at fair value through other comprehensive income (“non-core assets”) to other state owned enterprises. The above decree stipulated that the transfer is to be compensated via utilization of the funds accumulated in the Share capital reserve in the amount equivalent to the carrying value of the non-core assets as at the date of transfer.

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.

As the transfer of these non-core assets is not expected to be compensated in cash to qualify as a sale, but rather via a reduction of the government’s share in the Bank’s shareholders’ equity, the management of the Group has accounted for these assets as “Assets held for distribution to owners” in line with the rules of IFRS 5 “*Non-current Assets Held for Sale and Discontinued Operations*”.

The management of the Group believes that as at 30 June 2020 these non-core assets meet the criterion necessary to qualify for an accounting under IFRS 5 due to the following:

- The transfer is highly probable as the Group is committed to transfer the assets within 12 months and necessary approvals of the government, the main shareholder, have been received through the issuance of the above decree;
- The assets are available for immediate distribution at their present condition;

As at 30 June 2020, the non-core assets are measured at their carrying amounts as the management does not expect their fair value less costs to distribute to be materially different.

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12. Assets Held for Distribution to Owners (Continued)

The major classes of assets and liabilities held for distribution to owners as at 30 June 2020 are as follows.

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)
Assets:	
Premises, equipment and intangible assets	28,553
Due from other banks	15,980
Other non-financial assets	8,843
Cash and cash equivalents	120
Total assets	53,496
Liabilities:	
Payable to suppliers	11,842
Payable to employees	664
Other payables	6,310
Total liabilities	18,816
Net assets	34,680

13. Due to Other banks

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)	31 December 2019
Repurchase agreements with the CBU	400,000	-
Short-term placements of other banks	264,664	284,533
Total due to other banks	664,664	284,533

For information on securities pledged under the repurchase agreement see Note 9.

14. Customer Accounts

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)	31 December 2019
State and public organisations		
- Current/settlement accounts	1,353,771	1,473,109
- Term deposits	2,925,703	3,113,328
Other legal entities		
- Current/settlement accounts	1,120,342	1,119,693
- Term deposits	607,623	409,958
Individuals		
- Current/settlement accounts	892,483	692,424
- Term deposits	1,008,520	1,127,207
Total customer accounts	7,908,442	7,935,719

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14. Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)		31 December 2019	
	Amount	%	Amount	%
State and budgetary organisations	4,279,474	54	4,586,437	58
Individuals	1,901,003	24	1,819,631	23
Private enterprises	952,055	12	1,014,692	13
Non-governmental organisations	378,172	5	183,863	2
Joint ventures	271,688	3	199,423	3
Other	126,050	2	131,673	1
Total customer accounts	7,908,442	100	7,935,719	100

As at 30 June 2020 (unaudited), the Group had top 10 customers (31 December 2019: top 10 customers) with outstanding balances of UZS 2,713,620 million (31 December 2019: UZS 2,956,464 million) or 34% (31 December 2019: 37%) of total customer accounts.

As at 30 June 2020 (unaudited) and 31 December 2019, customer accounts include funds pledged against letters of credit and guarantees in the amount of UZS 820,083 million and UZS 334,234 million, respectively.

15. Borrowings from Government, State and International Financial Institutions

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)	31 December 2019
Borrowings from the Ministry of Finance of the Republic of Uzbekistan	6,932,267	7,189,496
Borrowings from International Financial Institutions	3,916,226	2,363,981
Borrowings from Domestic Financial Institutions	970,062	981,936
Borrowings from the Fund for the Reconstruction and Development of the Republic of Uzbekistan	883,001	906,729
Borrowings from the CBU	73,232	76,101
Debt component of preference shares	13,085	12,078
Borrowings from government, state and international financial institutions	12,787,873	11,530,321

As at 30 June 2020 (unaudited), the borrowings have increased due to the attraction of the following new funds:

- Credit Suisse AG has advanced UZS 855,861 million (EUR 75 million) bearing an interest in the range of 4.5% and 5.5%;
- European Bank for Reconstruction and Development has opened a new credit line in the amount of UZS 183,121 million (EUR 18 million) bearing an interest of 2.6% + 6 months Euribor;
- New funds in the amount of UZS 56,867 million (USD 5 million) were received from the Ministry of Finance of the Republic of Uzbekistan sourced from Asian Development Bank.

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

Some of the long-term borrowing agreements disclosed in the table 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 30 June 2020 (unaudited), 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 362,847 million. As a result of the above covenant non-compliance, as at 30 June 2020 (unaudited), the Group classified its long-term borrowings for the total amount of UZS 362,847 million as “Less than 3 months” for the IFRS reporting purposes.

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 30 June 2020, 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.

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. 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). Subsequent to 30 June 2020, the updated Action Plan for 2019 – 2024 covering these two covenants was agreed with ADB and the Ministry of Finance. In addition, the State confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants. The Management believes that non-compliance with these covenants is not expected to adversely affect the Group’s financial performance, and in particular its liquidity position.

Maturity analysis of borrowings from government, state and international financial institutions is disclosed in Note 23.

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16. Other Liabilities

	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>		
Payable to suppliers	10,105	50,270
Dividends payable	580	601
Other payables	-	2,179
Total other financial liabilities	10,685	53,050
Insurance liabilities	12,148	3,556
Other tax liabilities	5,459	2,033
Expected liability for bank guarantees	2,520	1,458
Unearned revenue	1,521	1,579
Payable to State deposit insurance fund	814	3,424
Payables to employees	469	29,334
Other	36,497	11,061
Total other non-financial liabilities	59,428	52,445
Total other liabilities	70,113	105,495

As at 30 June 2020 (unaudited) and 31 December 2019, payables to suppliers include:

- Payable for acquisition of point of sale (POS) terminals in the amount of UZS 5,221 million and UZS 23,284 million, respectively.
- Payable for acquisition of automated teller machines (ATM) in the amount of UZS 123 million and UZS 16,069 million, respectively.

As at 30 June 2020 (unaudited), other item in other non-financial liabilities includes payable by subsidiary leasing company in the amount of UZS 25,092 million (31 December 2019: UZS 872 million).

As at 30 June 2020 (unaudited) and 31 December 2019, insurance liabilities include unearned insurance premium reserves in the amount of UZS 10,889 million and UZS 3,224 million, respectively.

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17. Interest Income and Expense

<i>In millions of Uzbekistan Soums</i>	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Interest income		
Loans and advances to customers	1,093,784	880,202
Due from other banks	44,882	19,968
Debt securities of the Government of the Republic of Uzbekistan	30,720	18,838
Total interest income	1,169,386	919,008
Interest expenses		
Customer accounts	238,439	196,737
Borrowings from government, state and international financial institutions	234,492	224,761
Other borrowed funds	6,344	-
Due to other banks	1,675	483
Debt securities in issue	693	834
Total interest expense	481,643	422,815
Net interest income	687,743	496,193

Interest income from loans and advances to customers include interest income earned from State owned enterprises in the amount of UZS 126,250 million and UZS 129,506 million during six months ended 30 June 2020 (unaudited) and 2019 (unaudited), respectively.

Interest income accrued on individually impaired loans during six months ended 30 June 2020 (unaudited) and 30 June 2019 (unaudited) amounted to UZS 4,251 million and UZS 1,357 million, respectively.

18. Fee Commission Income and Expense

<i>In millions of Uzbekistan Soums</i>	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Fee and commission income:		
Settlement transactions	90,722	97,675
Cash transactions	11,891	1,730
Guarantees and letters of credit	8,716	3,358
Foreign currency conversion operations	8,533	12,653
Other	2,957	3,940
Total fee and commission income	122,819	119,356
Fee and commission expense:		
Settlement transactions	22,352	6,650
Cash collection services	4,024	12,568
Conversion operations	2,288	1,790
Cash transactions	210	22
Other	4,838	422
Total fee and commission expense	33,712	21,452
Net fee and commission income	89,107	97,904

Due to the lockdown introduced by the government during the six months ended 2020, the volumes of mobile and online banking have sharply increased leading to a substantial change in the structure of commission income and expense.

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19. Administrative and Other Operating Expenses

<i>In millions of Uzbekistan Soums</i>	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Staff costs	187,785	170,797
Depreciation and amortisation	21,123	12,925
Security services	15,142	15,626
Charity and sponsorship	11,258	1,525
Stationery and Supplies	8,544	8,217
Repair and maintenance of property and equipment	5,215	4,065
Membership fees	4,720	3,652
Postage, Telephone and Fax	3,530	2,958
Advertising and Publicity	2,709	1,342
Professional services	2,347	3,865
Rent expenses	2,282	2,560
Utilities	1,992	1,686
Business trip and travel expenses	1,911	1,416
Taxes other than income tax	1,564	1,238
Fuel	1,088	939
Software maintenance	269	286
Representation and entertainment	183	512
Insurance	54	30
Penalties incurred	21	1,032
Other operating expenses	19,803	6,125
Total administrative and other operating expenses	291,540	240,796

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20. Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

<i>In millions of Uzbekistan Soums</i>	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Current tax charge	52,314	55,472
Deferred tax credit	(8,879)	(16,103)
Income tax expense for the period through Profit or Loss	43,435	39,369
Deferred tax credit (charge) through Other Comprehensive Income	(92)	44
Income tax expense for the period through Profit or Loss and Other Comprehensive Income	43,343	39,413

The statutory income tax rate was 20% in 2019 and 2020.

21. 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 six months, 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:

<i>In millions of Uzbekistan Soums</i>	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Profit for the period attributable to ordinary shareholders	237,438	197,109
Profit for the period attributable to preference shareholders	1,007	1,007
Net profit for the period	238,445	198,116
Weighted average number of ordinary shares (in thousands)	2,809,392,130	1,118,945,617
Basic and diluted earnings per ordinary share in UZS	0.08	0.18

22. Segment Reporting

The Group's management has restated its prior period 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.

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23. 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.

The CBU sets a number of requirements for foreign currency position. As at 30 June 2020, 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 9 October 2019. As at 30 June 2020, 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.

The table below summarises the Group’s exposure to foreign currency exchange rate risk as at 30 June 2020 (unaudited):

<i>In millions of Uzbekistan Soums</i>	UZS	US Dollars	Euros	Other	Total
Monetary financial assets					
Cash and cash equivalents	1,319,590	593,801	974,172	24,002	2,911,565
Due from other banks	621,601	20,416	120,562	2	762,581
Loans and advances to customers	14,105,455	5,234,987	1,542,569	-	20,883,011
Debt securities of the Government of the Republic of Uzbekistan	664,055	-	-	-	664,055
Other financial assets	9,031	1,154	1,547	-	11,732
Total monetary financial assets	16,719,732	5,850,358	2,638,850	24,004	25,232,944
Monetary financial liabilities					
Due to other banks	400,156	264,508	-	-	664,664
Customer accounts	5,540,592	2,254,831	93,186	19,833	7,908,442
Debt securities in issue	4,658	-	-	-	4,658
Borrowings from government, state and international financial institutions	7,425,577	2,636,413	2,725,883	-	12,787,873
Other borrowed funds	425,905	-	-	-	425,905
Other financial liabilities	6,556	1,991	2,138	-	10,685
Total monetary financial liabilities	13,803,444	5,157,743	2,821,207	19,833	21,802,227
Net balance sheet position	2,916,288	692,615	(182,357)	4,171	

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23. Financial Risk Management (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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	

The above analysis includes only monetary assets and liabilities. Financial assets at fair value through other comprehensive income and non-monetary assets are not considered to give rise to any material currency risk.

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

	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>	Impact on profit or loss	Impact on profit or loss
US Dollars strengthening by 20% (2019: 20%)	138,523	219,551
US Dollars weakening by 20% (2019: 20%)	(138,523)	(219,551)
Euro strengthening by 20% (2019: 20%)	(46,338)	(11,437)
Euro weakening by 20% (2019: 20%)	46,338	11,437

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.

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23. Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Group’s financial assets and liabilities at 30 June 2020 is set out below (unaudited):

<i>In millions of Uzbekistan Soums</i>	Uzbekistan	OECD	Non OECD	Total
Financial assets				
Cash and cash equivalents	2,571,080	312,438	28,047	2,911,565
Due from other banks	762,510	69	2	762,581
Loans and advances to customers	20,883,011	-	-	20,883,011
Debt securities of the Government of the Republic of Uzbekistan	664,055	-	-	664,055
Financial assets at fair value through other comprehensive income	6,114	-	-	6,114
Other financial assets	11,732	-	-	11,732
Total financial assets	24,898,502	312,507	28,049	25,239,058
Financial liabilities				
Due to other banks	664,664	-	-	664,664
Customer accounts	7,908,442	-	-	7,908,442
Debt securities in issue	4,658	-	-	4,658
Borrowings from government, state and international financial institutions	8,871,647	3,151,096	765,130	12,787,873
Other borrowed funds	425,905	-	-	425,905
Other financial liabilities	10,685	-	-	10,685
Total financial liabilities	17,886,001	3,151,096	765,130	21,802,227
Net position in on-balance sheet financial instruments	7,012,501	(2,838,589)	(737,081)	
Credit related commitments	1,117,240	-	-	1,117,240

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23. Financial Risk Management (Continued)

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

<i>In millions of Uzbekistan Soums</i>	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)	
Credit related commitments	457,166	-	-	457,166

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. As at 30 June 2020 (unaudited), the Group had a cumulative liquidity deficit up to one year of UZS 3,721,110 million of which UZS 362,847 million was attributable to a non-compliance with the cost-to-income ratio stipulated in the Subsidiary Loan Agreements as detailed in Note 15.

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 30 June 2020, 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.

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. 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). Subsequent to 30 June 2020, the updated Action Plan for 2019 – 2024 covering these two covenants was agreed with ADB and the Ministry of Finance. In addition, the State confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants. The Management believes that such non-compliance is not expected to adversely affect the Group's financial performance, and in particular its liquidity position.

23. Financial Risk Management (Continued)

Although the Group does not have the right to use the mandatory deposits held in 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.

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 the CBU. This measure has allowed the Bank to enjoy additional liquidity;
- The CBU made available for the commercial banks a credit line collateralized with mortgage loans and/or loans classified as “standard”;
- 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 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, 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 30 June 2020, 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;

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23. Financial Risk Management (Continued)

- Attraction of funds through repo facility with the CBU using the Bank’s government bond portfolio;
- 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 30 June 2020.

The Group monitors remaining contractual maturities, which may be summarised as follows at 30 June 2020 (unaudited):

<i>In millions of Uzbekistan Soums</i>	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	2,911,565	-	-	-	2,911,565
Due from other banks	101,184	174,263	487,134	-	762,581
Loans and advances to customers	355,993	2,337,369	8,183,822	10,005,827	20,883,011
Debt securities of the Government of the Republic of Uzbekistan	27,627	501,884	134,544	-	664,055
Financial assets at fair value through other comprehensive income	6,114	-	-	-	6,114
Other financial assets	11,732	-	-	-	11,732
Total financial assets	3,414,215	3,013,516	8,805,500	10,005,827	25,239,058
Liabilities					
Due to other banks	664,664	-	-	-	664,664
Customer accounts	4,387,851	1,825,387	1,155,794	539,410	7,908,442
Debt securities issued	258	700	3,700	-	4,658
Borrowings from government, state and international financial organisations	918,779	2,338,704	3,048,117	6,482,273	12,787,873
Other borrowed funds	1,813	-	88,352	335,740	425,905
Other financial liabilities	10,685	-	-	-	10,685
Total financial liabilities	5,984,050	4,164,791	4,295,963	7,357,423	21,802,227
Net liquidity gap based on contractual maturities	(2,569,835)	(1,151,275)	4,509,537	2,648,404	3,436,831
Cumulative liquidity gap at 30 June 2020 (unaudited)	(2,569,835)	(3,721,110)	788,427	3,436,831	-

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23. Financial Risk Management (Continued)

Remaining contractual maturities as at 31 December 2019:

<i>In millions of Uzbekistan Soums</i>	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	-

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24. 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 2019: 13%). Actual ratio as at 30 June 2020 (unaudited): 19% (31 December 2019: 25.6%).
- Ratio of Group’s tier 1 capital to risk weighted assets (“Capital adequacy ratio”) above a prescribed minimum level of 10% (31 December 2019: 10%). Actual ratio as at 30 June 2020 (unaudited): 16.8% (31 December 2019: 19.2%).
- Ratio of Group’s tier 1 capital to total assets less intangibles (“Leverage ratio”) above a prescribed minimum level of 6.0% (31 December 2019: 6.0%). Actual ratio as at 30 June 2020 (unaudited): 12.7% (31 December 2019: 12.2%).

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

	30 June 2020 (unaudited)	31 December 2019 (unaudited)
<i>In millions of Uzbekistan Soums</i>		
Tier 1 capital	3,497,105	3,064,443
Tier 2 capital	462,946	1,021,481
Total regulatory capital	3,960,051	4,085,924

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

25. 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 this financial information.

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 30 June 2020 (unaudited), no provision for potential tax liabilities had been recorded (31 December 2019: no provision). The Group estimates that it has no potential obligations from exposure to other than remote tax risks (31 December 2019: no obligations).

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25. Contingencies and Commitments (Continued)

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:

	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>		
Letters of credit	308,933	332,420
Guarantees	591,098	94,232
Undrawn loan commitments	217,209	30,514
Total gross commitments and contingencies	1,117,240	457,166
Less – Cash held as security against letters of credit and guarantees	(311,414)	(334,234)
Less – Provision for expected credit losses (Note 5)	(2,520)	(1,458)
Total net commitments and contingencies	803,306	121,474

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:

	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>		
US Dollars	940,268	245,214
UZS	108,050	39,198
Euros	66,836	110,128
Other	2,086	62,626
Total	1,117,240	457,166

26. 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.

The fair values of the Group's financial assets and financial liabilities are measured at fair value on a recurring basis.

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 30 June 2020 and 31 December 2019, the fair value of financial assets and financial liabilities except for those shown below approximate their carrying value.

Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries
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26. Fair Value of Financial Instruments (Continued)

Financial Assets/Liabilities as at 30 June 2020 (unaudited)	Carrying value	Fair value		Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		Fair value	Fair value hierarchy			
Due from other banks	762,581	768,580	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	20,883,011	16,165,713	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	7,908,442	7,896,079	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	12,787,873	12,884,081	Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value

Starting from 30 June 2019, the Group determines the fair value for some of its financial instruments using the discounted cash flow model and publicly available interest rates published by CBU in the Statistical bulletin, which became available starting from 2019, as a proxy market rate taking into account the risk characteristics (tenor, currency, etc) of the respective financial instruments. 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.

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.

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26. Fair Value of Financial Instruments (Continued)

Financial Assets/Liabilities as at 31 December 2019	Carrying value	Fair value		Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		Fair value	Fair value hierarchy			
Due from other banks	845,018	849,177	Level 3	Valuation model based on DCF Valuation model based on DCF. Future cash flows are estimated based on average interest rates (from observable interest rates (from observable Statistical bulletin of the CBU))	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 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 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

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27. 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 government entities.

- “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 30 June 2020 and 31 December 2019, the outstanding balances with related parties were as follows:

	30 June 2020 (unaudited)		31 December 2019	
	Related party balances	Total category as per the financial information caption	Related party balances	Total category as per the financial information caption
<i>In millions of Uzbekistan Soums</i>				
ASSETS				
Debt securities of the Government of the Republic of Uzbekistan	664,055	664,055	131,149	131,149
- entities with significant influence over the Group	664,055	-	131,149	-
LIABILITIES				
Customer accounts	1,033,527	7,908,442	966,422	7,935,719
- entities with significant influence over the Group	1,033,527	-	966,422	-
Borrowings from government, state and international financial institutions	7,815,268	12,787,873	8,096,225	11,530,321
- entities with significant influence over the Group	7,815,268	-	8,096,225	-
Other borrowed funds	425,905	425,905	425,905	425,905
- entities with significant influence over the Group	425,905	-	425,905	-

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27. Related Party Transactions (Continued)

The income and expense items with related parties for the six months ended 30 June 2020 and 2019 were as follows:

	30 June 2020 (unaudited)		30 June 2019 (unaudited)	
	Related party transactions	Total category as per the financial information caption	Related party transactions	Total category as per the financial information caption
<i>In millions of Uzbekistan Soums</i>				
Interest income	27,355	1,169,386	7,660	919,008
- entities with significant influence over the Group	27,355	-	7,660	-
Interest expense	158,046	481,643	141,322	422,815
- entities with significant influence over the Group	158,046	-	141,322	-
Fee and commission income	-	122,819	433	119,356
- entities with significant influence over the Group	-	-	433	-
Other operating income	-	26,609	108	14,533
- entities with significant influence over the Group	-	-	108	-
Administrative and other operating expenses	1,625	291,540	1,792	240,796
- key management personal	1,625	-	1,792	-

Key management compensation is presented below:

	30 June 2020 (unaudited)	30 June 2019 (unaudited)
<i>In millions of Uzbekistan Soums</i>		
Short-term benefits:		
- Salaries and other short term benefits	1,300	1,434
- Social Security costs	325	358
Total key management personnel compensation	1,625	1,792

28. Subsequent Events

In September 2020, the CBU reduced the refinancing rate from 15% to 14% which may lead to attraction of funding and their reinvestment into loans and advances to customers at lower rates.

During July and August 2020, equity securities carried at fair value through other comprehensive income and assets held for distribution to owners together with associated liabilities were transferred to the government in return for the reduction of the government's share in the Bank's equity, specifically Share Capital Reserve, by UZS 36,736 million. As at 30 June 2020 (unaudited), the carrying value of the transferred assets together with associated liabilities above were UZS 5,738 million and UZS 34,680 million, respectively.

In relation to the non-compliance with the cost-to-income ratio set by the Ministry of Finance as instructed by ADB detailed in Note 1, subsequent to 30 June 2020, the updated Action Plan for 2019 – 2024 covering these two covenants was agreed with ADB and the Ministry of Finance. In addition, the State confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants.

In July 2020 the Bank invested UZS 20 billion into the share capital of the JSC “Mortgage Refinancing Company of Uzbekistan”.

On 8 July 2020, the Government reinstated significant restrictions on the movement of vehicles and closed non-food shopping malls, markets, parks, cafes, restaurants and entertainment venues in response to a surge of new COVID-19 cases in the country. These restrictions were lifted on 15 August 2020.

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