

**JOINT STOCK  
COMMERCIAL BANK  
“INVEST FINANCE BANK”  
AND ITS SUBSIDIARIES**

**Consolidated Financial Statements and  
Independent Auditors' Report  
For the Year Ended 31 December 2018**

## **JOINT STOCK COMMERCIAL BANK "INVEST FINANCE BANK" AND ITS SUBSIDIARIES**

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## JOINT STOCK COMMERCIAL BANK "INVEST FINANCE BANK" AND ITS SUBSIDIARIES

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint-Stock Commercial Bank "Invest Finance Bank" and its subsidiaries, (collectively - the "Group") as at 31 December 2018, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year 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 IFRS 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 consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Uzbekistan legislation;
- 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 year ended 31 December 2018 were approved by the Management Board on 3 June 2019.

On behalf of the Management Board:

  
**Burkhanov B. N.**  
Chairman of the Management Board

3 June 2019  
Tashkent, Uzbekistan

  
**Toshpulatkhujaev J.O.**  
Chief Accountant

3 June 2019  
Tashkent, Uzbekistan



## INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Council of Joint Stock Commercial Bank "Invest Finance Bank"

### Opinion

We have audited the financial statements of Joint Stock Commercial Bank "Invest Finance Bank" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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.

### Material uncertainty related to going concern

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 3 to the financial statements, as at 31 December 2018 the Group had not complied with certain covenants stipulated in the financing agreements with two financial institutions. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as going concern. Management's plans in regards to these matters are also discussed in Note 3 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

### Emphasis of Matter– Pending Litigation

We draw attention to Note 32 to the consolidated financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Group by JSC BTA Bank. Our opinion is not modified in respect of this matter.

### 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.

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Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
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<i>Impairment of loans and advances to customers under IFRS 9 Financial Instruments ("IFRS 9")</i>	
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As described in the note 3 to the financial statements, the expected credit losses (ECL) on loans and advances to customers, have been determined in accordance with IFRS 9 "Financial Instruments". IFRS 9 is effective from 1 January 2018 and requires application of complex techniques for the assessment and measurement of ECL involving considerable judgments and subjective estimates in its implementation.

As at 31 December 2018, the Group reported total gross loans and advances to customers of UZS 2,046,082,013 thousand less allowance for ECL of UZS 6,302,823 thousand.

Due to the significance of the loans and advances to customer balances and the complexity of judgements applied by management in assessing and measuring expected credit losses, we identified impairment of loans and advances to customers as a key audit matter.

The key areas of judgement relate to the identification of loans with a significant increase in credit risk (SICR) or credit impaired/default loans in order to allocate loans to the appropriate stage of impairment.

Expected credit losses on loans and advances to customers assessed on a collective basis may be misstated if inaccurate input data (debt servicing, restructuring history, industry of the borrower, etc.) is used in estimating probability of a loan falling into default and assessment of any recoveries expected from defaulted loans.

Individually assessed loss allowance is particularly sensitive to changes in assumptions applied in estimating future cash flows, including the sale of collateral, and other factors in determining the loss given default.

We obtained an understanding of the loan loss provisioning process, particularly over the capture of loans in terms of the stage allocation, assessment and measurement of allowances for expected credit losses.

The audit procedures performed in this area, included:

- Assessment of the provisioning methodology developed for measurement of ECL in accordance with the requirements outlined in IFRS 9;
- Assessment of design and implementation of relevant controls over the ECL model, including model governance, production of input data and determining the appropriate assumptions and mathematical accuracy of calculations;
- Assessment of the reasonableness of management's assumptions and the accuracy of input data used in the model, including staging of loans, the probability of a loan falling into default and assessment of any recoveries expected from defaulted loans with the involvement of our internal specialists against requirements of the accounting standards, historical statistics and relevant forward-looking information;
- For individually assessed defaulted loans independent assessment of collateral valuation used in calculation of impairment losses by challenging assumptions around future cash flows and valuation of collateral held, agreeing key assumptions to supporting documents.
- Consideration of the adequacy and completeness of the Group's disclosures in respect of credit risk, structure and quality of loan portfolio and impairment allowance in accordance with IFRS 9.

We found no material exceptions in these tests.

## *Transactions with related parties*

The Group has provided a significant amount of loans to related parties (17% of the total Group's outstanding balance of the loans and advances to customers) and recognised related interest income (31% of the total Group's interest income) in the consolidated financial statement for the year ended 31 December 2018. Refer to note 34.

Due to the significant number of related parties, their direct and indirect influence on the Group's activities, and the volume of transactions with such parties, we identified the completeness and accuracy of disclosures of the transactions and balances with related parties, as a key audit matter.

We obtained an understanding of the Group's processes and control procedures related to identification of related parties, as well as accounting and disclosure of balances and transactions with them.

We assessed the control procedures in respect of the completeness of related parties list. Throughout our audit procedures, we remained alert to the unusual transactions outside the normal course of business. Additionally, we searched for the relevant releases in the press for revealing related parties not included into the original Bank's list.

We tested, on a sample basis, that the transactions with related parties are approved in accordance

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with internal procedures, including involvement of appropriate level of management.

On a sample basis, we audited different types of transactions to supporting documents, evaluated the business rationale of the transactions and compared similar transaction with non-related parties to evaluate if the transactions were at arm's length.

We evaluated the completeness and adequacy of disclosures on transactions with the related parties in accordance with the requirements of the relevant accounting standard.

We found no material exceptions in these tests.

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## **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 auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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



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

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

We communicate with 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, which constitute the key audit matters included herein.

"Deloitte & Touche" Audit Organisation LLC

The license authorizing audit of companies registered by the Ministry of Finance of the Republic of Uzbekistan under #00776 dated 5 April 2019

The certificate authorizing audit of banks registered by the Central Bank of the Republic of Uzbekistan under #3 dated 14 October 2013

3 June 2019  
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 BANK "INVEST FINANCE BANK" AND ITS SUBSIDIARIES**  
**Consolidated Statement of Financial Position**  
**as at 31 December 2018**  
*(in thousands of Uzbekistan Soums)*

	Notes	31 December 2018	31 December 2017
<b>ASSETS</b>			
Cash and cash equivalents	6	539,982,438	540,384,015
Due from other banks	7	117,623,316	256,719,496
Loans and advances to customers	8	2,039,759,190	693,168,884
Investment securities available for sale		n/a	8,262,957
Current income tax prepayments		582,557	2,649,278
Deferred income tax assets	24	3,788,210	4,337,900
Premises, equipment and intangible assets	9	329,429,727	142,892,831
Reinsurers' share of reserves for insurance contracts	10	-	4,026,081
Other assets	11	31,765,459	24,899,447
<b>TOTAL ASSETS</b>		<b>3,062,930,897</b>	<b>1,677,340,889</b>
<b>LIABILITIES</b>			
Due to other banks	12	328,761,208	279,051,181
Customer accounts	13	1,980,026,672	996,912,747
Other borrowed funds	14	170,540,597	-
Debt securities in issue	15	140,415,350	18,969,265
Subordinated debt	16	63,000,000	-
Reserves for insurance contracts	17	-	30,283,699
Other liabilities	18	9,591,531	16,379,705
<b>TOTAL LIABILITIES</b>		<b>2,692,335,358</b>	<b>1,341,596,597</b>
<b>EQUITY</b>			
Share capital	20	320,000,000	300,000,000
Share premium	20	1,853,395	1,853,395
Other insurance reserves		-	5,085,700
Retained earnings		48,742,144	19,756,858
Net assets attributable to the Bank's owners		370,595,539	326,695,953
Non-controlling interest		-	9,048,339
<b>TOTAL EQUITY</b>		<b>370,595,539</b>	<b>335,744,292</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,062,930,897</b>	<b>1,677,340,889</b>

On behalf of the Management Board:

**Burkhanov B. N.**  
**Chairman of the Management Board**

3 June 2019  
Tashkent, Uzbekistan

**Toshpulatkhujaev J.O.**  
**Chief Accountant**

3 June 2019  
Tashkent, Uzbekistan

The notes on pages 10-72 form an integral part of these consolidated financial statements.



**JOINT STOCK COMMERCIAL BANK "INVEST FINANCE BANK" AND ITS SUBSIDIARIES**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 31 December 2018**  
*(in thousands of Uzbekistan Soums)*

	Notes	2018	2017
<b>Continuing operations</b>			
Interest income	21	200,547,392	101,736,679
Interest expense	21	(113,795,348)	(61,625,068)
<b>Net interest income</b>		<b>86,752,044</b>	<b>40,111,611</b>
Provision for loan impairment	8	(681,180)	(1,858,999)
<b>Net interest income after provision for loan impairment</b>		<b>86,070,864</b>	<b>38,252,612</b>
Fee and commission income	22	84,065,926	64,333,185
Fee and commission expense	22	(14,448,171)	(13,332,563)
Net gain on foreign exchange dealing operations		22,183,254	280,083
Net gain from foreign exchange translation		999,363	5,471,467
Recovery/ (charge) of provision for impairment losses on other financial assets		2,030,077	(5,823,268)
Dividend income		11,738	97,324
Other operating income	23	1,820,303	4,205,068
Administrative and other operating expenses	24	(137,901,199)	(82,004,861)
<b>Profit before tax</b>		<b>44,832,155</b>	<b>11,479,047</b>
Income tax expense	25	(10,716,333)	(2,555,016)
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	27	14,288,768	12,522,948
<b>PROFIT FOR THE YEAR</b>		<b>48,404,590</b>	<b>21,446,979</b>
- Owners of the Bank		47,238,468	18,363,753
- Non-controlling interest		1,166,122	3,083,226
<b>PROFIT FOR THE YEAR</b>		<b>48,404,590</b>	<b>21,446,979</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>48,404,590</b>	<b>21,446,979</b>
<b>Total comprehensive income attributable to:</b>			
- Owners of the Bank		47,238,468	18,363,753
- Non-controlling interest		1,166,122	3,083,226
<b>Total comprehensive income for the year</b>		<b>48,404,590</b>	<b>21,446,979</b>
<b>Earnings per share</b>			
From continuing operations			
Basic and diluted earnings per ordinary share (expressed in UZS per share)	28	108	49
From discontinued operations			
Basic and diluted earnings per ordinary share (expressed in UZS per share)	28	41	52
<b>Total earnings per share</b>		<b>149</b>	<b>101</b>

On behalf of the Management Board:

**Burkhanov B. N.**  
**Chairman of the Management Board**

3 June 2019  
Tashkent, Uzbekistan

The notes on pages 10-72 form an integral part of these consolidated financial statements.

**Toshpulatkhujaev J.O.**  
**Chief Accountant**

3 June 2019  
Tashkent, Uzbekistan

# JOINT STOCK COMMERCIAL BANK "INVEST FINANCE BANK" AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity  
for the year ended 31 December 2018  
(in thousands of Uzbekistan Soums)

	Notes	Attributable to owners of the Bank					Non-controlling interest	Total equity
		Share capital	Share premium	Stabilisation reserve	Reserve for preventive measures	Equity component in insurance reserves		
<b>Balance at 31 December 2016</b>		139,480,680	1,853,395	3,494,006	1,893,271	(697,277)	5,965,113	153,777,993
Total comprehensive income for 2017		-	-	-	-	-	-	-
Shares issue:								
- cash	20	160,519,320	-	-	-	-	-	160,519,320
Change in other insurance reserves		-	-	222,441	339,864	(166,605)	-	-
<b>Balance at 31 December 2017</b>		300,000,000	1,853,395	3,716,447	2,233,135	(863,882)	9,048,339	335,744,292
Impact of adopting of IFRS 9		-	-	-	-	-	-	203,458
<b>Restated opening balance under IFRS 9</b>		300,000,000	1,853,395	3,716,447	2,233,135	(863,882)	9,048,339	335,947,750
Total comprehensive income for 2018		-	-	-	-	-	-	-
Shares issue:								
- cash	20	20,000,000	-	-	-	-	-	20,000,000
- dividends capitalised		-	-	-	-	-	-	-
Dividends declared	26	-	-	-	-	-	-	-
Disposal of subsidiaries		-	-	(3,716,447)	(2,233,135)	863,882	-	-
<b>Balance at 31 December 2018</b>		320,000,000	1,853,395	-	-	-	-	370,595,539

On behalf of the Management Board:

Burkhanov B. N.  
Chairman of the Management Board

Toshpulatkhujaev J.O.  
Chief Accountant

3 June 2019

Tashkent, Uzbekistan

The notes on pages 10-72 form an integral part of these consolidated financial statements.

**JOINT STOCK COMMERCIAL BANK "INVEST FINANCE BANK" AND ITS SUBSIDIARIES**  
**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2018**  
*(in thousands of Uzbekistan Soums)*

	Notes	2018	2017
<b>Cash flows from operating activities</b>			
Interest received		186,882,514	110,168,951
Interest paid		(112,434,248)	(61,683,398)
Fee and commission received		93,012,316	57,978,877
Fee and commission paid		(13,437,416)	(13,332,563)
Income received from insurance operations		-	30,656,293
Expense paid on insurance operations		-	(12,420,400)
Net gain on foreign exchange operations, dealing transactions		22,183,254	280,083
Other operating income received		1,160,372	5,029,101
Staff costs paid		(61,319,591)	(41,359,980)
Administrative and other operating expenses paid		(68,540,399)	(38,532,642)
Income tax paid		(7,869,331)	(6,812,945)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>39,637,471</b>	<b>29,971,377</b>
<i>Net (increase)/decrease in:</i>			
- due from other banks		140,845,933	55,347,253
- loans and advances to customers		(1,288,414,007)	(125,109,530)
- other assets		(8,668,222)	21,109,652
<i>Net increase/(decrease) in:</i>			
- due to other banks		42,914,215	88,098,512
- customer accounts		963,878,645	(30,471,875)
- debt securities in issue		120,859,192	3,899,781
- other liabilities		5,037,940	(26,926,529)
<b>Net cash from operating activities</b>		<b>16,091,167</b>	<b>15,918,641</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, equipment and intangible assets		(235,080,806)	(75,740,429)
Proceeds from disposal of property, equipment and intangible assets		12,600,323	48,178,018
Acquisition of investment securities available for sale		(3,863,365)	(454,974)
Dividend income received		11,738	97,324
Proceeds from disposal of subsidiaries, net of cash received	27	18,266,531	-
<b>Net cash used in investing activities</b>		<b>(208,065,379)</b>	<b>(27,920,061)</b>
<b>Cash flows from financing activities</b>			
Issuance of ordinary shares	20	20,000,000	160,519,320
Proceeds from other borrowed funds		166,995,360	-
Repayment of other borrowed funds		(39,952,261)	-
Proceeds from issuance of subordinated debt		63,000,000	-
Dividends paid	26	(21,954,359)	-
<b>Net cash from financing activities</b>		<b>188,088,740</b>	<b>160,519,320</b>
Effect of exchange rate changes on cash and cash equivalents		3,502,758	120,614,722
Effect of expected credit losses		(18,863)	n/a
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(401,577)</b>	<b>269,132,622</b>
Cash and cash equivalents at the beginning of the year	7	540,384,015	271,251,393
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>539,982,438</b>	<b>540,384,015</b>
<b>Non-cash transactions:</b>			
<i>Recognition of off balance sheet items within:</i>			
- Loans and advances to customers		(111,096,517)	(28,118,126)
- Other borrowed funds		43,199,400	-
- Due to other banks		67,897,117	28,118,126

The notes on pages 10-72 form an integral part of these consolidated financial statements

**JOINT STOCK COMMERCIAL BANK "INVEST FINANCE BANK" AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**for the year ended 31 December 2018**  
*(in thousands of Uzbekistan Soums)*

**1. Organization**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for Joint Stock Commercial Bank "Invest Finance Bank" ("the Bank") and its subsidiaries ("the Group").

The Bank was incorporated and is domiciled in Uzbekistan. The Bank is a joint stock company limited by shares and was set up in accordance with Uzbekistan regulations.

**Principal activity.** The Group's principal business activity is commercial and retail banking operations within Uzbekistan. The Bank operates under a full banking license № 75 issued by the Central bank of Uzbekistan ("CBU") on 21 October 2017. The Bank participates in the state deposit insurance scheme, which was introduced by Law of the Republic of Uzbekistan # 360-III "Insurance of Individuals Bank Deposits" dated 5 April 2002. The State Deposit Insurance Fund guarantees repayment of 100% of individual deposits regardless of the deposit amount in the case of the withdrawal of a license of a Bank.

**Registered address and place of business.** The Bank's registered address is: Mirobod District, T. Shevchenko Street, 1-H., Tashkent 100029, Uzbekistan. The Bank has sixteen (2017: fourteen) branches within Uzbekistan.

**Shareholders.** As at 31 December 2018 and 2017, the interest of the shareholders in the Bank's capital was as follows (in %):

	31 December 2018	31 December 2017
<i>Legal entities:</i>		
Swiss Capital International Group AG (Switzerland)	18.75	20.00
LLC "Real Plast Servis"	3.66	19.82
JSC JV "Alfa Group"	15.88	15.88
LLC "Prestij Rielt"	11.60	13.97
LLC "Agroplastimpeks"	10.19	10.87
LLC "Broker Investment"	-	3.84
<b>Subtotal</b>	<b>60.08</b>	<b>84.38</b>
<i>Individuals:</i>		
Mamadjanov Fakhriddin Djuraevich	39.92	10.38
Sulaymanova Sabohat Validdjanova	-	1.55
Kudratullaev Ubaydullo Fayzullaevich	-	0.94
Mirsaidova Dono Yusupovna	-	0.93
Kendjaev Azim Ahmadovich	-	0.91
Valijonov Hojiakbar Abdumalikovich	-	0.91
<b>Subtotal</b>	<b>39.92</b>	<b>15.62</b>
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

The Bank was a parent company of a banking group, which consisted of the below indicated enterprises consolidated in the financial statements as at 31 December 2018. However, at the beginning of November 2018, the Group disposed of all of its three subsidiaries.

Name	Ownership 2018	Ownership 2017	Country	Industry
LLC "InFin Leasing"	-	100%	Uzbekistan	Leasing
LLC "Master Leasing"	-	100%	Uzbekistan	Leasing
LLC "Asia Insurance"	-	62%	Uzbekistan	Insurance



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**2. Operating Environment of the Group**

**Operating Environment.** Emerging markets such as Uzbekistan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. During 2018, the government of Uzbekistan remained committed to carry out social-economic reforms started in 2016 and liberalization of the market with an emphasis predominantly on broadening the export potential and improvement of business climate of Uzbekistan to attract foreign direct investment. As a result, laws and regulations, including tax and regulatory frameworks, affecting businesses in Uzbekistan started to change rapidly. The future economic direction of the Republic of Uzbekistan heavily depends on the new fiscal and monetary policies the government plans to adopt during the on-going reforms, together with developments in the legal, regulatory, and political environment.

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 is at this stage difficult to determine.

**3. Significant Accounting Policies**

**Statement of compliance.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group is required to maintain its records and prepare its financial statements for regulatory purposes in Uzbekistan Soums ("UZS") 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.

**Going concern.** These consolidated financial statements have been prepared assuming that the Group is a going concern, as it has the resources to continue in operation for the foreseeable future. In making this assessment, the management have considered a wide range of information in relation to present and future economic conditions, including projections of cash flows, profit and capital resources.

As discussed in Note 32, as at 31 December 2018, the Group had not complied with certain financial covenants stated in the financing agreement with the Islamic Corporation for the Development of Private Sector ("ICD") and with the Asian Development Bank ("ADB"). As a result of covenant breach, the Group recognised its off-balance sheet commitments in the amount of UZS 43,199,400 thousand to ICD and UZS 34,904,329 thousand to ADB as callable debt within other borrowed funds and due to banks, respectively. Accordingly, the Group had a cumulative liquidity shortfall up to 1 year of UZS 576,465,727 thousand. As at 31 December 2018 and subsequent to the reporting date the Group has not received waiver from its above mentioned creditors.

Management believes that the Group will be able to continue as a going concern for the foreseeable future based on the following:

- In 2019, the Group has attracted a number of long-term deposits from its largest borrower for the total amount of UZS 159,383,011 thousand;
- In 2019, the Group has received additional resources from the Fund for financing State Development Programs of the Republic of Uzbekistan under the Ministry of Finance of the Republic of Uzbekistan in the amount of UZS 102,420,800 thousand;
- In April 2019, the Group has signed two loan agreements with Incofin Inclusive Finance Fund SA for the total amount of EUR 3,000,000 with the maturity date of April 2021.
- In May 2019, the Group has signed a loan agreement with VDK Bank N.V. for the total amount of EUR 1,000,000 with the maturity date of May 2021.
- In 2019, the Group has issued and allocated corporate bonds for the total amount of UZS 100,000,000 thousand.

The shareholders provide continuous support to the Group by regular capital injections. In March 2019, the share capital of the Group was increased by UZS 80,000,000 thousand due to new share issue.

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Moreover, the management is currently in the process of negotiations with Commerzbank AG to obtain additional funding resources in the form of credit line. Agreement is expected to be signed during 2019.

The management's main strategy direction for the nearest three years is considerable increase of operations through attraction of additional financing by means of customer deposits. Growth of customer accounts will be achieved by significant improvement of customer service. In particular, the Group keeps working in the direction of information technologies development aimed to automate most of the banking processes and thereby enhance scope, efficiency and availability of digital services both for legal entities and individuals. By the end of 2021 it is expected that share of digital services for legal entities and individuals will comprise 50% and 30% of all available services, respectively.

**Functional currency.** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Group is UZS. The presentational currency of the consolidated financial statements of the Group is also UZS. All values are rounded to the nearest thousand UZS, except when otherwise indicated.

**Offsetting.** Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

**Basis of consolidation.** These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

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When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Non-controlling interest.** Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interest are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

**Revenue recognition**

**Recognition of interest income and expense.** Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that have become credit-impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (net of expected credit loss provision); and
- Purchased or originated credit impaired financial assets for which the original credit adjusted effective interest is applied to the amortised cost.

**Recognition of income on repurchase and reverse repurchase agreements.** Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit or loss based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

**Recognition of fee and commission income.** Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

**Recognition of dividend income.** Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

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**Recognition of rental income.** The Group's policy for recognition of income as a lessor is set out in the "Leases" section below.

**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 Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

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

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

**Recognition and measurement of financial instruments.** The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

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



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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 customer are 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.

**Financial assets or financial liabilities at fair value through profit or loss**

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading, may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in net (loss)/gain on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded when the right to receive the payment has been established.

**Other financial liabilities.** Other financial liabilities (including depository instruments with the CBU, deposits by banks and customers, repurchase agreements, debt securities issued, other borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

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Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**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.

For the purpose of 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 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.

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 prior to 1 January 2018**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss recognized in other comprehensive income and accumulated under the heading of revaluation reserve for investment securities available-for-sale.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### **Impairment of financial assets since 1 January 2018**

Calculation of financial assets impairment is carried out taking into account the following factors:

In order to calculate the ECL, the Bank performs loan assessment on an individual basis and on a group basis depending on general credit risk features.

ECL is a probability-weighted measurement of the credit losses (i.e. the present value of all expected cash shortfalls over the entire expected life of the financial instrument).

Expected credit losses on the financial instruments are estimated in a manner that reflects:

- an unbiased and probability-weighted amount determined by assessing the range of possible results;
- time value of money;

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- reasonable and corroborated information on past events, current conditions and projected future economic conditions, including forecast macroeconomic information available at the reporting date without undue cost or effort.

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

- The distribution of loans on stages;
- Segmentation of the loan portfolio;
- Calculation of the probability of default for each stage within each segment (at the Stage level);
- Estimation of the magnitude of the loss in the event of default ("LGD");
- Estimation of the discount factor ("DF").
- Estimation of the exposure at a future default date ("EAD").

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

- At the date of valuation, the segment has increased significantly in comparison with the previous period and the amounts is more than 30% of the gross carrying amount of the loan portfolio;
- At the date of valuation, the segment has decreased significantly in comparison with the previous period and the amount is less than 5% of the gross carrying amount of the portfolio.

**Default and credit-impaired assets**

The financial asset is considered to be in default, or credit impaired, when it meets one or more of the following criteria:

*For individually significant loans (except for interbank exposures):*

- the number of days past due is more than 90 days;
- cross-default, the Bank has information about overdue debts in other credit institutions (in case if the Bank has corresponding information) on the principal debt and / or interest overdue payment for 90 days or more;
- loans in the category of "unsatisfactory", "doubtful" and "hopeless" in accordance with the CBU classification;
- significant financial difficulties of the borrower, which are measured by deterioration of creditworthiness of the borrower by two or more positions. The criteria for estimation of the creditworthiness of the borrower is based on the calculations of economic indicators (liquidity coverage ratio, asset turnover and net sales margin);
- loans that have been restructured from the time of initial recognition (restructured loans in the loan portfolio, including loans with repayments of less than 25% of the principal amount since the date of last restructuring) except for the cases, when the financial condition of the borrower is being stable thereby enabling the borrower to pay the debt to the Bank;
- lack of communication with the borrower, as well as lack of information to determine the financial condition of the borrower for the last 12 months;
- write-off of a part and / or an entire amount of the debt on the principal amount and / or interest of the borrower during the previous 2 years;
- non-accrual of interest on loan due to deteriorating creditworthiness of the borrower (non-accrual status);
- information on death of the borrower;
- purchase or creation of the financial instrument with a large discount, which reflects the incurred credit losses;
- the borrower's appeal to the court with a statement of recognition of its bankruptcy or the filing of a claim by a third party to declare the bankruptcy of the borrower in accordance with the legislation of the Republic of Uzbekistan; and loans under litigation process or those with court resolution (loans with the dates of court decision in the loan portfolio);
- disappearance of an active market for the financial asset.

*For collectively assessed loans:*

- the number of days past due is more than 90 days;
- loans in the category of "unsatisfactory", "doubtful" and "hopeless" in accordance with the CBU classification;



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- loans that have been restructured from the time of initial recognition (restructured loans in the loan portfolio, including loans with repayments of less than 25% of the principal amount since the date of last restructuring) except for the cases, when the financial condition of the borrower is being stable thereby enabling the borrower to pay the debt to the Bank;
- loans under litigation process or those with court resolution (loans with the dates of court decision in the loan portfolio);
- the existing debt on accrued principal and interest on the off-balance sheet accounts in accordance with the Regulation of the CBU on non-accrual of interest;
- loans with expired maturity, where the borrower has not fully repaid the debt based on the repayment schedule;
- loans with 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;
- purchased or originated credit impaired (POCI) assets;
- loans where allowance created comprise not less than 50% of the principal amount as at the reporting date in accordance with the CBU classification.

*For debt securities, interbank deposits and funds on the correspondent accounts:*

- the counterparty or issuer rated at "CC" or lower at the reporting date;
- adverse information about the issuer / counterparty: liquidation, restructuring or other reorganization of the issuer / counterparty due to its inability to pay the debts, disasters as a result of which the issuer / counterparty's activities were pended, default on other financial instruments of the issuer / counterparty, etc.;
- overdue payment of accrued interest (coupon) and / or overdue principal amount for more than 30 days;
- purchased or originated credit impaired (POCI) assets;
- cross-default event on other liabilities of the issuer / counterparty.

**Significant increase in credit risk (SICR)**

The SICR assessment is performed on an individual and collective basis. SICR for individually significant loans is assessed based on monitoring of the criteria stated below. The criteria used to identify a SICR are monitored and reviewed periodically by the Group's Risk Department.

The Group assess the financial instrument based on SICR assessment criteria, when one or more of the following quantitative, qualitative or subsidiary criteria have been met:

*For individually significant loans:*

- the number of days past due is more than 31 days but less than 90 days;
- cross-default, the Bank has information about the overdue debts in other credit institutions (in case if the Bank has corresponding information) on the principal debt and / or interest overdue payment from 31 to 90 days;
- loans in the category of "substandard" in accordance with the CBU classification;
- actual or expected significant change in the operating results of the borrower, i.e. decrease in revenues or operating margins, increase of operational risks, insufficient working capital, changes in the scale of the business or organizational structure (for example, termination of a business segment), which lead to a significant change in the borrower's ability to meet its long-term liabilities, which is measured by deterioration of the creditworthiness of the borrower by one position. The criteria for estimation of the creditworthiness of the borrower is based on the calculations of economic indicators (ratios of coverage, liquidity, asset turnover and net sales margin);
- actual or expected deterioration of the borrower's external credit rating by 2 or more notches;
- reduction of the financial support from the Government, the parent company or another affiliated company;
- a significant deterioration in the quality or condition of the collateral based on the last monitoring report, which is expected to reduce the economic incentives of the borrower to make the scheduled payments stipulated in the contract or otherwise can trigger the probability of a default (if the Bank has corresponding information). In case, when loan is secured by a third party guarantee, significant financial difficulties of a guarantor;

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- existing or projected adverse changes in commercial, financial or economic conditions (actual or expected increase in interest rates or unemployment) or actual or expected adverse change in the regulatory, economic or technological conditions for the borrower's activity;
- a borrower who has no indicators of impairment or significant increase in credit risk at the reporting date, but who has been transferred to the category of the financial assets in default (Stage 3) based on estimation as at the previous reporting date;
- anticipated breach of the contract that could lead to exemptions from covenants compliance or amendments made to covenants, temporary exemption from interest rate payments, increase in interest rates, requirements for additional collateral, guarantees or other changes to be made to the contractual base of the instrument;
- valid information about one or more of the following factors:
  - uncertainty in respect of going concern in the financial statements of the borrower;
  - the borrower is involved in the litigation process, which may worsen its financial condition;
  - breach of covenants one or more times within the three months period prior to the reporting date.

*For collectively assessed loans:*

- the number of days past due is more than 31 days but less than 90 days;
- loans in the category of "substandard" in accordance with the CBU classification;
- loans that were credit impaired (Stage 3) as at the end of the previous quarter due to existence of one or more criteria for transition to Stage 3, and which at the end of the current quarter qualify for Stage 1 or 2;
- loans with outstanding overdue interest as at the end of the current quarter, if there is no historical information on the number of overdue days on accrued interest;
- loans with outstanding amount of overdue interest as at the end of the previous quarter, and loans with the amount of overdue interest as at the end of the current quarter decreased or equal to the amount of overdue interest payment as at the end of the previous quarter;
- loans with allowances of more than 25% but less than 50% of the principal amount as at the reporting date in accordance with the CBU classification;
- restructured loans with repayment of 25% of the principal amount since the date of restructuring.

*For debt securities, interbank deposits and funds in correspondent accounts:*

- Rating downgrade:
  - financial instruments rated "A-" or higher (Investment category) at the date of initial recognition downgraded to "BB +" or lower;
  - financial instruments rated from "BBB +" to "B-" at the date of initial recognition downgraded by 3 notches or to the level of "CCC +" or below;
  - financial instruments rated "CCC +" or lower at the date of initial recognition downgraded by 1 notch from the date of initial recognition;
- Delay in the payment of accrued remuneration (coupon) and / or principal debt for more than 1 day, with an exception made to technical overdue;
- adverse news related to the issuer / counterparty in case of identifying those news from external sources (such as: significant deterioration of the creditworthiness of the issuer / counterparty, significant deterioration of the issuer's competitive position in its operating industry, significant reduction of the value of these financial instruments in an active market, etc.).

**ECL measurement - description of estimation techniques**

*General principle*

For purchased or originated credit impaired ("POCI") assets ECLs are generally measured based on the risk of default over one of the two different time periods, depending on whether the borrower's credit risk has increased significantly in a three-stage model for ECL measurement:

**Stage 1:** a group of financial instruments for which no significant increase in the credit risk level has been recorded since the initial recognition and provisions for this group are created as 12-month ECL, and interest income is calculated based on the gross carrying amount.

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Stage 2: a group of financial instruments for which a significant increase in the credit risk level have been recorded since the initial recognition and for which provisions equal to the ECL amount for the instrument's lifetime, and interest income is calculated based on the gross carrying amount of the financial asset.

Stage 3: a group of the credit-impaired financial instruments, for which provisions equal to the ECL amount for the instrument's lifetime, and interest income is accrued based on the carrying amount of the asset, net of the loss allowance.

The Group defines individually significant loans as loans with total outstanding balances exceeding the threshold of 0.2% of the share capital. ECL for individually significant loans in Stage 3 are assessed on an individual basis, whereas ECL for individually significant loans in Stage 1 and 2 are assessed on a collective basis.

For undrawn loan commitments, the ECL is measured in accordance with the approaches applied to assessment of provision for the loan losses, taking into account the coefficient of credit conversion which is based on statistical data, if the holder of the commitment draws down the loan.

**Derecognition of financial assets and liabilities.** The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

**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.

**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

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corresponding liability to the lessor is included in the consolidated 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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Cash and cash equivalents.** Cash and cash equivalents consist of cash on hand, unrestricted balances on deposits with the Central Bank of Uzbekistan (the "CBU") and amounts due from other banks with original maturity of less or equal to 90 days and are free from contractual encumbrances.

**Mandatory cash balances with the CBU.** Mandatory cash balances with the CBU represent mandatory reserve deposits with the CBU, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

**Loans and advances to customers.** Loans and advances to customers 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 to customers are carried at amortised cost.

**Renegotiated loans.** Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. However, restructuring, though being considered as not overdue, and repayment of 25% of outstanding amount since the date of restructured of loan is an indicator of significant increase in credit risk and, hence is classified to Stage 2 category loans. Loans are classified to Stage 3, when being restructured from the initial date of recognition (loans with the status "Restructured" in the loan portfolio, including loans under which there was repayment made for the amount less than 25% of the principal amount since the date of restructuring). Loan can be recovered from Stage 3 to Stage 2 in case, when creditworthiness of the borrower is stable and enables the borrower to make payment of the overdue amount.

Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

**Write-off of loans and advances** Loans and advances are written-off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written-off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written-off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

**Repossessed assets.** In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

**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



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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.

**Investment property.** Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment. Earned rental income is recorded in profit or loss for the year within other operating income.

**Premises and equipment.** Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and 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 recognized in profit or loss for the year (within other operating income or expenses).

Freehold land is not depreciated.

Land and construction in progress are not depreciated. Depreciation on other items 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
Premises	20
Furniture and computer equipment	5-10
Intangible assets	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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

**Intangible assets.** All the Group's intangible assets have definite useful lives and primarily comprise capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Intangible assets are amortised on a straight line basis over expected useful lives of five years.

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**Impairment of premises and equipment and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its premises and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual

cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

**Insurance contracts.** Insurance contracts are those contracts that transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

**Description of insurance products.** The Group offers insurance products covering all common insurance risks. The Group's main lines of business are as follows:

- motor insurance, including third party liability;
- aircraft insurance;
- property insurance;
- loan repayments insurance;
- construction insurance;
- medical insurance;
- civil liability of employer.

Motor and property insurance ensures that Group customers are paid compensation for the damage caused to their property. Customers are also indemnified for losses caused by their inability to use an insured property in their economic activities as a result of the occurrence of an insured event (business interruption). Liability insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees or society (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

**Basis of accounting for insurance activities.**

**Premiums written.** Upon inception of a contract, premiums are recorded as written and are earned on a pro-rata basis over the term of the related policy coverage.

**Provision for unearned premiums.** Provision for unearned premiums represents the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the reporting date, calculated using "pro rata temporis" or "1/24" method. The "pro rata temporis" method includes calculation of unearned premium in proportion to the remaining useful life of insurance contract at the balance sheet date. The "1/24" method is determined by multiplying the total amount of the basic insurance premiums on the coefficients which are defined for each subgroup as the ratio of not elapsed at the reporting date of the term of the subgroup contracts to the whole duration of subgroup contracts.

**Claims.** Claims and claims handling expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred based on the evaluated liability for compensation payable to policyholders or third parties, net of subrogation. Subrogation is a right to pursue third parties for payment of some or all costs related to the claims settlement process.

**Loss provision.** Loss provision represents the accumulation of estimates for ultimate losses and includes provision for losses reported but not settled ("RBNS") and incurred but not yet reported ("IBNR"). Estimates of claims handling expenses are included in both RBNS and IBNR. RBNS is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases before or after the reporting date. IBNR is determined by the Group by line of business, and includes assumptions based on prior years' claims and claims handling experience. The methods

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of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of comprehensive income as they arise. Loss provision is estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment.

**Stabilisation reserve.** Reserve on compulsory insurance of civil liability of owners of vehicles and compulsory insurance of civil liability of the employer is designed to compensate expenses on insurance claims payments in subsequent years. Charge to stabilisation reserve for the period is calculated on portfolio basis based on results

of insurance activities separately for each of the two insurance portfolios. If income exceeds expenses by 5% the amount of the increase is charged as increase of the stabilisation reserve for the period; if expenses exceed income then the difference is charged as decrease of the stabilisation reserve for the period.

**Reserve for preventive measures.** This reserve is designed to finance events on prevention of accidents, loss or damage to the insured property, as well as to finance other activities aimed at the warning and prevention of occurrence of insurance claims. The reserve is compulsory for insurance of civil liability of owners of vehicles and for insurance of civil liability of the employer, for other types of insurance it is voluntary. Charge to reserve for the period is calculated on portfolio basis as 5% from the gross premium written.

**Equity component in insurance reserves.** The nature of the reserve for preventive measures (the "RFPM") component included into the calculation of the unearned premium reserve under the statutory requirements is the same as the amount of liability for the RFPM under statutory requirements. For IFRS purposes the amount of unearned premium is adjusted for the RFPM component by analogy to the treatment of the RFPM accrued as liability, because the component does not comply with the definition of either asset or liability and is accrued for future expenses of the Group. Similar to the presentation of the RFPM, the RFPM component included into the unearned premium reserve is separately presented as a component of equity.

**Liability adequacy test.** At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, the current best estimates of the future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income by subsequently establishing a provision for losses arising from the liability adequacy tests.

**Reinsurance.** The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the term of each reinsurance contract. Reinsurance assets include balances due from reinsurance companies for paid claims, including claims handling expenses, reinsurers' share of loss provision and premiums ceded to the Group. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to reinsurers.

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the consolidated statement of comprehensive income.

**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. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

**Income taxes.** Income taxes are provided for in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because

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It relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or 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 income tax are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for 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.

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

**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 recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**Provisions.** Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

**Foreign currencies** Monetary assets and liabilities are translated into entity's functional currency at the official exchange rate of the CBU at the respective reporting date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into entity'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.

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The exchange rates used by the Group in the preparation of the consolidated financial statements as at the year end are as follows:

	31 December 2018	31 December 2017
UZS/1 US Dollar	8,339.55	8,120.07
UZS/1 Euro	9,479.57	9,624.72

**Collateral.** The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

**Equity reserves.** The reserves recorded in equity on the Group's statement of financial position include other insurance reserves which comprises changes in stabilisation reserve and reserve for preventive measures.

**4. Critical accounting judgements and key sources of estimation uncertainty**

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.

**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.

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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 based 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.

**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. For financial instruments in Stage 3, the Bank is entitled to set the Recovery Rate at 0% and, accordingly, the size of the LGD at 100%, subject to expert analysis.

**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 loans in Stage 3 are in default, therefore in Stage 3 EAD is the gross carrying amount of the loan at the reporting date.

For Stage 1 and 3, the amount at risk of default (EAD) for financial instruments is their amortized carrying amount at the reporting date.

For Stage 2, the amount at risk of default is calculated as contractual cash flows for each year up until the maturity date of the financial instrument.

**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 the credit risk. See Notes 30 for more details on allowance for ECL.

**Fair value measurement and valuation process**

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Refer to Note 33 for more details on fair value measurement.

**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



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extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

**Other borrowed funds.**

The Group obtains long term financing from government and other 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 such 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 such instruments. As the transactions are with unrelated parties, management's 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 segment.

**Tax legislation.**

A large-scale tax system transformations taking place in the Republic of Uzbekistan are associated with the adoption of the Concept for Improving the Tax Policy of the Republic of Uzbekistan. Its main areas are implemented in the Tax Code, other regulatory acts, including the annual "budgetary" resolution and enacted on 1 January 2018.

In accordance with the Law # 3PY-508 dated 24 December 2018 "On amending legislative acts in connection with the adoption of core tax and budget policy for 2019" and Presidential Resolution # ПП-4086 dated 26 December 2018 "Forecasting the main macroeconomic budget indicators and parameters for 2019 and budget guidelines for 2020-2021" significant part of tax law related to banking activities was amended and expected to be enforced in 2019. Namely, income tax for credit organisations has been set at the rate of 20%, withholding tax on dividend and interest income of legal entities and individuals will be decreased from 10% to 5%; the corporate property tax rate has been reduced to 2%.

**5. Application of new and revised International Financial Reporting Standards (IFRSs)**

**New and amended IFRSs that are effective for the current year**

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.

**IFRS 9 Financial Instruments**

From 1 January 2018, the Group started applying IFRS 9 *Financial Instruments*, which replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*.

**Summary of impact upon adoption of IFRS 9 – Classification and measurement**

The following table set out the classification and measurement impact of adopting IFRS 9 on the consolidated statement of financial position and retained earnings including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 expected credit loss calculations.

Remeasurement represents changes in the carrying amount of the financial assets and liabilities due to changes in their measurement.

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A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 Measurement category	As at 31 December 2017, IAS 39 Carrying Amount	Remeasu- rement	As at 1 January 2018, IFRS 9 Carrying Amount	IFRS 9 Measurement category
Cash and cash equivalents	Loans and receivables	540,384,015	(94,846)	540,289,169	Amortised cost
Due from other banks	Loans and receivables	256,719,496	(493,610)	256,225,886	Amortised cost
Loans and advances to customers	Loans and receivables	693,168,884	2,188,828	695,355,712	Amortised cost
Other assets	Loans and receivables	24,899,447	(1,323,931)	23,575,516	Amortised cost
Commitments and contingencies	-	228,472,645	(13,597)	228,459,048	-
Tax impact on IFRS 9 adoption		-	(57,386)	-	
<b>Total after-tax impact of IFRS 9 adoption</b>		-	<b>203,458</b>	-	

**IFRS 15 Revenue from Contracts with Customers**

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortised over the period when the benefits of the contract are consumed.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

**Amendments to IAS 40 Transfers of Investment Property.**

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

**IFRIC 22 Foreign Currency Transactions and Advance Consideration.**

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

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**New and revised IFRSs in issue but not yet effective**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- *IFRS 16 Leases;*
- *IFRS 17 Insurance Contracts;*
- *Amendments to IFRS 9 Prepayment Features with Negative Compensation;*
- *Amendments to IAS 28 Long-term interests in Associates and Joint Ventures;*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle;*
- *IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*
- *Amendments to IFRS 3*
- *Amendments to IAS 1 and IAS 8*

**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 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

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

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 customer. Control is considered to exist if the customer has:

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

The Group will apply 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).

**Operating leases**

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- a) Recognise 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;
- b) Recognise depreciation of right-of-use assets and interest on lease liabilities 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) in the consolidated cash flow statement.

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Lease incentives (e.g. rent-free period) will be 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 liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

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

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

***IFRS 17 Insurance Contracts***

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

The Standard 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 will use current assumptions to estimate the amount, timing and uncertainty of future cashflows and it will explicitly measure 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 January 1, 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.

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 Group do not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements as the Group does not have instruments in scope of this standard.

***Amendments to IFRS 9 Prepayment Features with Negative Compensation***

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 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, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

***Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures***

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount 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).

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The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

***Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs***

The Annual Improvements include amendments to four Standards.

***IAS 12 Income Taxes***

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity 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.

***IAS 23 Borrowing Costs***

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

***IFRS 3 Business Combinations***

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

***IFRS 11 Joint Arrangements***

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

***IFRS 10 Consolidated Financial Statements 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 IASB; however, earlier application of the amendments is permitted. The management of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

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The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

***IFRIC 23 Uncertainty over Income Tax Treatments***

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity 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 entity 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 entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The management of the Group do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

***Amendments to IFRS 3 Definition of business.***

The amendments clarify that 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. The definitions of a business and of outputs were narrowed by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments also remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

***Amendments to IAS 1 and IAS 8 Definition to 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.



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**6. Cash and cash equivalents**

	31 December 2018 (IFRS 9)	31 December 2017 (IAS 39)
Cash on hand	119,622,531	74,152,688
Cash balances with CBU (other than mandatory reserve deposit)	328,537,475	248,851,002
Placements with other banks with original maturities of less than three months	91,841,295	217,380,325
Less: allowance for impairment losses	(18,863)	-
<b>Total cash and cash equivalents</b>	<b>539,982,438</b>	<b>540,384,015</b>

As at 31 December 2018 and 2017, placements with other banks with original maturities of less than three months in the amount of UZS 90,514,021 thousand (99%) and UZS 149,279,044 thousand (69%) were placements with five commercial banks, respectively.

The credit quality of cash and cash equivalents balances at 31 December 2018 is as follows:

	Cash balances with the CBU (other than mandatory reserve deposits)	Placements with other banks with original maturities of less than three months	Total
- Central bank of Uzbekistan	328,537,475	-	328,537,475
- "Aa3" (Moody's)	-	190,577	190,577
- "A1" (Moody's)	-	346,115	346,115
- "A3" (Moody's)	-	53,047,383	53,047,383
- "Ba2" (Moody's)	-	484,357	484,357
- "Ba3" (Moody's)	-	158,188	158,188
- "B1" (Moody's)	-	37,614,675	37,614,675
<b>Total cash and cash equivalents, excluding cash on hand and allowance for impairment losses</b>	<b>328,537,475</b>	<b>91,841,295</b>	<b>420,378,770</b>

The credit quality of cash and cash equivalents balances at 31 December 2017 is as follows:

	Cash balances with the CBU (other than mandatory reserve deposits)	Placements with other banks with original maturities of less than three months	Total
- Central bank of Uzbekistan	248,851,002	-	248,851,002
- "Aa3" (Moody's)	-	14,315	14,315
- "A1" (Moody's)	-	10,424,013	10,424,013
- "A2" (Moody's)	-	42,362,895	42,362,895
- "A3" (Moody's)	-	21,780,863	21,780,863
- "Ba2" (Moody's)	-	2,384,873	2,384,873
- "B1" (Moody's)	-	1,775,445	1,775,445
- "B2" (Moody's)	-	138,637,921	138,637,921
<b>Total cash and cash equivalents, excluding cash on hand and allowance for impairment loss</b>	<b>248,851,002</b>	<b>217,380,325</b>	<b>466,231,327</b>

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**7. Due from other banks**

Mandatory deposits with the CBU include non-interest bearing reserves against client deposits. The Group does not have the right to use these deposits for the purposes of funding its own activities.

	31 December 2018 (IFRS 9)	31 December 2017 (IAS 39)
Mandatory reserve deposit with CBU	81,391,450	110,970,280
Restricted cash	20,016,418	125,729,360
Placements with other banks with original maturities of more than three months	16,308,882	20,019,856
Less: allowance for impairment losses	(93,434)	-
<b>Total due from other banks</b>	<b>117,623,316</b>	<b>256,719,496</b>

Amounts due from other banks are not collateralised.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2018 is as follows:

	Mandatory reserve deposits with CBU	Restricted cash	Placements with other banks with original maturities of more than three months	Total
- Central bank of Uzbekistan	81,391,450	-	-	81,391,450
- "A1" (Moody's)	-	-	5,548,999	5,548,999
- "Ba3" (Moody's)	-	-	10,215,949	10,215,949
- "B2" (Moody's)	-	15,016,418	543,934	15,560,352
- "B3" (Moody's)	-	5,000,000	-	5,000,000
<b>Total due from other banks, excluding allowance for impairment losses</b>	<b>81,391,450</b>	<b>20,016,418</b>	<b>16,308,882</b>	<b>117,716,750</b>

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2017 is as follows:

	Mandatory reserve deposits with CBU	Restricted cash	Placements with other banks with original maturities of more than three months	Total
- Central bank of Uzbekistan	110,970,280	-	-	110,970,280
- "Aa2" (Moody's)	-	16,240,140	-	16,240,140
- "A2" (Moody's)	-	2,278,370	72,185	2,350,555
- "A3" (Moody's)	-	40,701,851	-	40,701,851
- "Ba3" (Moody's)	-	-	1,350,000	1,350,000
- "B1" (Moody's)	-	48,720,420	-	48,720,420
- "B2" (Moody's)	-	17,788,578	18,597,671	36,386,250
<b>Total due from other banks, excluding allowance for impairment losses</b>	<b>110,970,280</b>	<b>125,729,360</b>	<b>20,019,856</b>	<b>256,719,496</b>

Refer to Note 33 for the estimated fair value of due from other banks. Interest rate analysis of due from other banks is disclosed in Note 30.

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**8. Loans and advances to customers**

	31 December 2018 (IFRS 9)	31 December 2017 (IAS39)
Loans to legal entities	1,394,640,118	544,764,393
Loans to individuals	556,214,599	100,365,265
Net investment in finance lease	95,207,296	55,847,697
<b>Total loans and advances to customers, gross</b>	<b>2,046,062,013</b>	<b>700,977,355</b>
Less: Allowance for impairment losses	(6,302,823)	(7,808,471)
<b>Total loans and advances to customers</b>	<b>2,039,759,190</b>	<b>693,168,884</b>

Analysis by credit quality of loans and advances to customers that are collectively and individually assessed for impairment as at 31 December 2018 is as follows:

	Loans to legal entities	Net investment in finance lease	Loans to individuals	Total
<i>Loans assessed for impairment on a collective basis</i>				
- Large borrowers with credit history over two years	77,220,288	-	-	77,220,288
- Large new borrowers	43,527,597	-	-	43,527,597
- Loans to small and medium size entities	1,050,827,876	84,408,182	-	1,135,236,058
- Loans to micro firms and individuals	163,696,552	5,942,354	556,214,599	725,853,505
<b>Loans assessed for impairment on a collective basis</b>	<b>1,335,272,313</b>	<b>90,350,536</b>	<b>556,214,599</b>	<b>1,981,837,448</b>
<i>Loans individually determined to be impaired (gross)</i>				
- Not past due but impaired	59,367,805	4,856,760	-	64,224,565
- 31 to 90 days overdue	-	-	-	-
- Over 180 days overdue	-	-	-	-
<b>Individually impaired loans</b>	<b>59,367,805</b>	<b>4,856,760</b>	<b>-</b>	<b>64,224,565</b>
<b>Total loans and advances to customers (gross)</b>	<b>1,394,640,118</b>	<b>95,207,296</b>	<b>556,214,599</b>	<b>2,046,062,013</b>
Allowance for impairment losses assessed on a collective basis	(1,411,130)	(12,315)	(582,440)	(2,005,885)
Allowance for impairment losses assessed on an individual basis	(4,296,938)	-	-	(4,296,938)
<b>Less: Allowance for impairment losses (IFRS 9)</b>	<b>(5,708,068)</b>	<b>(12,315)</b>	<b>(582,440)</b>	<b>(6,302,823)</b>
<b>Total loans and advances to customers</b>	<b>1,388,932,050</b>	<b>95,194,981</b>	<b>555,632,159</b>	<b>2,039,759,190</b>

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Analysis by credit quality of loans and advances to customers that are collectively and individually assessed for impairment as at 31 December 2017 is as follows:

	Loans to legal entities	Net investment in finance lease	Loans to individuals	Total
<i>Loans assessed for impairment on a collective basis</i>				
- Large borrowers with credit history over two years	65,166,443	-	-	65,166,443
- Large new borrowers	37,663,415	-	-	37,663,415
- Loans to small and medium size entities	265,647,491	50,888,954	-	316,536,445
- Loans to micro firms and individuals	150,480,963	4,958,743	100,325,544	255,765,250
<b>Loans assessed for impairment on a collective basis</b>	<b>518,958,312</b>	<b>55,847,697</b>	<b>100,325,544</b>	<b>675,131,553</b>
<i>Loans individually determined to be impaired (gross)</i>				
- Not past due but impaired	24,596,366	-	-	24,596,366
- 31 to 90 days overdue	-	-	39,721	39,721
- Over 180 days overdue	1,209,715	-	-	1,209,715
<b>Individually impaired loans</b>	<b>25,806,081</b>	<b>-</b>	<b>39,721</b>	<b>25,845,802</b>
<b>Total loans and advances to customers (gross)</b>	<b>544,764,393</b>	<b>55,847,697</b>	<b>100,365,265</b>	<b>700,977,355</b>
Allowance for impairment losses assessed on a collective basis	(5,643,509)	-	(761,173)	(6,404,682)
Allowance for impairment losses assessed on an individual basis	(1,397,879)	-	(5,910)	(1,403,789)
<b>Less: Allowance for impairment losses (IAS 39)</b>	<b>(7,041,388)</b>	<b>-</b>	<b>(767,083)</b>	<b>(7,808,471)</b>
<b>Total loans and advances to customers</b>	<b>537,723,005</b>	<b>55,847,697</b>	<b>99,598,182</b>	<b>693,168,884</b>

Movements in the allowance for loan impairment during 2018 is as follows::

	Loans to legal entities	Net investment in finance lease	Loans to individuals	Total
Provision for loan impairment at 1 January	7,041,388	-	767,083	7,808,471
Effect of transition to IFRS 9	(2,163,094)	601,935	(625,669)	(2,186,828)
Provision for / (Recovery of) loan impairment during the year	829,774	(589,620)	441,026	681,180
<b>Provision for loan impairment at 31 December</b>	<b>5,708,068</b>	<b>12,315</b>	<b>582,440</b>	<b>6,302,823</b>

Movements in the allowance for loan impairment during 2017 is as follows:

	Loans to legal entities	Net investment in finance lease	Loans to individuals	Total
Provision for loan impairment at 1 January	4,353,126	739,898	856,448	5,949,472
Provision for / (Recovery of) loan impairment during the year	2,688,262	(739,898)	(89,365)	1,858,999
<b>Provision for loan impairment at 31 December</b>	<b>7,041,388</b>	<b>-</b>	<b>767,083</b>	<b>7,808,471</b>

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Economic sector risk concentrations within the loans and advances to customers portfolio are as follows:

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Manufacturing	926,937,718	45%	231,820,847	33%
Individuals	556,214,599	27%	107,054,421	15%
Trade	233,321,930	11%	92,392,208	13%
Financial services	119,743,998	6%	88,412,454	13%
Services	90,335,329	4%	96,014,977	14%
Transport and communication	55,270,819	3%	29,547,706	4%
Construction	43,024,893	2%	18,251,162	3%
Agriculture	21,212,727	2%	37,483,580	5%
<b>Total loans and advances to customers, gross</b>	<b>2,046,062,013</b>	<b>100%</b>	<b>700,977,355</b>	<b>100%</b>

At 31 December 2018, the Group had 10 borrowers (2017: 10 borrowers) with aggregated loan amounts above UZS 30,450,000 thousand (2017: UZS 14,500,000 thousand). The total aggregate amount of these loans was UZS 523,960,691 thousand (2017: UZS 222,358,099 thousand) or 26% of the gross loan portfolio (2017: 32%).

Information about collateral at 31 December 2018 is as follows:

	Receivables from customers on letters of credit issued with post financing terms	Loans to legal entities	Net investment in finance lease	Loans to individuals	Total
Loans guaranteed by other parties	-	82,324,831	3,013,106	95,852,682	181,190,619
Unsecured loans	-	913,332	3,128,764	309,955	4,352,051
Loans collateralised by:					
- equipment	11,099,475	341,715,372	77,955,516	-	430,770,363
- real estate	59,601,322	500,416,910	9,922,891	53,064,342	623,005,465
- vehicles	-	63,461,685	83,609	78,077,885	141,623,179
- insurance	-	225,136,237	970,422	327,775,932	553,882,591
- inventory	-	10,945,602	-	-	10,945,602
- cash deposits	-	99,025,352	132,988	1,133,803	100,292,143
<b>Total loans and advances to customers, gross</b>	<b>70,700,797</b>	<b>1,323,939,321</b>	<b>95,207,296</b>	<b>556,214,599</b>	<b>2,046,062,013</b>

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Information about collateral at 31 December 2017 is as follows:

	Receivables from customers on letters of credit issued with post financing terms	Loans to legal entities	Net investment in finance lease	Loans to Individuals	Total
Loans guaranteed by other parties	-	10,999,867	1,275,801	30,561,441	42,837,109
Unsecured loans	2,803,680	9,077,891	-	4,798,133	16,679,704
Loans collateralised by:					
- equipment	-	108,794,330	13,539,473	38,645,324	160,979,127
- real estate	-	370,323,696	34,501,364	20,787,148	425,612,208
- vehicles	-	28,859,072	6,283,557	5,285,675	40,428,304
- insurance	-	6,966,920	-	210,046	7,176,966
- cash deposits	-	6,938,937	247,502	77,498	7,263,937
<b>Total loans and advances to customers, gross</b>	<b>2,803,680</b>	<b>541,960,713</b>	<b>55,847,697</b>	<b>100,365,265</b>	<b>700,977,355</b>

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures.

The analysis of the finance lease receivables and their present value as at 31 December 2018 is as follows:

	Due within 1 year	Due between 1 and 5 years	Due over 5 years	Total
<b>Finance lease payments receivable at 31 December 2018</b>	<b>37,223,635</b>	<b>103,214,653</b>	<b>24,222,391</b>	<b>164,660,679</b>
Unearned finance income	(13,316,556)	(44,837,342)	(11,299,485)	(69,453,383)
Allowance for impairment losses	(3,097)	(7,642)	(1,576)	(12,315)
<b>Present value of lease payments receivable at 31 December 2018</b>	<b>23,903,982</b>	<b>58,369,669</b>	<b>12,921,330</b>	<b>95,194,981</b>
<b>Finance lease payments receivable at 31 December 2017</b>	<b>39,890,423</b>	<b>52,683,249</b>	<b>4,033,266</b>	<b>96,606,938</b>
Unearned finance income	(13,704,291)	(24,842,444)	(2,212,506)	(40,759,241)
Allowance for impairment losses	-	-	-	-
<b>Present value of lease payments receivable at 31 December 2017</b>	<b>26,186,132</b>	<b>27,840,805</b>	<b>1,820,760</b>	<b>55,847,697</b>



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**9. Premises, equipment and intangible assets**

	Premises	Office and computer equipment	Construction in progress	Total property and equipment	Intangible assets	Intangible assets under development	Total
<b>Carrying amount at 31 December 2016</b>	<b>79,774,148</b>	<b>26,310,988</b>	<b>18,120,778</b>	<b>124,205,914</b>	<b>256,169</b>	<b>-</b>	<b>124,462,083</b>
Additions	23,616,408	17,738,637	14,738,833	56,091,878	404,597	19,000,557	75,497,032
Disposals, net	(46,681,936)	(78,418)	-	(46,760,354)	-	-	(46,760,354)
Transfers	22,336,261	(1,067,759)	(21,268,502)	-	-	-	-
Depreciation and amortisation charge (Note 24)	(3,368,359)	(8,814,875)	-	(10,181,234)	(124,696)	-	(10,305,930)
<b>Carrying amount at 31 December 2017</b>	<b>75,678,522</b>	<b>36,088,573</b>	<b>11,589,109</b>	<b>123,356,204</b>	<b>536,070</b>	<b>19,000,557</b>	<b>142,892,831</b>
Cost at 31 December 2017	87,566,072	54,223,555	11,589,109	153,378,736	1,317,333	19,000,557	173,696,626
Accumulated depreciation and amortisation	(11,887,550)	(18,134,982)	-	(30,022,532)	(781,263)	-	(30,803,795)
<b>Carrying amount at 31 December 2017</b>	<b>75,678,522</b>	<b>36,088,573</b>	<b>11,589,109</b>	<b>123,356,204</b>	<b>536,070</b>	<b>19,000,557</b>	<b>142,892,831</b>
Additions	153,989,145	32,366,829	38,121,927	224,457,901	172,001	9,710,234	234,340,136
Disposals, net	(11,732,975)	(207,417)	-	(11,940,392)	-	-	(11,940,392)
Disposal of subsidiaries	(22,923,934)	(2,253,639)	-	(25,177,573)	(102,200)	-	(25,279,773)
Transfers	173,438	(529,922)	356,486	-	-	-	-
Depreciation and amortisation charge (Note 24)	(1,354,487)	(9,098,653)	-	(10,453,150)	(129,925)	-	(10,583,075)
<b>Carrying amount at 31 December 2018</b>	<b>193,809,697</b>	<b>56,365,771</b>	<b>50,067,522</b>	<b>300,242,990</b>	<b>475,946</b>	<b>28,710,791</b>	<b>329,429,727</b>
Cost at 31 December 2018	202,842,998	79,663,234	50,067,522	332,573,754	1,311,334	28,710,791	362,595,879
Accumulated depreciation and amortisation	(9,033,301)	(23,297,463)	-	(32,330,764)	(835,388)	-	(33,166,152)
<b>Carrying amount at 31 December 2018</b>	<b>193,809,697</b>	<b>56,365,771</b>	<b>50,067,522</b>	<b>300,242,990</b>	<b>475,946</b>	<b>28,710,791</b>	<b>329,429,727</b>

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment. Intangible assets under development consist of a development and implementation of accounting IT system by a third party.

As at 31 December 2018, buildings with total carrying value of UZS 16,344,416 thousand (31 December 2017: UZS 28,973,679 thousand) have been pledged under interbank deposit agreements.

As at 31 December 2018, fully depreciated assets amounted to UZS 5,537,753 thousand (31 December 2017: UZS 3,264,858 thousand).

During 2018, the Group has been engaged into transactions on acquisition and sale of premises with related parties. Total amount of acquisition and sales comprised UZS 71,672,552 thousand (2017: UZS 22,256,220 thousand) and UZS 10,069,624 thousand (2017: UZS 44,015,778 thousand), respectively.

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**10. Reinsurers' Share of Reserves for Insurance Contracts**

	31 December 2018	31 December 2017
Unearned insurance premium reserve	-	3,098,100
Incurred but not reported claims reserve	-	927,981
<b>Total reinsurers' share of reserves for insurance contracts</b>	<b>-</b>	<b>4,026,081</b>

**11. Other assets**

	31 December 2018	31 December 2017
<b>Other financial assets:</b>		
Prepayment for equipment to be leased out	12,290,623	2,969,584
Receivable from payment system "Paynet"	5,014,735	3,850,958
Deferred proceeds from sale of subsidiaries	1,773,010	-
Commission and other receivables from customers	2,542,233	11,483,388
Receivable from plastic cards systems	1,137,993	406,884
Receivable from money transfer organisations	166,791	172,026
Unrealized forex gain	-	2,635,371
Receivable from insurance agents	-	711,246
Less: allowance for impairment losses	(1,185,051)	(6,122,804)
<b>Total other financial assets</b>	<b>21,740,334</b>	<b>16,106,653</b>
<b>Other non-financial assets:</b>		
Prepayment to suppliers	2,372,281	3,370,810
Prepayment for services	2,006,337	1,032,426
Office supplies and other inventories	1,576,927	1,676,936
Prepaid expenses and advances	1,433,941	963,946
Prepayment for transport vehicles	740,470	-
Assets held for further lease out	-	485,700
Prepaid taxes other than income tax	382,903	350,500
Other	-1,512,266	902,478
<b>Total other non-financial assets</b>	<b>10,025,125</b>	<b>8,792,794</b>
<b>Total other assets</b>	<b>31,765,459</b>	<b>24,899,447</b>

As at 31 December 2018, other non-financial assets include repossessed assets for the total amount of UZS 564,171 thousand (2017: UZS 416,610 thousand).

Movements in the allowance for impairment losses of other financial assets during 2018 and 2017 are as follows:

	2018	2017
<b>Allowance for impairment losses at 1 January</b>	<b>6,122,804</b>	<b>335,273</b>
Effect of transition to IFRS 9	1,323,931	-
Amounts written off during the year as uncollectible	(4,652,032)	(35,737)
Recovery of allowance for impairment losses	(1,609,652)	5,823,268
<b>Allowance for impairment losses at 31 December</b>	<b>1,185,051</b>	<b>6,122,804</b>

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**12. Due to other banks**

	31 December 2018	31 December 2017
Liabilities under letters of credit	70,646,457	2,803,680
Short-term placements of other banks	134,280,796	143,990,038
Long-term placements of other banks	123,833,955	132,257,463
<b>Total due to other banks</b>	<b>328,761,208</b>	<b>279,051,181</b>

Refer to Note 33 for the disclosure of the fair value of due to other banks. Interest rate analysis of due to other banks is disclosed in Note 30.

At 31 December 2018, the Group had deposit placements of one bank (2017: one bank), the aggregate amount of these deposits was UZS 120,000,000 thousand (2017: UZS 168,000,000 thousand) or 37% of the due to other banks (2017: 60%).

**13. Customer accounts**

	31 December 2018	31 December 2017
<b>State and public organisations</b>		
- current/settlement accounts	64,581,496	51,107,606
- term deposits	131,350,072	36,889,877
<b>Other legal entities</b>		
- current/settlement accounts	651,141,212	447,411,829
- term deposits	603,281,382	203,000,995
<b>Individuals</b>		
- current/settlement accounts	58,311,996	55,093,128
- term deposits	471,360,514	203,409,312
<b>Total customer accounts</b>	<b>1,980,026,672</b>	<b>996,912,747</b>

Economic sector concentrations within customer accounts are as follows:

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Manufacturing	618,436,750	31%	163,144,816	16%
Individuals	529,672,510	27%	258,502,440	26%
Trade	202,391,280	10%	136,179,667	14%
State and public organisations	195,931,568	10%	87,997,483	9%
Services	185,774,283	9%	235,774,246	24%
Construction	104,108,151	5%	35,104,063	4%
Transport and communication	59,070,581	3%	23,910,668	2%
Financial organisations	52,763,281	3%	43,833,464	4%
Agriculture	14,573,011	1%	5,164,012	1%
Real estate	9,089,627	1%	3,505,860	0%
Other	8,215,630	0%	3,796,028	0%
<b>Total customer accounts</b>	<b>1,980,026,672</b>	<b>100%</b>	<b>996,912,747</b>	<b>100%</b>

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At 31 December 2018, the Group had 10 customers (2017: 10 customers) with balances above UZS 15,000,000 thousand. The aggregate balance of these customers was UZS 303,327,983 thousand (2017: UZS 285,081,988 thousand) or 15% (2017: 28%) of total customer accounts.

Refer to Note 33 for the disclosure of the fair value of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 30.

**14. Other borrowed funds**

	Currency	Interest rate	31 December 2018	31 December 2017
Fund for Agriculture sector support under the Ministry of Finance of the Republic of Uzbekistan	UZS	1%	92,248,575	-
Islamic Corporation for the Development of the Private Sector	USD	-	43,199,400	-
Fund for Financing State Development Programs of the Republic of Uzbekistan under the Cabinet of Ministers of the Republic of Uzbekistan	UZS	-	18,891,346	-
International Bank for Reconstruction and Development	USD	6m Libor+ floating spread+0.2%	9,763,848	-
Long Term Loans from CBU	UZS	3%-5%	6,437,628	-
<b>Total other borrowed funds</b>			<b>170,540,597</b>	<b>-</b>

On 5 March 2018, the Group signed a loan agreement with the Fund for Agriculture sector support under the Ministry of Finance of the Republic of Uzbekistan for the total amount of UZS 115,787,000 thousand at an interest rate of 1% with maturity till 1 March 2019. The borrowed funds are designated for further financing of textile manufacturing enterprises. As at 31 December 2018, the Group utilised UZS 97,046,500 thousand.

On 13 July 2018, the Group signed an agreement with the Islamic Corporation for the Development of the Private Sector for the total amount of USD 7,000,000 under Murabaha terms at mark up of 6.5% per annum until January 2023. The funds are used for financing small and medium sized enterprises, where the Group acts as an agent between ICD and the borrower. Due to the breach of covenants set by ICD, the Group recognised its off-balance sheet commitments in the amount of UZS 43,199,400 thousand as callable debt within other borrowed funds.

On 17 May 2018, the Group signed an agreement with the International Bank for Reconstruction and Development for the total amount of USD 12,000,000 at an interest rate of 6m Libor+ IBRD floating spread+0.2% until June 2043. The borrowed funds are designated for further financing of manufacturing enterprises. As at 31 December, the Group utilized USD 1,200,000.

In accordance with the Presidential Decree №ПП - 3651 "On measures for further stimulation and development of preschool education system" ("Presidential Decree"), the Fund for Financing State Development Programs of the Republic of Uzbekistan under the Cabinet of Ministers of the Republic of Uzbekistan ("the Fund") provided interest free loans to commercial banks of Uzbekistan for further financing of non-state pre-school educational institutions establishment. On 28 June 2018, the Group signed a loan agreement with the Fund for the total amount of UZS 22,000,000 thousand with maturity till June 2033 in the framework of the Presidential Decree.

During 2018, the Group signed two agreements with the CBU on projects under which the long term borrowings were received at interest rates of 3% and 5% for further financing of the social security program. The loans are repayable in 3 years, including 6-month grace period for the principal debt.

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**15. Debt securities in issue**

	Maturity Date	Annual Coupon Rate	31 December 2018	31 December 2017
Deposit Certificates	08-Apr-19 - 06-May-21	16%-16.5%	138,105,932	18,969,265
Savings Certificates	19-Jun-19 - 17-Dec-20	17%-20%	2,309,418	-
<b>Total debt securities in issue</b>			<b>140,415,350</b>	<b>18,969,265</b>

As at 31 December 2018, the Group had one customer (2017: one customer) with aggregate balance of UZS 104,500,000 thousand (2017: UZS 7,000,000 thousand) or 74% (2017: 38%) of the total debt securities in issue.

Refer to Note 33 for the disclosure of the fair value of debt securities in issue. Interest rate analyses of debt securities in issue is disclosed in Note 30.

**16. Subordinated debt**

	Currency	Maturity date	Interest rate	31 December 2018	31 December 2017
"Textile Finance Khorezm" LLC	UZS	31-Dec-25	10.10%	63,000,000	-
<b>Total subordinated debt</b>				<b>63,000,000</b>	<b>-</b>

On 30 December 2018, the Group signed an agreement with the "Textile Finance Khorezm" LLC on the basis of which subordinated debt was received for the total amount of UZS 63,000,000 thousand at an interest rate 10.1% with maturity till 31 December 2025.

**17. Reserves on insurance contracts**

	31 December 2018	31 December 2017
Unearned insurance premium reserve	-	22,657,143
Incurred but not reported claims reserve	-	3,461,288
Reserve for preventive measures component in unearned insurance premium reserve	-	863,882
Reported but not settled claims reserve	-	3,281,386
<b>Total reserves for insurance contracts</b>	<b>-</b>	<b>30,283,699</b>

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**18. Other liabilities**

	31 December 2018	31 December 2017
Payable on money transfer operations	2,503,412	1,492,657
Trade payable	2,487,380	5,442,721
Accrued employee costs	1,069,824	469,994
Payable on building rent	589,463	309,685
Payable to the Individuals Deposit Insurance Fund	290,654	806,563
Professional fees payable	157,500	669,426
Premium payable on reinsurance	-	925,994
Accounts payable for co-insurance	-	365,027
Unrealized forex loss	-	35,201
Other	206,449	326,991
<b>Total other financial liabilities</b>	<b>7,304,682</b>	<b>10,844,259</b>
Taxes payable, other than income tax	784,788	2,767,542
Current income tax payable	873,680	258,895
Provision for credit related commitments	69,331	-
Advances from lessees	-	2,463,660
Other	559,050	55,349
<b>Total other non-financial liabilities</b>	<b>2,286,849</b>	<b>5,535,446</b>
<b>Total other liabilities</b>	<b>9,591,531</b>	<b>16,379,705</b>

**19. Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	Financing cash inflows/ (outflow)	Interest paid	Effect of exchange rate changes	Interest accrued	Dividends declared	Recognition of Guarantees under ICD credit line	31 December 2018
Other borrowed funds	-	127,043,099	(812,748)	270,955	639,891	-	43,199,400	170,540,597
Subordinated debt	-	63,000,000	-	-	-	-	-	63,000,000
Dividends paid to shareholders	-	(18,456,640)	-	-	-	18,456,640	-	-
Share capital	300,000,000	20,000,000	-	-	-	-	-	320,000,000

	1 January 2017	Financing cash inflows/ (outflow)	Interest paid	Effect of exchange rate changes	Interest accrued	Dividends declared	Recognition of Guarantees under ICD credit line	31 December 2017
Share capital	139,480,680	160,519,320	-	-	-	-	-	300,000,000



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**20. Share capital**

	Number of outstanding shares (in thousands)	Ordinary shares	Share premium	Total
At 1 January 2017	139,481	139,480,680	1,853,395	141,334,075
New shares issued	160,519	160,519,320	-	160,519,320
At 31 December 2017	300,000	300,000,000	1,853,395	301,853,395
New shares issued	20,000	20,000,000	-	20,000,000
At 31 December 2018	320,000	320,000,000	1,853,395	321,853,395

In 2018, based on the decision of the Shareholders' meeting the last registered share emission comprised UZS 20,000,000 thousand that has been paid by new and existing shareholders in cash. The par value of each share is equal to UZS 1,000 (2017: UZS 1,000).

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

In November 2018, the Shareholders have made a decision to increase the share capital for the total amount of UZS 80,000,000 thousand that has not been paid as at 31 December 2018.

**21. Net Interest Income**

	2018	2017
<b>Interest income</b>		
Loans and advances to customers	186,405,362	95,950,660
Due from other banks	12,758,533	4,657,154
Letters of credit	1,383,497	1,128,865
<b>Total interest income</b>	<b>200,547,392</b>	<b>101,736,679</b>
<b>Interest expense</b>		
Customer accounts	66,057,283	42,258,320
Due to other banks	23,904,855	17,023,080
Debt securities in issue	23,003,328	2,343,668
Other borrowed funds	829,882	-
<b>Total interest expense</b>	<b>113,795,348</b>	<b>61,625,068</b>
<b>Net interest income</b>	<b>86,752,044</b>	<b>40,111,611</b>

Interest income on cash and cash equivalents is included in interest income on due from other banks.

Interest income on impaired loans and advances to customers for the year ended 2018 comprised UZS 6,220,376 thousand (2017: UZS 8,082,057 thousand).

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**22. Fee and Commission Income and Expense**

Fee and commission income and expense comprise:

	2018	2017
<b>Fee and commission income</b>		
- Settlement transactions	18,167,241	18,787,912
- International money transfers	15,362,402	8,087,534
- Conversion operations	13,459,145	7,994,060
- Maintenance fee	12,020,989	7,312,257
- Internet banking	4,855,571	3,955,109
- Payment system "Paynet"	4,401,853	2,146,863
- Cash transactions	4,345,913	190,204
- Plastic cards services	2,634,988	1,341,898
- Letters of credit	2,368,999	1,046,596
- Guarantees	2,059,345	4,110,192
- Issuance of bank statements	1,422,329	1,903,806
- SWAP operations	1,320,395	6,305,852
- Registration fee	25,951	22,254
- Other	1,620,805	1,128,648
<b>Total fee and commission income</b>	<b>84,065,926</b>	<b>64,333,185</b>

	2018	2017
<b>Fee and commission expenses</b>		
- Cash transactions	4,921,321	2,997,207
- Foreign currency operations	4,261,009	6,561,298
- Settlement transactions	3,951,315	2,204,144
- Letters of credit	338,269	568,187
- Other	976,257	1,001,727
<b>Total fee and commission expense</b>	<b>14,448,171</b>	<b>13,332,563</b>

**23. Other operating income**

	2018	2017
Income from sale or disposition of property and equipment	659,931	50,020
Income from the rental of premises and equipment	642,495	133,325
Income from fines and penalties	261,131	3,580,149
Gain on sale of assets under finance lease	-	259,374
Other non-interest income	256,746	182,200
<b>Total other operating income</b>	<b>1,820,303</b>	<b>4,205,068</b>

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**24. Administrative and other operating expenses**

	2018	2017
Staff costs	61,919,421	35,195,317
Rent expenses	24,836,439	8,278,153
Taxes other than income tax	15,634,031	12,486,266
Depreciation and amortisation	10,583,075	7,875,607
Security services	4,964,053	3,877,430
Office supplies	3,608,786	2,739,868
Contribution to the Deposit Guarantee Fund	3,270,613	3,354,541
Professional services	2,319,415	1,119,883
Repairs and maintenance	2,001,293	1,445,222
Charity	1,189,384	1,274,766
Penalties incurred	1,812,270	147,361
Communication	1,257,320	1,086,963
Advertising and Publicity	959,067	276,577
Utilities	836,422	659,131
Fuel expenses	804,589	550,405
Representative expenses	395,256	188,703
Other	1,509,765	1,448,668
<b>Total administrative and other operating expenses</b>	<b>137,901,199</b>	<b>82,004,861</b>

Included in staff costs are statutory social contributions of UZS 11,317,185 thousand (2017: UZS 6,726,498 thousand).

**25. Income taxes**

**(a) Components of income tax expense**

Income tax expense recorded in profit or loss for the year comprises the following:

	2018	2017
Current tax charge	10,224,029	5,139,005
Deferred tax credit	492,304	(2,583,989)
<b>Total income tax expense for the year</b>	<b>10,716,333</b>	<b>2,555,016</b>

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

In accordance with Presidential Decree #PP-3454 dated 29 December 2017 corporate income tax and infrastructure development tax were combined. The enacted income tax rate for 2018 is 20% (2017: 22%).

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Reconciliation between the expected and the actual taxation charge is provided below.

	2018	2017
<b>Profit before tax including profit from discontinued operations</b>	<b>59,797,816</b>	<b>24,001,995</b>
Theoretical tax charge at the applicable statutory rate - 20% (2017: 22%)	11,959,563	5,280,439
- Non deductible expenses	1,760,481	1,428,777
- Tax incentives	(1,188,442)	(2,661,881)
- Tax effect on income taxed at different rates (7.5% - 12%)	(1,713,152)	(627,152)
- Tax rate change	1,060,830	-
- Dividend income	(1,653,879)	(1,338,591)
- Other	490,932	473,424
<b>Income tax expense for the year</b>	<b>10,716,333</b>	<b>2,555,016</b>

**(c) Deferred taxes analysed by type of temporary difference**

Differences between IFRS and statutory taxation regulations in Uzbekistan give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements on these temporary differences is detailed below, and is recorded at the rate of 20% (2017: 22%).

	2018	(Charged)/ credited to profit or loss	Effect of IFRS 9	2017	(Charged)/ credited to profit or loss	2016
<b>Tax effect of deductible/(taxable) temporary differences</b>						
Loan and advances to customers	2,173,020	(959,908)	(481,102)	3,614,030	1,483,019	2,131,011
Premises, equipment and intangible assets	(93,454)	(49,662)	-	(43,792)	(84,867)	41,075
Other assets	907,244	(168,129)	291,265	784,108	588,011	196,097
Cash and cash equivalents	3,773	(17,093)	20,866	-	-	-
Due from other banks	18,687	(89,907)	108,584	-	-	-
Other liabilities	819,043	812,423	2,991	3,629	(201,748)	205,377
Customer accounts	(40,103)	(20,028)	-	(20,075)	553,856	(573,931)
Investments in subsidiaries	-	-	-	-	246,718	(245,718)
<b>Net deferred tax asset</b>	<b>3,788,210</b>	<b>(492,304)</b>	<b>(57,386)</b>	<b>4,337,900</b>	<b>2,583,989</b>	<b>1,753,911</b>
Recognised deferred tax asset	3,921,767	812,423	423,716	4,401,767	2,870,604	2,573,560
Recognised deferred tax liability	(133,557)	(1,304,727)	(481,102)	(63,867)	(286,615)	(819,649)
<b>Net deferred tax asset</b>	<b>3,788,210</b>	<b>(492,304)</b>	<b>(57,386)</b>	<b>4,337,900</b>	<b>2,583,989</b>	<b>1,753,911</b>

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**26. Dividends**

	2018	2017
Dividends payable at 1 January 2018	-	-
Dividends declared during the year	18,456,640	-
Dividends paid during the year	(18,456,640)	-
Dividends payable at 31 December 2018	-	-
Dividends per share declared during the year (in UZS per share)	57.68	-

**27. PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS**

On 8 November 2018, the Group disposed of its subsidiaries: LLC Infin Leasing, LLC Master Leasing, LLC Asia Insurance which carried out leasing and insurance operations.

**Profit from discontinued operations**

	2018	2017
Revenue	35,218,061	50,485,857
Expenses	(23,273,558)	(37,962,909)
Gain on disposal	3,021,158	-
Attributable income tax expense	(676,893)	-
<b>Net gain from discontinued operation</b>	<b>14,288,768</b>	<b>12,522,948</b>
Profit for the year from discontinued operations attributable to:		
- Owners of the Bank	13,122,646	9,439,722
- Non-controlling interest	1,166,122	3,083,226
<b>Profit for the year from discontinued operations</b>	<b>14,288,768</b>	<b>12,522,948</b>
<b>Cash flows from discontinued operations</b>		
Net cash used in operating activities	(16,929,389)	(20,022,613)
Net cash used in investing activities	(2,280,014)	(334,969)
Net cash inflow from financing activities	21,158,662	22,549,926
<b>Net cash inflows</b>	<b>1,969,259</b>	<b>2,192,344</b>

**Gain on disposal of subsidiaries**

	2018	2017
Consideration received	30,820,000	-
Deferred sales proceeds	1,773,010	-
Net assets disposed of	(37,696,996)	-
Non-controlling interest	8,125,144	-
<b>Gain on sale</b>	<b>3,021,158</b>	<b>-</b>

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**Assets and Liabilities disposed of**

	31 December 2018	31 December 2017
<b>ASSETS:</b>		
Cash and cash equivalents	12,553,469	10,584,210
Trade receivables	25,152,619	27,791,868
Investments available-for-sale	12,126,322	8,202,957
Loans and leases to customers	52,065,980	40,682,944
Current income tax prepayments	326,808	900,439
Premises, equipment and intangible assets	25,279,773	26,943,124
Reinsurers' share of reserves for insurance contracts	2,651,494	4,026,081
Other assets	26,035,350	9,652,760
<b>Total assets</b>	<b>156,191,815</b>	<b>128,784,383</b>
<b>LIABILITIES:</b>		
Bank loans	(66,464,233)	(45,305,571)
Reserves for insurance contracts	(40,327,536)	(30,283,699)
Other liabilities	(11,703,050)	(9,652,760)
<b>Total liabilities</b>	<b>(118,494,819)</b>	<b>(85,242,030)</b>
<b>Net assets disposed of</b>	<b>37,696,996</b>	<b>43,542,353</b>

**Net cash inflow on disposal of subsidiaries**

	2018	2017
Consideration received in cash and cash equivalents	30,820,000	-
Less: cash and cash equivalent balances disposed of	(12,553,469)	-
<b>Net cash inflow</b>	<b>18,266,531</b>	

**28. Earnings per share**

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year.

Earnings per share from continuing operations are calculated as follows:

	2018	2017
Profit for the year attributable to ordinary shareholders	34,115,822	8,924,031
<b>Profit for the year attributable to the owners</b>	<b>34,115,822</b>	<b>8,924,031</b>
Weighted average number of ordinary shares in issue (thousands)	316,767	182,139
<b>Basic and diluted earnings per ordinary share (in UZS per share)</b>	<b>108</b>	<b>49</b>

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Earnings per share from discontinued operations are calculated as follows:

	2018	2017
Profit for the year attributable to ordinary shareholders	13,122,646	9,439,722
<b>Profit for the year attributable to the owners</b>	<b>13,122,646</b>	<b>9,439,722</b>
Weighted average number of ordinary shares in issue (thousands)	316,767	182,139
<b>Basic and diluted earnings per ordinary share (in UZS per share)</b>	<b>41</b>	<b>52</b>
<b>Total basic and diluted earnings per ordinary share (in UZS per share)</b>	<b>149</b>	<b>101</b>

**29. Segment Analysis**

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the management board of the Group.

**(a) Description of products and services from which each reportable segment derives its revenue**

The Group is organised on the basis of three main business segments:

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products for legal entities, including small and medium enterprises, as well as investments in legal entities;
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, debit cards, consumer loans and mortgages;
- Group function – representing operations and transactions with customers other than corporate or retail banking.

Due to the disposal of subsidiaries, operating segments were revised. Leasing and insurance that were distinct operating segments in prior year financial statements have been combined into the Group function as a restatement of previous year to reflect current year revised operating segments.

**(b) Factors that management used to identify the reportable segments**

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level. Management, applied the core principle of IFRS 8 "Operating Segments", in determining which of the financial information sets should form the basis of operating segments.

**(c) Measurement of operating segment profit or loss, assets and liabilities**

The CODM reviews financial information prepared based on International Financial Reporting Standards. The CODM evaluates performance of each segment based on profit before tax.

**(d) Information about reportable segment profit or loss, assets and liabilities**

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Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

	Corporate banking	Retail banking	Group function	Total
Interest income	140,301,159	47,487,700	12,758,533	200,547,392
Fee and commission income	65,643,840	18,422,086	-	84,065,926
Net gain on foreign exchange dealing operations	14,938,038	4,452,422	2,792,794	22,183,254
Net gain from foreign exchange translation	672,964	200,583	125,816	999,363
Dividend income	11,738	-	-	11,738
Other operating income	1,089,240	71,132	659,931	1,820,303
Profit for the year from discontinued operations	-	-	14,288,768	14,288,768
Recovery of provision for impairment losses on other operations	2,030,077	-	-	2,030,077
<b>Total revenues</b>	<b>224,687,056</b>	<b>70,633,923</b>	<b>30,825,842</b>	<b>325,946,821</b>
Interest expense	(64,958,506)	(24,931,987)	(23,904,855)	(113,795,348)
Fee and commission expense	(10,934,819)	(3,513,352)	-	(14,448,171)
Administrative and other operating expenses	(89,789,983)	(31,700,568)	(16,410,548)	(137,901,199)
Provision for loan impairment	(253,949)	(427,231)	-	(681,180)
Income tax expense	(7,387,160)	(2,322,270)	(1,006,903)	(10,716,333)
<b>Segment results</b>	<b>51,362,639</b>	<b>7,738,515</b>	<b>(10,696,564)</b>	<b>48,404,590</b>
	Corporate banking	Retail banking	Group function	Total
Cash and cash equivalents	439,490,179	100,492,259	-	539,982,438
Due from other banks	-	-	117,623,316	117,623,316
Loans and advances to customers	1,484,127,032	555,632,158	-	2,039,759,190
Current income tax prepayments	-	-	582,557	582,557
Deferred income tax assets	-	-	3,788,210	3,788,210
Premises, equipment and intangible assets	-	-	329,429,727	329,429,727
Other assets	15,411,271	6,329,093	10,025,095	31,765,459
<b>Total reportable segment assets</b>	<b>1,939,028,482</b>	<b>662,453,510</b>	<b>461,448,905</b>	<b>3,062,930,897</b>
Due to other banks	-	-	328,761,208	328,761,208
Customer accounts	1,450,354,162	529,672,510	-	1,980,026,672
Other borrowed funds	164,130,112	6,410,485	-	170,540,597
Debt securities in issue	138,115,350	2,300,000	-	140,415,350
Subordinated debt	63,000,000	-	-	63,000,000
Other liabilities	69,331	2,794,066	6,728,134	9,591,531
<b>Total reportable segment liability</b>	<b>1,815,668,955</b>	<b>541,177,061</b>	<b>335,489,342</b>	<b>2,692,335,358</b>
<b>Capital expenditure</b>	<b>-</b>	<b>-</b>	<b>78,778,313</b>	<b>-</b>



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Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

	Corporate banking	Retail banking	Group function	Total
Interest income	83,775,109	13,330,624	4,630,946	101,736,679
Fee and commission income	53,642,835	10,680,350	-	64,333,185
Net gain on foreign exchange dealing operations	171,067	28,226	80,790	280,083
Net gain from foreign exchange translation	3,341,818	551,394	1,578,255	5,471,467
Other operating income	1,556,846	544,623	2,103,599	4,205,068
Dividend income	97,324	-	-	97,324
Profit for the year from discontinued operations	-	-	12,522,948	12,522,948
<b>Total revenues</b>	<b>142,584,999</b>	<b>25,145,217</b>	<b>20,916,538</b>	<b>188,646,754</b>
Interest expense	(26,071,118)	(17,391,498)	(18,162,452)	(61,625,068)
Fee and commission expense	(10,008,560)	(3,326,003)	-	(13,332,563)
Administrative and other operating expenses	(45,024,043)	(9,600,464)	(27,380,354)	(82,004,861)
Provision for loan impairment	(1,948,364)	89,365	-	(1,858,999)
Provision for impairment losses on other operations	(5,823,268)	-	-	(5,823,268)
Income tax expense	(1,931,159)	(340,565)	(283,292)	(2,555,016)
<b>Segment results</b>	<b>51,780,487</b>	<b>(5,423,948)</b>	<b>(24,909,560)</b>	<b>21,446,979</b>
	Corporate banking	Retail banking	Group function	Total
Cash and cash equivalents	439,490,179	100,492,259	-	539,982,438
Due from other banks	-	-	117,623,316	117,623,316
Loans and advances to customers	1,484,127,032	555,632,158	-	2,039,759,190
Current income tax prepayments	-	-	582,557	582,557
Deferred income tax assets	-	-	3,788,210	3,788,210
Premises, equipment and intangible assets	-	-	329,429,727	329,429,727
Other assets	15,411,271	6,329,093	10,025,095	31,765,459
<b>Total reportable segment assets</b>	<b>1,939,028,482</b>	<b>662,453,510</b>	<b>461,448,905</b>	<b>3,062,930,897</b>
Due to other banks	-	-	328,761,208	328,761,208
Customer accounts	1,450,354,162	529,672,510	-	1,980,026,672
Other borrowed funds	164,130,112	6,410,485	-	170,540,597
Debt securities in issue	138,115,350	2,300,000	-	140,415,350
Subordinated debt	63,000,000	-	-	63,000,000
Other liabilities	69,331	2,794,066	6,728,134	9,591,531
<b>Total reportable segment liability</b>	<b>1,815,668,955</b>	<b>541,177,061</b>	<b>335,489,342</b>	<b>2,692,335,358</b>
Capital expenditure	-	-	78,778,313	-

**(e) Analysis of revenues by products and services**

The Group's revenues are analysed by products and services in Note 21 (interest income), Note 22 (fee and commission income), Note 23 (other operating income).

**(f) Geographical information**

The Group conducts its operations in Uzbekistan and operations of the Group with their foreign counterparts are disclosed in Note 30. All revenue of the Group is generated within Uzbekistan, since most of financial assets outside Uzbekistan are noninterest bearing.

**(g) Major customers**

The Group does not have customers with the revenues exceeding 10% of the total revenue of the Group.

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**30. Financial Risk Management**

The risk management function within the Group is carried out in respect of financial 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 then 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, in order to minimise operational and legal risks.

**Credit risk.** The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments.

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks. For financial assets recorded on statement of financial position, the maximum exposure equals to a carrying value of those assets prior to any offset or collateral.

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	31 December 2018 net exposure after offset and collateral
Cash and cash equivalents	539,982,438	(119,622,531)	420,359,907	-	420,359,907
Due from other banks	117,623,316	-	117,623,316	-	117,623,316
Loans and advances to customers	2,039,759,190	(100,292,143)	1,939,467,047	(1,935,114,896)	4,352,051
Other financial assets	21,740,334	-	21,740,334	-	21,740,334

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	31 December 2017 net exposure after offset and collateral
Cash and cash equivalents	540,384,015	(74,152,688)	466,231,327	-	466,231,327
Due from other banks	256,719,496	-	256,719,496	-	256,719,496
Loans and advances to customers	693,168,884	(7,263,937)	685,904,947	(669,225,243)	16,679,704
Investments available for sale	8,262,957	-	8,262,957	-	8,262,957
Other financial assets	16,106,653	-	16,106,653	-	16,106,653

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.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee.

*Risk limits control and mitigation policies:*

The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by geographic regions are approved quarterly by management.

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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. 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 advanced. 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:

- letter of surety;
- motor vehicle;
- real estate;
- equipment;
- cash deposit;
- residential property;
- insurance policy

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

(b) *Limits.* The Group established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The Supervisory Board credit committee reviews and approves credit limits within its authority during the Group's current business activities for the period up until the next annual general meeting of the shareholders;
- The Management Board credit committee reviews and approves credit limits over 10% of tier-one capital and meets weekly;
- The Head office credit committee reviews and approves credit limits up to 10% of tier-one capital and meets weekly; and
- The Branches credit committee review and approve credit limits set by Head office and meet daily.

Loan applications, along with financial analysis of loan applicant which includes liquidity, profitability, interest coverage and debt service coverage ratios, originated by the relevant client relationship managers are passed on to the Credit Committee for approval of credit limit.

(c) *Concentration of risks of financial assets with credit risk exposure.* Concentrations arise when a number of counterparties 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 indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's Credit policy and procedures include specific CBU guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The Group's management focuses on concentration risk as follows:

- The maximum risk to single borrower or group of affiliated borrowers shall not exceed 25% of the Group's tier 1 capital.
- The maximum risk for unsecured credits shall not exceed 5% of Group's tier 1 capital.
- Total amount of all large credits cannot exceed bank's tier 1 capital by more than 8 times; and
- Total loan amount to related party shall not exceed Group's tier 1 capital.

(d) *Monitoring of loan portfolio quality and reporting.* In accordance with the credit policy of the Group, Loan portfolio monitoring unit is responsible for monitoring of:

- purposeful use of borrowed funds
- financial performance and position of borrowers
- marketability collateral, and
- quality of loan portfolio.

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Internal Audit is responsible for controlling adequacy of loan portfolio with requirements and regulations of the CBU and internal policies of the Group. Credit risk management processes throughout the Group are audited annually by the Internal Audit that examines the adequacy of the procedures and proper loan classification. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Group Council.

Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Group's management receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit risks of the Group.

The Group's credit department reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for onbalance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

**Credit quality of financial assets**

The tables below present information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance during the year ended 31 December 2018:

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	Loans and advances to customers				Contingencies		Due from other banks		Cash and cash equivalents		Other assets		
	Stage 1		Stage 2		Stage 1		Stage 1		Stage 1		Stage 1		Stage 3 Lifetime ECL
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
<b>Gross carrying amount as at</b>													
1 January 2018	838,376,108	5,558,982	59,044,297	228,472,645	256,719,498	540,384,015	4,391,789	13,585,089	4,252,579				
<b>Changes in the gross carrying amount</b>													
- Transfer to stage 1	26,706,859	(3,968,230)	(22,740,629)	-	-	-	-	-	-	-	-	-	-
- Transfer to stage 2	(148,176,335)	148,282,745	(106,410)	-	-	-	(13,417,941)	13,417,941	-	-	-	-	-
- Transfer to stage 3	(84,079,110)	(1,514,537)	85,593,647	-	-	-	(126,316)	(2,878,485)	2,804,801	-	-	-	-
- Changes due to modifications that did not result in derecognition	216,517,328	32,293,012	6,236,584	-	795,018,884	12,363,441,671	262,385,067	2,224,567	1,294,442	-	-	-	-
New assets issued or acquired	2,570,388,448	-	-	231,251,868	3,117,051,735	40,445,842,748	7,873,375,813	-	-	-	-	-	-
Matured or derecognized assets (except for write off)	(1,372,757,293)	(64,728,758)	(62,355,502)	(192,602,648)	(4,052,995,122)	(52,813,168,681)	(8,121,020,208)	(13,971,083)	(1,335,388)	-	-	-	-
Written off assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange differences and other movements	17,839,997	699,454	951,388	(277,359)	1,921,757	3,501,548	740,739	1,581,781	72,160	-	-	-	-
<b>Gross carrying amount as at 31 December 2018</b>	1,862,816,000	116,822,638	66,623,375	266,844,506	117,716,760	540,001,301	8,329,043	14,159,810	2,436,562				
<b>Loss allowance for ECL as at 31 December 2018</b>	(411,047)	(918,553)	(4,973,223)	(69,331)	(93,434)	(18,883)	(345)	(67,051)	(1,117,555)				

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	Loans and advances to customers				Contingencies		Due from other banks		Cash and cash equivalents		Other assets	
	Stage 1		Stage 2		Stage 3		Stage 1		Stage 1		Stage 1	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL
<b>Loss allowance for ECL as at</b>												
1 January 2018	118,302	12,060	12,060	5,491,281	13,597	493,610	94,846	209	3,309,122	4,137,404		
<b>Changes in the gross carrying amount</b>												
- Transfer to stage 1	1,760,428	(3,725)	(1,756,703)	-	-	-	-	-	-	-	-	-
- Transfer to stage 2	(676,070)	711,545	(35,475)	-	-	-	-	-	-	-	-	-
- Transfer to stage 3	(5,222,149)	(2,787)	5,224,946	-	-	-	-	-	-	(2,678,485)	2,678,485	-
- Changes due to modifications that did not result in derecognition	21,757	200,789	1,482,551	-	-	(242,925)	(75,983)	-	-	-	-	-
New assets issued or acquired	6,258,042	-	-	-	68,929	87,482	-	136	-	-	-	-
Matured or derecognized assets (except for write off)	(1,847,312)	(8,452)	(5,445,344)	(13,195)	-	(244,733)	-	-	(563,586)	(1,045,202)	-	-
Written off assets	-	-	-	-	-	-	-	-	-	(4,652,032)	-	-
Foreign exchange differences and other movements	49	9,133	11,967	-	-	-	-	-	-	-	-	-
<b>Loss allowance for ECL as at</b>												
31 December 2018	411,047	918,553	4,973,223	69,331	93,434	18,863	345	87,051	1,117,655			

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**Market risk.** The Group takes on exposure to market risks. 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. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Currency risk.** In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

	31 December 2018			31 December 2017		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
US Dollars	727,141,000	(730,562,369)	(3,421,369)	596,722,656	(581,248,542)	15,474,114
Euros	36,077,134	(36,091,101)	(13,967)	8,332,911	(7,761,281)	571,630
Other	1,858,120	(1,036,238)	821,882	1,581,887	(1,268,619)	313,268
<b>Total</b>	<b>765,076,254</b>	<b>(767,689,708)</b>	<b>(2,613,454)</b>	<b>606,637,454</b>	<b>(590,278,442)</b>	<b>16,359,012</b>

The above analysis includes only monetary assets and liabilities. Investments in equities and nonmonetary assets are not considered to give rise to any material currency risk.

The following table details the Group's sensitivity to a 10% increase and decrease in the USD and EUR against UZS as at 31 December 2018 and 2017. These sensitivity rates are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for 10% in foreign currency rates.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates:

	31 December 2018	31 December 2017
US Dollars strengthening by 10% (2017: 10%)	(342,137)	1,547,411
US Dollars weakening by 10% (2017: 10%)	342,137	(1,547,411)
Euro strengthening by 10% (2017: 10%)	(1,397)	57,163
Euro weakening by 10% (2017: 10%)	1,397	(57,163)

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**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. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table represents 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

	Demand and less than one month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
<b>As at 31 December 2018</b>					
Total interest bearing assets	146,436,289	584,903,046	309,377,949	1,060,257,855	2,099,975,139
Total interest bearing liabilities	47,479,514	330,760,163	605,047,233	815,288,294	1,798,575,204
<b>Net interest sensitivity gap at 31 December 2018</b>	<b>98,956,775</b>	<b>254,142,883</b>	<b>(296,669,284)</b>	<b>244,969,561</b>	<b>301,399,935</b>
<b>As at 31 December 2017</b>					
Total interest bearing assets	181,483,333	28,690,770	82,218,790	599,304,283	891,697,176
Total interest bearing liabilities	150,882,837	269,232,626	185,588,022	130,209,018	735,912,503
<b>Net interest sensitivity gap at 31 December 2017</b>	<b>30,600,496</b>	<b>(240,541,856)</b>	<b>(103,369,232)</b>	<b>469,095,265</b>	<b>155,784,673</b>

The Group monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

In % p.a.	2018			2017		
	UZS	USD	EUR	UZS	USD	EUR
<b>Assets</b>						
Cash and cash equivalents	0.1-14	-	-	0.1-14	-	-
Due from other banks	12-14	2.4-2.45	-	6.5-15	0.5-3.5	-
Loans and advances to customers	1-36	7-16	7-11	4.5-38	8-13	-
<b>Liabilities</b>						
Due to other banks	3-17	1.5-5.5	0.2-0.65	9-18	0.1-5.5	0.40
Customer accounts	1-21	3-7	3-5	0.1-22	2-14	5-5.5
Debt securities in issue	17-20	-	-	11-19	-	-
Other borrowed funds	0-5	4	-	-	-	-
Subordinated debt	10	-	-	-	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

**Other price risk.** The Bank is exposed to prepayment risk through providing loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current year profit or loss and equity at the current reporting 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 (2017: no material impact). The Bank has no significant exposure to equity price risk.



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**Geographical risk concentrations.** The geographical concentration of the Group's financial assets and liabilities at 31 December 2018 is set out below:

	Uzbekistan	OECD	Non-OECD	Total
<b>Financial assets</b>				
Cash and cash equivalents	483,555,005	53,742,262	2,685,171	539,982,438
Due from other banks	101,841,950	15,781,366	-	117,623,316
Loans and advances to customers	2,039,759,190	-	-	2,039,759,190
Other financial assets	21,740,364	-	-	21,740,364
<b>Total financial assets</b>	<b>2,646,896,509</b>	<b>69,523,628</b>	<b>2,685,171</b>	<b>2,719,105,308</b>
<b>Financial liabilities</b>				
Due to other banks	220,701,830	78,640,483	29,418,895	328,761,208
Customer accounts	1,980,026,672	-	-	1,980,026,672
Other borrowed funds	117,333,737	10,007,460	43,199,400	170,540,597
Debt securities in issue	140,415,350	-	-	140,415,350
Subordinated debt	63,000,000	-	-	63,000,000
Other financial liabilities	7,304,682	-	-	7,304,682
<b>Total financial liabilities</b>	<b>2,528,782,271</b>	<b>88,647,943</b>	<b>72,618,295</b>	<b>2,690,048,509</b>
<b>Net position in on-balance sheet financial instruments</b>	<b>118,114,238</b>	<b>(19,124,315)</b>	<b>(69,933,124)</b>	<b>29,056,799</b>
<b>Credit related commitments</b>	<b>380,949,805</b>	<b>-</b>	<b>-</b>	<b>380,949,805</b>

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

	Uzbekistan	OECD	Non-OECD	Total
<b>Financial assets</b>				
Cash and cash equivalents	453,026,516	76,255,476	11,102,023	540,384,015
Due from other banks	163,398,232	91,772,825	1,548,439	256,719,496
Loans and advances to customers	693,168,884	-	-	693,168,884
Investments available for sale	8,262,957	-	-	8,262,957
Other financial assets	16,106,653	-	-	16,106,653
<b>Total financial assets</b>	<b>1,333,963,242</b>	<b>168,028,301</b>	<b>12,650,462</b>	<b>1,514,642,005</b>
<b>Financial liabilities</b>				
Due to other banks	276,645,001	2,406,180	-	279,051,181
Customer accounts	996,912,747	-	-	996,912,747
Debt securities in issue	18,969,265	-	-	18,969,265
Other financial liabilities	10,844,259	-	-	10,844,259
<b>Total financial liabilities</b>	<b>1,303,371,272</b>	<b>2,406,180</b>	<b>-</b>	<b>1,305,777,452</b>
<b>Net position in on-balance sheet financial instruments</b>	<b>30,591,970</b>	<b>165,622,121</b>	<b>12,650,462</b>	<b>208,864,553</b>
<b>Credit related commitments</b>	<b>239,845,227</b>	<b>-</b>	<b>-</b>	<b>239,845,227</b>

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**Liquidity risk.** Liquidity risk is the risk that an entity will encounter difficulty in 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 of 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 Asset/Liability Committee of the Group.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and debt securities. The Group 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 Group requires consideration of 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 liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central bank of Uzbekistan.

These ratio is:

- Current liquidity ratio (not to be less than 30%), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; the ratio was 85.1% at 31 December 2018 (2017: 104%) as reported to CBU.

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.

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

The table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

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

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

	Demand and less than one month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
<b>Financial liabilities</b>					
Due to other banks	71,505,254	75,757,528	64,079,267	140,380,969	351,723,018
Customer accounts	797,987,893	174,312,112	609,754,275	592,102,431	2,174,156,711
Other borrowed funds	43,199,400	92,592,644	-	35,761,976	171,554,020
Debt securities in issue	615,350	323,803	116,547	189,350,536	190,406,236
Subordinated debt	-	-	-	76,230,000	76,230,000
Other financial liabilities	7,304,682	-	-	-	7,304,682
Guarantees issued	36,086,888	119,235,272	2,606,244	1,574,825	159,503,229
Undrawn credit lines	152,871,237	-	-	-	152,871,237
Import letter of credit	-	25,352,232	43,292,438	-	68,644,670
<b>Total potential future payments for financial obligations</b>	<b>1,109,570,704</b>	<b>487,573,591</b>	<b>719,848,771</b>	<b>1,035,400,737</b>	<b>3,352,393,803</b>

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

	Demand and less than one month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
<b>Financial liabilities</b>					
Due to other banks	74,432,672	51,169,714	52,071,742	127,099,984	304,774,112
Customer accounts	636,252,634	225,349,345	135,177,393	25,266,658	1,022,046,030
Debt securities in issue	70,030	6,921,973	13,613,333	514,786	21,120,122
Other financial liabilities	9,972,883	365,026	606,360	-	10,844,259
Guarantees issued	-	112,231,163	819,707	10,258,007	123,309,877
Undrawn credit lines	49,422,867	-	-	-	49,422,867
Import letter of credit	940,028	3,136,863	48,233,216	-	52,310,107
Gross swaps:					
- inflows	(6,087,591)	(378,720)	-	-	(6,466,311)
- outflows	207,874	8,128,190	-	-	8,336,064
Net swaps	(5,879,717)	7,749,470	-	-	(1,869,753)
<b>Total potential future payments for financial obligations</b>	<b>765,211,397</b>	<b>406,923,554</b>	<b>250,421,741</b>	<b>163,140,435</b>	<b>1,581,487,627</b>

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 maturity undefined 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.

Management believes that in spite of the fact that a substantial portion of customer accounts is on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Thus, the management believes that significant maturity mismatch between assets and liabilities with maturity up to 12 months and more does not represent significant risk to the Group's liquidity, as very low proportion of due to other banks, demand deposits and short-term deposits is expected to be withdrawn based on the Group's past years' and current year experience, which is consistent with the general banking practices in the banking sector of Uzbekistan.

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The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap, as follows:

	Demand and less than one month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
<b>As at 31 December 2018</b>					
Cash and cash equivalents	539,982,438	-	-	-	539,982,438
Due from other banks	94,235,943	23,387,373	-	-	117,623,316
Loans and advances to customers	106,220,340	564,903,046	308,377,949	1,060,257,855	2,039,759,190
Other financial assets	21,740,364	-	-	-	21,740,364
<b>Total financial assets</b>	<b>762,179,085</b>	<b>588,290,419</b>	<b>308,377,949</b>	<b>1,060,257,855</b>	<b>2,719,105,308</b>
<b>As at 31 December 2018</b>					
Due to other banks	71,317,600	73,425,342	60,184,311	123,833,955	328,761,208
Customer accounts	797,868,254	164,786,245	544,762,922	472,609,251	1,980,026,672
Other borrowed funds	43,199,400	92,004,763	-	35,336,434	170,540,597
Debt securities in issue	615,350	300,000	100,000	139,400,000	140,415,350
Subordinated debt	-	-	-	63,000,000	63,000,000
Other financial liabilities	7,304,682	-	-	-	7,304,682
Guarantees issued	36,086,888	119,235,272	2,606,244	1,574,825	159,503,229
Undrawn credit lines	152,871,237	-	-	-	152,871,237
Import letter of credit	-	25,352,232	43,292,438	-	68,644,670
<b>Total financial liabilities</b>	<b>1,109,263,411</b>	<b>475,103,854</b>	<b>650,945,915</b>	<b>835,754,465</b>	<b>3,071,067,645</b>
<b>Net liquidity gap</b>	<b>(347,084,326)</b>	<b>113,186,565</b>	<b>(342,567,966)</b>	<b>224,503,390</b>	<b>(351,962,337)</b>
<b>Cumulative liquidity gap at 31 December 2018</b>	<b>(347,084,326)</b>	<b>(233,897,761)</b>	<b>(576,465,727)</b>	<b>(351,962,337)</b>	

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An expected maturity of financial instruments at 31 December 2017 is as follows:

	Demand and less than one month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
<b>As at 31 December 2017</b>					
Cash and cash equivalents	540,384,015	-	-	-	540,384,015
Due from other banks	235,182,882	11,226,597	9,810,018	499,999	256,719,496
Loans and advances to customers	1,629,429	19,742,008	72,560,394	599,237,053	693,168,884
Investments available for sale	8,262,957	-	-	-	8,262,957
Other financial assets	16,106,653	-	-	-	16,106,653
<b>Total financial assets</b>	<b>801,565,936</b>	<b>30,968,605</b>	<b>82,370,412</b>	<b>599,737,052</b>	<b>1,514,642,005</b>
<b>As at 31 December 2017</b>					
Due to other banks	73,917,308	49,133,873	48,000,000	108,000,000	279,051,181
Customer accounts	632,284,532	217,231,175	125,588,022	21,809,018	996,912,747
Debt securities in issue	69,265	6,500,000	12,000,000	400,000	18,969,285
Other financial liabilities	9,972,883	365,026	506,350	-	10,844,259
Guarantees issued	-	112,231,163	819,707	10,259,007	123,309,877
Undrawn credit lines	49,422,867	-	-	-	49,422,867
Import letter of credit	940,028	3,136,863	48,233,216	-	52,310,107
Net settled swaps	(5,879,717)	7,749,470	-	-	1,869,753
<b>Total financial liabilities</b>	<b>760,727,166</b>	<b>396,347,570</b>	<b>235,147,295</b>	<b>140,468,025</b>	<b>1,532,690,056</b>
<b>Net liquidity gap</b>	<b>40,838,770</b>	<b>(365,378,965)</b>	<b>(152,776,883)</b>	<b>459,269,027</b>	<b>(18,048,051)</b>
<b>Cumulative liquidity gap at 31 December 2017</b>	<b>40,838,770</b>	<b>(324,540,195)</b>	<b>(477,317,078)</b>	<b>(18,048,051)</b>	

### 31. Capital risk management

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the CBU and (ii) to safeguard the Group'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 Bank's Chairman and Chief Accountant.

Under the current capital requirements set by the CBU, banks have to maintain ratios of:

- Ratio of regulatory capital to risk weighted assets ("Regulatory capital ratio") above a prescribed minimum level of 12.5% (31 December 2017: 14.5%);
- Ratio of Group's tier 1 capital to risk weighted assets ("Capital adequacy ratio") above a prescribed minimum level of 9.5% (31 December 2017: 11%); and
- Ratio of Group's tier 1 capital to total assets less intangibles ("Leverage ratio") above a prescribed minimum level of 6% (31 December 2017: 6%).

The Group and the Bank have complied with capital ratios set above throughout 2018 and 2017.

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

	31 December 2018 (unaudited)	31 December 2017 (unaudited)
<b>Tier 1 capital</b>		
Share capital	320,000,000	300,000,000
Share premium	1,853,395	1,853,395
Retained earnings	6,781,999	6,249,338
Less: Intangible assets	(475,946)	(19,037,119)
Less: Investments in non-consolidated entities	(40,000)	(27,059,028)
<b>Total Tier 1 capital</b>	<b>328,119,448</b>	<b>262,006,586</b>
<b>Tier 2 capital</b>		
Current year net profit	25,848,933	11,592,542
Provision on loan losses	5,675,584	5,675,584
Revaluation surpluses	106,609	69,489
Subordinated debt	63,000,000	-
<b>Total Tier 2 capital</b>	<b>94,631,126</b>	<b>17,337,615</b>
<b>Total regulatory capital</b>	<b>422,750,574</b>	<b>279,344,201</b>

### 32. Commitments and contingencies

**Legal proceedings.** In January 2019 JSC BTA Bank ("BTA Bank") has initiated litigation process against the Group in relation to the building owned by JSCB Invest Finance Bank with the carrying value of UZS 86,152,963 thousand as at 31 December 2018. BTA Bank claims repossession of the building with reference to the loan agreements concluded with the previous owner ("Borrower") with the building pledged as a collateral. As the Borrower failed to discharge its loan obligations, BTA Bank seeks to reimburse incurred losses on the basis of Collateral agreement signed with the Borrower on June 2006 (the "Collateral agreement").

The ownership of the building was transferred to JSC Invest Finance Bank on the basis of sale-purchase agreement #1 dated 22 September 2017. However, as claimed by BTA Bank the Collateral Agreement is still legally enforceable despite the fact of ownership transfer to other party. The amount of claim on unfulfilled liabilities of the Borrower comprise USD 2,070,510 (UZS 17,265,982 thousand).

BTA Bank had initiated similar litigation case against the Borrower on repossession of collateral in 2011. However, in 2013 the Supreme Economic Court of the Republic of Uzbekistan invalidated the Collateral agreement from the moment of its conclusion on the grounds of the fact that it was neither registered with the corresponding cadastre authorities nor was notarially approved as required by the Law "On mortgage" and the Civil Code of the Republic of Uzbekistan. No changes were made to the registration status of the Collateral agreement since the date of its origination.

Thus, with reference to the above mentioned fact and on the basis of in-house legal professional advice, the management is of the opinion that litigation case will be resolved in favor of the Group and that no losses will be incurred in respect of the claim, and accordingly no provision has been made to these consolidated financial statements.

**Tax contingencies.** Uzbekistan tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Uzbekistan tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for five

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calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods. As Uzbekistan tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

**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, if the unused amounts were to be drawn down. 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.

Credit related commitments are denominated in currencies as follows:

	31 December 2018	31 December 2017
Letters of credits, non post-financing	35,672,244	4,609,996
Letters of credits, post-financing with commencement after reporting period end	68,644,670	52,310,107
Financial guarantees issued	162,527,592	156,750,167
Undrawn credit lines	152,871,237	49,422,867
SWAP (commitment to buy USD and sell UZS)	-	6,466,311
SWAP (commitment to buy UZS and sell USD)	-	8,336,064
<b>Total credit related commitments, gross</b>	<b>419,715,743</b>	<b>277,895,512</b>
Less: allowance for financial guarantees issued	(69,331)	-
Less: Commitment collateralised by cash deposits	(38,696,607)	(38,050,285)
<b>Total credit related commitments, net of cash covered exposures allowance for financial guarantees issued</b>	<b>380,949,805</b>	<b>239,845,227</b>

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

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Credit related commitments are denominated in currencies as follows:

	31 December 2018	31 December 2017
USD	164,717,342	92,097,865
UZS	206,318,434	183,682,499
EUR	48,679,967	2,115,148
RUR	-	-
<b>Total credit related commitments</b>	<b>419,715,743</b>	<b>277,895,512</b>

During 2018, the Group complied with the financial covenants set by the Islamic Corporation for the Development of the Private Sector ("ICD") and Asian Development Bank ("ADB"), except for the following:

- *ICD covenants*
  - Maximum exposure to a single borrower or the group of borrowers to Tier 1 Capital
- *ADB covenants*
  - Tangible common equity to Risk weighted assets

As a result of covenant breach, the Group recognised its off-balance sheet commitments in the amount of UZS 43,199,400 thousand to ICD and UZS 34,904,329 thousand to ADB as callable debt within other borrowed funds and due to banks, respectively. Accordingly, the Group had a cumulative liquidity shortfall up to 1 year of UZS 576,465,727 thousand. The management has not yet made aware international financial institutions of the breaches, however has undertaken a number of measures to mitigate funding shortages in case of immediate debt recall as discussed in note 3.

### 33. Fair Value Disclosures

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 the measurement date.

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

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.



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

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	31 December 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Loans and advances to customers	2,039,759,190	2,069,320,359	692,478,021	720,751,104
Due from other banks	117,623,316	118,091,942	256,719,496	258,075,580
Due to other banks	328,761,208	327,377,676	279,051,181	277,228,187
Customer accounts	1,980,026,672	2,048,977,260	996,912,747	1,008,568,004
Debt securities in issue	140,415,350	140,427,309	18,969,265	20,336,818
Other borrowed funds	170,540,597	174,017,898	-	-
Subordinated debt	63,000,000	64,801,219	-	-

The Group determines the fair value of financial assets and financial liabilities using the discounted cash flows model 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 assets with characteristics similar to the Group's financial assets and

financial liabilities, 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 financial assets and financial liabilities that are not measured at fair value on a recurring basis but where fair value disclosures are required, are categorised within Level 3.

#### **34. 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 party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Other related parties include entities where a member of the Bank's Supervisory Board has control over any of these entities.

At 31 December 2018, the outstanding balances with related parties were as follows:

	Key management personnel	Immediate parent company	Other related parties	Total
Loans and advances to customers (contractual interest rate: 3-22%)	351,663	11,665,487	331,341,140	343,358,290
Customer accounts (contractual interest rate: 4-16.5%)	325,092	459,680	18,158,021	18,942,793
Premises, equipment and intangible assets	-	-	38,121,927	38,121,927
Debt securities in issue	-	-	137,604,397	137,604,397
Subordinated debt	-	-	63,000,000	63,000,000
Other liabilities	-	-	318	318

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Aggregate amounts lent to and repaid by related parties during 2018 were:

	Key management personnel	Immediate parent company	Other related parties	Total
Amounts lent to related parties during the year	524,955	1,645,694	503,715,722	505,886,371
Amounts repaid by related parties during the year	356,547	107,465,891	175,543,196	283,365,634

The income and expense items with related parties for 2018 were as follows:

	Key management personnel	Immediate parent company	Other related parties	Total
Interest income	67,739	21,522,025	37,110,084	58,699,848
Interest expense	9,924	-	238,586	248,510
Fee and commission income	77,086	686	4,875,764	4,953,536
Administrative and other operating expenses	2,487,719	-	19,768,014	22,255,733

Contingent liability items with related parties for 2018 were as follows:

	Key management personnel	Immediate parent company	Other related parties	Total
Guarantees issued	-	600,000	56,876,808	57,476,808

At 31 December 2017, the outstanding balances with related parties were as follows:

	Key management personnel	Immediate parent company	Other related parties	Total
Loans and advances to customers (contractual interest rate: 8-16%)	162,384	117,485,684	80,844,388	198,492,456
Customer accounts (contractual interest rate: 0%)	81,878	356,537	76,914,913	77,353,328
Premises, equipment and intangible assets	-	-	26,989,438	26,989,438

Aggregate amounts lent to and repaid by related parties during 2017 were:

	Key management personnel	Immediate parent company	Other related parties	Total
Amounts lent to related parties during the year	-	96,926,390	20,709,804	117,636,194
Amounts repaid by related parties during the year	24,093	7,018,045	84,701,074	91,743,212

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The income and expense items with related parties for 2017 were as follows:

	Key management personnel	Immediate parent company	Other related parties	Total
Interest income	36,072	8,074,243	16,347,670	24,457,985
Interest expense	-	-	70,272	70,272
Fee and commission income	3,652	146,713	8,903,968	9,054,333
Fee and commission expense	-	-	1,055,247	1,055,247
Other operating income	-	-	2,453,032	2,453,032
Administrative and other operating expenses	1,087,125	3,438,266	11,468,649	15,994,040

Contingent liability items with related parties for 2017 were as follows:

	Key management personnel	Immediate parent company	Other related parties	Total
Guarantees issued	-	600,000	71,203,000	71,803,000

Key management compensation is presented below:

	2018	2017
Short term benefits		
- Salaries and bonuses	1,990,175	869,700
- Unified social payment	497,544	217,425
<b>Total</b>	<b>2,487,719</b>	<b>1,087,125</b>

### 35. Subsequent Events

On 19 March 2019, the Group has increased its share capital by UZS 80,000,000 thousand. The share capital was paid by existing shareholder.

In 2019, the Group has issued corporate bonds for the total amount of UZS 100,000,000 thousand.

During April 2019, the Group has signed two loan agreements with Incofin Inclusive Finance Fund SA for the total amount of EUR 3,000,000 (5% annual interest rate), with the maturity date of April 2021.

During May 2019, the Group has signed a loan agreement with VDK Bank N.V. for the total amount of EUR 1,000,000 (5% annual interest rate), with the maturity date of May 2021.

As at the date of report issue, the Group was compliant with the ratio of maximum exposure to a single borrower or the group of borrowers to Tier 1 Capital set out in the financing agreement with ICD.