Joint-Stock Commercial Bank “Kapitalbank”

Consolidated financial statements

For the year ended 31 December 2023

CONTENTS

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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Joint-Stock Commercial Bank Kapitalbank (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

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 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

<table>
<tr><th colspan="2">Measurement of expected credit losses ("ECL") on loans to customers</th></tr>
<tr><td colspan="2">See Note 7 and Note 27 to the consolidated financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Loans to customers make up 71% of assets and are accounted net of ECL, which is regularly reviewed and sensitive to assumptions used

The Group uses ECL model which requires management to apply professional judgement and to make assumptions related to the following key areas:

- Timely identification of significant increase in credit risk and default events related to loans to customers (Stages 1, 2 and 3 in accordance with IFRS 9);</td><td>We analyzed the key aspects of the Group's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including involvement of financial risks management specialists.

To analyze the adequacy of the professional judgment used by management and the assumptions made in relation to the ECL allowance, we performed the following audit procedures:

- For loans to small and medium-sized businesses and loans to individuals we assessed the design and tested the operating effectiveness of internal controls for timely classification of loans to Stages of credit risk;
- For the sample of corporate loans, the potential change in ECL for which may have a significant impact on the consolidated financial statements, we tested whether stages are correctly assigned by the Group by analyzing financial and non-financial information on selected borrowers, as well as assumptions and professional judgment applied by the Group.</td></tr>
<tr><td>- Estimate of probability of default (PD) and loss given default (LGD) and exposure at default (EAD);

- Expected cash flows forecast on loans to customers classified to Stage 3

Due to the significant volume of loans to customers and the related subjectivity inherent in estimating the amount of the ECL allowance, this area is a key audit matter.</td><td>- For loans to customers classified to Stages 1 and 2, for which the Group assessed ECL on a collective basis, we tested the principles of appropriate models and checked the correctness of the input data used in the calculation of PD, LGD and EAD, the timely recognition of delinquencies and repayments in the respective systems, by comparing with primary documents on a sample basis.

- For corporate loans classified to Stage 3, where ECL allowances assessed on an individual basis, we critically assessed assumptions used by the Group in estimating future cash flows, including estimated proceeds from realizable collaterals and their expected disposal terms, based on our understanding and publicly available market information.</td></tr>
</table>

	We assessed the overall predictive capability of the model used by the Group to calculate ECL by comparing the estimate made as at 1 January 2023 with the actual results for 2023 and assessed whether the disclosures in the consolidated financial statements appropriately reflect the Group's exposure to credit risk.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2022 were audited by other auditors who expressed an unmodified opinion on those statements on 12 May 2023

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, 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 auditors' 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 scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

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

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

— the Group's compliance with prudential ratios as at 31 December 2023 established by the Bank of the Republic of Uzbekistan;

— whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Central Bank of the Republic of Uzbekistan.

These procedures were selected based on our judgment and were limited to the analysis, inspection of documents, comparison of the Group's internal policies, procedures and methodologies with the applicable requirements established by the Central bank of the Republic of Uzbekistan, and recalculations, comparisons and reconciliations of numerical data and other information. Our findings from the procedures performed are reported below:

— Based on our procedures with respect to the Group's compliance with the prudential ratios established by the Central bank of the Republic of Uzbekistan, we found that the Bank's prudential ratios as at 31 December 2023 were within the limits established by the Central bank of the Republic of Uzbekistan.

  We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the IFRS Standards.

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

  — as at 31 December 2023, the Bank's internal audit Department was subordinated to, and reported to, the Supervisory Board, and the risk management Division was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Central bank of the Republic of Uzbekistan;

  — the frequency of reports prepared by the Bank's internal audit Department during 2023 was in compliance with the requirements of the Central bank of the Republic of Uzbekistan. The reports were approved by the Bank's Supervisor Board and included observations made by the Bank's internal audit Department in respect of the Bank's internal control systems;

  — as at 31 December 2023 the Bank established Department of Information security as required by the Central bank of the Republic of Uzbekistan, and the information security policy was approved by the Bank's Management board. Department of Information security was subordinated to and reported directly to the Chairman of the Management board;

- Reports by the Bank's Information security Department to the Chairman of the Management board during 2023 included assessment and analysis of information security risks, and results of actions to manage such risks;
- the Bank's internal documentation, effective on 31 December 2023, establishing the procedures and methodologies for identifying and managing the Group's significant risks and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Central bank of the Republic of Uzbekistan;
- as at 31 December 2023, the Bank maintained a system for reporting on the Group's significant risks and on the Group's capital;
- the frequency of reports prepared by the Bank's risk management Division and internal audit Department during 2023, which cover the Group's risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management Division and internal audit Department as to their assessment of the Group's significant risks, and recommendations for improvement;
- as at 31 December 2023, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2023, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management Division and internal audit Department and considered the proposed corrective actions.

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

The engagement partners on the audit resulting in this independent auditors' report are:

Kouznetsov A. A.
Engagement Partner
AO OOO "KPMG Audit"

Qualification certificate of bank auditor # 35 issued 28 November 2023 by the Central Bank of the Republic of Uzbekistan

Saidov S. K.
General Director
AO OOO "KPMG Audit"

Tashkent, Uzbekistan

13 March 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions of UZS)

	Note	*31 December 2023*	*31 December 2022*
Assets			
Cash and cash equivalents	5	**6 227 888**	6 310 028
Amounts due from credit institutions	6	**1 450 808**	1 726 032
Loans to customers	7	**29 748 994**	16 516 765
Investment securities	8	**1 947 739**	2 711 914
Assets held for sale	9	**26 548**	23 036
Property and equipment and right-of-use assets	10	**1 069 111**	846 330
Intangible assets	11	**286 661**	104 533
Current income tax assets	12	**8 204**	23 522
Deferred income tax assets	12	**55 325**	48 281
Other assets	13	**689 726**	286 153
Total assets		**41 511 004**	28 596 594
Liabilities			
Amounts due to credit institutions	14	**1 889 089**	224 437
Amounts due to customers	15	**33 520 477**	25 072 015
Other borrowed funds	16	**1 483 671**	634 942
Other liabilities	17	**479 055**	211 153
Total liabilities		**37 372 292**	26 142 547
Equity			
Share capital	18	**406 017**	406 017
Additional paid-in capital	18	**349 727**	349 727
Revaluation reserve for property and equipment	18	**99 554**	81 001
Retained earnings		**3 283 414**	1 617 302
Total equity		**4 138 712**	2 454 047
Total liabilities and equity		**41 511 004**	28 596 594

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

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

Seal

Allayorova D.N.
Chief Accountant of the Bank

13 March 2024

The accompanying notes on pages 15 to 60 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(in millions of UZS)

	Note	*2023*	*2022*
Interest income calculated using the effective interest rate	19	**4 850 884**	2 427 306
Interest expense	19	**(2 238 206)**	(1 076 274)
Net interest income		**2 612 678**	1 351 032
Provision for credit losses	20	**(73 771)**	(260 339)
Net interest income after credit loss provision		**2 538 907**	1 090 693
Fee and commission income	21	**1 110 427**	909 087
Fee and commission expense	21	**(551 237)**	(524 081)
Net gains from foreign currencies	22	**485 439**	588 634
Net gain/(losses) on initial recognition of financial assets measured at amortised cost		**12 466**	(33 329)
Other income		**19 165**	17 284
Personnel and other operating expenses	23	**(1 562 438)**	(890 037)
Profit before income tax expense		**2 052 729**	1 158 251
Income tax expense	12	**(379 085)**	(214 585)
Net profit for the year		**1 673 644**	943 666
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of buildings	18	**24 226**	78 461
Income tax relating to components of other comprehensive income	18	**(4 845)**	(15 692)
Other comprehensive income for the year, net of tax		**19 381**	62 769
Total comprehensive income for the year		**1 693 025**	1 006 435

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

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

Seal

Allayorova D.N.
Chief Accountant of the Bank

13 March 2024

The accompanying notes on pages 15 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions of UZS)

	Note	*Share capital*	*Additional paid-in capital*	*Revaluation reserve for property and equipment*	*Retained earnings*	*Total equity*
As at 1 January 2022		374 680	272 220	18 803	706 505	1 372 208
Net profit for the year		–	–	–	943 666	943 666
Other comprehensive income for the year, net of tax		–	–	62 769	–	62 769
Total comprehensive income for the year, net of tax		–	–	62 769	943 666	1 006 435
Increase in share capital	18	31 337	77 507	–	–	108 844
Dividends declared to shareholders of the Bank	18	–	–	–	(33 440)	(33 440)
Depreciation of revaluation reserve for property and equipment		–	–	(571)	571	–
As at 31 December 2022		**406 017**	**349 727**	**81 001**	**1 617 302**	**2 454 047**
Net profit for the year		–	–	–	**1 673 644**	**1 673 644**
Other comprehensive income for the year, net of tax		–	–	**19 381**	–	**19 381**
Total comprehensive income for the year, net of tax		–	–	**19 381**	**1 673 644**	**1 693 025**
Increase in share capital	18	–	–	–	–	–
Dividends declared to shareholders of the Bank	18	–	–	–	**(8 360)**	**(8 360)**
Depreciation of revaluation reserve for property and equipment		–	–	**(828)**	**828**	–
As at 31 December 2023		**406 017**	**349 727**	**99 554**	**3 283 414**	**4 138 712**

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

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

Seal

Allayorova D.N.
Chief Accountant of the Bank

13 March 2024

The accompanying notes on pages 15 to 60 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of UZS)

	Note	*2023*	*2022*
Cash flows from operating activities			
Interest received		**4 870 692**	2 238 173
Interest paid		**(2 289 759)**	(1 103 542)
Fees and commissions received		**1 096 913**	909 017
Fees and commissions paid		**(541 140)**	(524 081)
Realised gains less losses from foreign currencies		**215 170**	680 584
Other income received		**17 533**	19 638
Personnel expenses paid		**(774 324)**	(420 610)
Other operating expenses paid		**(600 174)**	(291 028)
Cash flows from operating activities before changes in operating assets and liabilities		**1 994 911**	1 508 151
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**273 570**	(789 311)
Loans to customers		**(13 208 927)**	(8 518 226)
Other assets, including assets held for sale		**(381 106)**	(170 559)
Net increase/(decrease) in operating liabilities			
Amounts due credit institutions		**1 668 954**	175 464
Amounts due to customers		**8 846 533**	11 580 325
Other liabilities		**55 121**	(15 334)
Cash (used in)/generated by operating activities before income tax		**(750 944)**	3 770 510
Income tax paid		**(375 657)**	(273 894)
Net cash (outflow)/inflow from operating activities		**(1 126 601)**	3 496 616
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		**(538 445)**	(190 197)
Proceeds from sale of property and equipment		**1 630**	–
Purchase of investment securities		**(2 761 187)**	(2 671 408)
Proceeds from redemption of investment securities		**3 527 243**	1 456 589
Net cash inflow/(outflow) used in investing activities		**229 241**	(1 405 016)

The accompanying notes on pages 15 to 60 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(in millions of UZS)

	Note	2023	2022
Cash flows from financing activities			
Proceeds from other borrowed funds	16	974 925	165 472
Repayment of other borrowed funds	16	(159 275)	(57 296)
Lease payments		(3 078)	(1 283)
Proceeds from increase in share capital	18	–	108 844
Dividends paid to shareholders of the Bank	18	(8 360)	(33 440)
Net cash inflow from financing activities		804 212	182 297
Effect of expected credit losses on cash and cash equivalents	20	1 147	(3 323)
Effect of exchange rates changes on cash and cash equivalents		9 861	60 789
Net (decrease)/increase in cash and cash equivalents		(82 140)	2 331 363
Cash and cash equivalents at the beginning of the reporting year		6 310 028	3 978 665
Cash and cash equivalents at the end of the reporting year	5	6 227 888	6 310 028

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

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

Seal

Allayorova D.N.
Chief Accountant of the Bank

13 March 2024

The accompanying notes on pages 15 to 60 form an integral part of these consolidated financial statements.

(in millions of UZS)

1. Introduction

These consolidated financial statements of Joint-Stock Commercial Bank "Kapitalbank" (hereinafter, the "Bank") and its subsidiary (together, the "Group") have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") for the year ended 31 December 2023.

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

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

Principal activities

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

As at 31 December 2023, the Bank carries out banking activities through its Head Office and has 16 branches, 4 bank services centres, 60 bank services offices, as well as 18 mini-banks in the Republic of Uzbekistan (2022: 16 branches, 3 bank services centres, 60 bank services offices and 24 mini-banks).

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

The total number of the Bank's personnel as at 31 December 2023 was 3 215 employees (2022: 2 637 employees).

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

Legal entities	*31 December 2023*	*31 December 2022*
Finance TCI LLC	**61.54**	67.87
Continent ARM Investments LLC	**38.46**	32.13
Total legal entities	**100.00**	100.00

The parent company of Finance TCI LLC and Continent ARM Investments LLC is UZUM Holding Ltd. The ultimate controlling beneficiary of UZUM Holding Ltd is Djumaev Djasur Khurshidovich through Djuzum SPV Ltd and Monoceros SPV Ltd with a combined ownership share of 55.5%. Also major shareholders are Gubaidullin Alexey Faritovich, Abdusamadov Maxsud Abduvalievich and Abdusamadov Ravshan Abduvalievich, through KPB SPV Ltd, which owns 35.5% in UZUM Holding Ltd.

As at 31 December 2022, the ultimate controlling beneficiary of the Group was Djumaev Djasur Khurshidovich.

Subsidiary

As at 31 December 2023, the consolidated financial statements of the Group comprise the Bank and its subsidiary:

Name	*Country of incorporation*	*The Bank's share as at 31 December 2023, %*	*The Bank's share as at 31 December 2022, %*	*Business activity*
Uzum Bank JSC (formerly, Bank Apelsin JSC)	Uzbekistan	**100**	100	Banking

In 2021, the Bank established a subsidiary, Bank Apelsin JSC. On 1 November 2021, the subsidiary received a banking license from the CBU under No. 88 for carrying out banking activities. In 2022, the subsidiary was renamed to Uzum Bank JSC. The authorised share capital of Bank Apelsin JSC equals UZS 200 000 million and, as at 31 December 2023, the authorised capital was fully formed.

Operating environment

Geopolitical environment

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

Volatility in equity and foreign exchange markets, import and export restrictions, and the availability of local resources, materials, and services will directly impact companies that do business with or have close relationships with the Russian Federation, Republic of Belarus or Ukraine. However, the consequence of the current situation may directly or indirectly affect not only companies that have a direct relationship with the countries involved in the conflict.

(in millions of UZS)

1. Introduction (continued)

Operating environment (continued)

Geopolitical environment (continued)

For the purpose of managing country risk, the Group controls transactions with counterparties within the limits set by the collegiate body of the Group, which are reviewed on a regular basis.

As at 31 December 2023, the concentration of amounts receivable from Russian counterparties represented by cash and cash equivalents and amounts due from credit institutions was UZS 1 114 726 million (as at 31 December 2022: UZS 257 855 million).

Inflation and current economic conditions

The Group operates in the Republic of Uzbekistan. Accordingly, the Group's business is influenced by the economy and financial markets of the Republic of Uzbekistan, which have the characteristics of an emerging market. The legal, tax and administrative systems continue to evolve, but they are fraught with the risk of ambiguity in the interpretation of their requirements, which are also subject to frequent changes, which, together with other legal and fiscal barriers, creates additional problems for enterprises doing business in the Republic of Uzbekistan.

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

In Uzbekistan, the following main economic indicators were observed in 2023 (*source:* cbu.uz):

- inflation: 8.8% (2022: 12.3%);
- GDP growth: 5.6% (2022: 5.7%);
- refinancing rate of the CBU: 14.0% (2022: 15.0%).

The impact of the macroeconomic and geopolitical environment has exacerbated inflationary pressures in almost all economies around the world. High and rising energy prices have a negative impact on the cost of other goods and services, which leads to a significant increase in consumer prices in many countries. Prices for many goods remain high.

The Bank continues to assess the effect of these events and changes in economic conditions on its operations. Current inflationary pressures, macroeconomic and geopolitical uncertainties, including the consequences of the conflict in Ukraine, on assumptions and uncertainty of estimates related to the valuation of assets and liabilities.

After the reporting date, the Group has sufficient resources, diversified sources of liquidity and a stable funding base to ensure continuous operations and financing of customers, which is confirmed by the results of regular liquidity stress testing.

2. Basis of preparation

General

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

These consolidated financial statements are presented in millions of Uzbek soums (UZS), which is the functional and presentation currency of the Bank.

Going concern

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

(in millions of UZS)

2. Basis of preparation (continued)

General (continued)

Going concern (continued)

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future. In order to maintain the required level of liquidity, the Group is able to attract additional funds in the interbank lending market. Diversification of liquidity sources helps to minimise the Group's dependence on one source and ensure complete fulfilment of its obligations. The Group's accumulated current liquidity reserves and the available sources of additional funds allow the Group to continue to operate continuously in the long term.

Conversion of foreign currencies

Transactions in foreign currencies are initially translated into the functional currency at the exchange rate in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate in effect at the reporting date. Gains and losses arising from the translation of transactions in foreign currencies are reflected in the consolidated statement of profit or loss and other comprehensive income under the heading "Net profit on foreign currency transactions". Non-monetary items accounted at historical cost in a foreign currency are translated at the exchange rate in effect on the date of the transaction. Non-monetary items carried at fair value in a foreign currency are translated at the exchange rate in effect at the date when the fair value was determined.

The difference between the contractual exchange rate for a foreign currency transaction and the official exchange rate of the CBU on the date of such transaction is included in profit less losses on foreign currency transactions.

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

Date	*US dollar*	*Euro*
31 December 2023	**12 338.77**	**13 731.82**
31 December 2022	11 225.46	11 961.85

3. Significant accounting policies

Basis of consolidation

Subsidiaries, i.e. organizations whose activities are controlled by the Group, are consolidated. Control is exercised if the Group is exposed to the risk of changes in income from participation in the investment object or has the right to receive such income, and also has the opportunity to influence these incomes through the exercise of its powers in relation to the investment object. In particular, the Group controls the investment object only if the following conditions are met:

- whether the Group has authority over the investment object (i.e. existing rights that ensure the current ability to manage the significant activities of the investment object);
- the Group's exposure to the risk of changes in income from participation in the investment object or the rights to receive such income;
- the ability of the Group to use its powers in relation to the investment object to influence the amount of income.

As a rule, it is assumed that the majority of voting rights determines the presence of control. To confirm this assumption, and if the Group has less than a majority of voting rights or similar rights in relation to the investment object, the Group takes into account all significant facts and circumstances when assessing the availability of authority in relation to this investment object:

- agreement(s) with other holders of voting rights in the investment object;
- rights provided for in other agreements;
- voting rights and potential voting rights available to the Group.

Consolidation of subsidiaries begins on the date of transfer to the Group of control over them and ends on the date of loss of control. All intra-group transactions, balances and unrealised gains on such transactions are eliminated in full; unrealised losses are also eliminated, except in cases where the relevant transaction indicates an impairment of the transferred asset. If necessary, changes are made to the accounting policies of subsidiaries to bring them in line with the accounting policies of the Group.

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

(in millions of UZS)

3. Significant accounting policies (continued)

Basis of consolidation (continued)

If the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary (including goodwill related to it), the carrying amount of non-controlling interests, accumulated foreign exchange differences reflected in equity; recognises the fair value of the compensation received, the fair value of the remaining investment, the surplus or deficit resulting from the transaction in part of profit or loss; reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Fair value assessment

Fair value is the price that would have been received upon the sale of an asset or paid upon the transfer of a liability in a normal transaction between market participants at the valuation date. The fair value measurement assumes that a transaction for the purpose of selling an asset or transferring a liability is carried out:

- in the market that is the primary market for the asset or liability; or
- in the absence of a primary market, in the market that is most advantageous for a given asset or liability.

The Group must have access to the main or most profitable market. The fair value of an asset or liability is estimated using assumptions that would be used by market participants in setting the price of an asset or liability, provided that market participants act in their best economic interests. The assessment of the fair value of a non-financial asset takes into account the ability of a market participant to generate economic benefits either through the best and most efficient use of the asset, or by selling it to another market participant who would use the asset in the best and most effective way.

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

- level 1 – price quotes (uncorrected) in active markets for identical assets or liabilities;
- level 2 – valuation models in which inputs significant to the fair value assessment, belonging to the lowest level of the hierarchy, are directly or indirectly observable in the market;
- level 3 – valuation models in which the inputs significant for the fair value assessment, belonging to the lowest level of the hierarchy, are not observable in the market.

In the case of assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether they need to be transferred between levels of the hierarchy by re-analysing the classification (based on the lowest level of input data that is significant for the assessment of fair value as a whole) at the end of each reporting period.

Determination of the fair value of loans issued under government programs

The loans issued by the Group in accordance with the orders of the authorities do not have similar financial instruments on the market, were provided within the framework of government programs and, due to their uniqueness, as well as the specifics of the state lending program itself and the category of borrowers, form a separate market segment. Therefore, management believes that contractual interest rates are market rates for such loans, and therefore the Group initially records loans at fair value, which is equal to the nominal value.

Determination of the fair value of financial liabilities raised under government programs

The Group's financial liabilities are initially recognised at fair value. In the case of attracting financial liabilities with interest rates different from market ones in order to form related assets under government programs, the interest rates for which, taking into account the Group's margin, also do not correspond to market ones, their nominal value is recognised as the fair value of financial liabilities.

In the case of raising other liabilities on terms that differ from market conditions, the fair value of the liabilities is determined using valuation methods, which represent discounting the liabilities at an interest rate determined as the market average for similar liabilities at the date of initial recognition.

Initial recognition

Date of recognition

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

(in millions of UZS)

3. Significant accounting policies (continued)

Financial assets and liabilities

Initial measurement

The classification of financial instruments at initial recognition depends on the contractual terms and the business model used to manage the instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial assets and financial liabilities are measured at fair value through profit or loss.

Measurement categories of valuation of financial assets and liabilities

The Group classifies all of its financial assets based on the business model used for asset management and the contractual terms of the assets as measured by:

- amortised cost;
- fair value through other comprehensive income (hereinafter referred to as "FVOCI");
- fair value through profit and loss (hereinafter referred to as the "FVTPL").

The Group classifies and evaluates derivatives and instruments intended for trading according to the FVTPL. The Group may, at its sole discretion, classify financial instruments as measured under the FVTPL if such classification will eliminate or significantly reduce inconsistency in the application of valuation or recognition principles.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL if they are held for trading, are derivative instruments, or at the discretion of the Group are classified as measured at fair value.

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

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

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

Business model assessment

The Group defines a business model at the level that best reflects how the financial assets grouped together are managed to achieve a specific business objective. The Group's business model is evaluated not at the level of individual instruments, but at a higher level of portfolio aggregation and is based on observable factors such as:

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

The assessment of the business model is based on scenarios that are reasonably expected to occur, without taking into account the so-called "worst case" or "stress case" scenarios. If cash flows after initial recognition are realised in a manner different from the Group's expectations, the Group does not change the classification of the remaining financial assets held under this business model, but further takes such information into account when evaluating newly created or recently acquired financial assets.

Solely payments of principal and interest on the principal amount outstanding (SPPI test).

As part of the second stage of the classification process, the Group evaluates the contractual terms of a financial asset to determine whether the contractual cash flows on the asset are solely payments for the principal amount and interest on the outstanding portion of the principal amount (SPPI test).

For the purposes of this test, the "principal amount of debt" is the fair value of a financial asset at initial recognition, and it may change over the life of the financial asset (for example, if there are payments to repay the principal amount of debt or amortization of a premium/discount).

The most significant elements of interest under a loan agreement are usually reimbursement for the time value of money and reimbursement for credit risk. To conduct the SPPI test, the Group applies judgment and analyses relevant factors, such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

(in millions of UZS)

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Solely payments of principal and interest on the principal amount outstanding (SPPI test) (continued).

At the same time, contractual terms that have more than negligible effect on the exposure to risks or volatility of contractual cash flows not related to the underlying loan agreement do not cause the occurrence of contractual cash flows, which are solely payments of principal and interest on the principal amount outstanding part of the principal amount of debt. In such cases, the financial asset must be assessed according to the FVTPL.

Debt instruments measured at fair value through other comprehensive income

The Group evaluates debt instruments on the basis of FVOCI if both of the following conditions are met:

- the instrument is held within the framework of a business model, the purpose of which is achieved both by obtaining contractual cash flows and by selling financial assets;
- the contractual terms of the financial asset comply with the test criteria (SPPI test).

Debt instruments measured at FVOCI are subsequently measured at fair value, and gains or losses arising from changes in fair value are recognised in other comprehensive income (hereinafter referred to as "OCI"). Interest income and gains or losses from changes in foreign exchange rates are recognised in profit or loss in the same way as in the case of financial assets measured at amortised cost. Upon derecognition, accumulated gains or losses previously recognised in the OCI are reclassified from the OCI to profit or loss.

The expected credit losses (hereinafter referred to as "ECL") on debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which continue to be measured at fair value. Instead, an amount equal to the estimated allowance for expected losses that would have been created when the asset was measured at amortised cost is recognised in the OCI as the accumulated amount of impairment, with the corresponding amounts recognised in profit or loss. The accumulated amount of losses recognised in the OCI is reclassified to profit or loss upon derecognition of the asset.

Financial guarantees, letters of credit and loan commitments

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

Financial guarantees are initially recognised in the financial statements at fair value, in the amount of the premium received. After initial recognition, the Group measures its liability for each guarantee by the largest amount of the initially recognised amount less accumulated depreciation recognised in the consolidated statement of profit or loss and other comprehensive income and an ECL allowance.

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

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

Reclassification of financial assets and liabilities

The Group does not reclassify financial assets after their initial recognition, apart from in exceptional cases when the Group changes the business model of financial asset management. In 2023, the Group did not reclassify its financial assets and liabilities.

Cash and cash equivalents

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

Repurchase and reverse sale agreements and loan transactions with securities

Contracts for the sale and repurchase of securities ("repo" agreements) are reflected in the financial statements as secured financing transactions. Securities sold under repo agreements continue to be reflected in the consolidated statement of financial position and are transferred to the category of securities provided as collateral under repo agreements if the counterparty has the right to sell or re-pledge these securities arising from the terms of the agreement or generally accepted practice. The corresponding obligations are included in the funds of credit institutions or customers. The purchase of securities under repurchase agreements (reverse "repo") is reflected as part of funds in credit institutions or loans to customers, depending on the situation. The difference between the sale price and the repurchase price is considered as interest income and is accrued during the term of the repo agreements using the effective interest rate method.

(in millions of UZS)

3. Significant accounting policies (continued)

Repurchase and reverse repurchase agreements and loan transactions with securities (continued).

Securities transferred on loan terms to counterparties continue to be reflected in the consolidated statement of financial position. Securities borrowed on loan terms are reflected in the consolidated statement of financial position only when they are sold to third parties. In this case, the purchase and sale transaction is accounted for in the consolidated statement of profit or loss and other comprehensive income as part of profits less losses on transactions with trading securities. The obligation to return such securities is reflected at fair value as part of trading liabiliries.

Borrowed funds

Issued financial instruments or their components are classified as liabilities if, as a result of a contractual agreement, the Group has an obligation either to deliver cash or other financial assets, or to fulfill the obligation in a manner other than by exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments. Such instruments include funds from credit institutions, customer accounts, other borrowed funds and subordinated loans. After initial recognition, borrowings are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss upon derecognition of liabilities, as well as during the amortization process.

Offsetting of financial instruments

A financial asset and a financial liability are offset with the presentation of a net amount in the consolidated statement of financial position when there is a legally protected right to set off the recognised amounts and when there is an intention to settle on a net basis or realise the asset and fulfill the obligation simultaneously The right to set-off must not be conditioned by a future event and must be legally protected in all of the following circumstances:

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

These conditions are generally not met with respect to master netting agreements, and the related assets and liabilities are reflected in the consolidated statement of financial position in full.

Restructuring of loans

The Group strives, as far as possible, instead of foreclosing on collateral, to review the terms of loans, for example, to extend the contractual terms of payments and agree on new loan terms.

The Group derecognises a financial asset, for example, a loan provided to a customer, if the terms of the contract are revised in such a way that, in fact, it becomes a new loan, and the difference is recognised as a gain or loss from derecognition before an impairment loss is recognised. Upon initial recognition, loans are classified as Stage 1 for the purpose of assessing the ECL, except in cases where the loan created is considered to be purchased or created a credit impaired (POCI) asset.
In assessing whether a loan should be derecognised to a customer, the Group considers, among other things, the following factors:

- changing the currency of the loan;
- changing the counterparty;
- if the modification is such that the instrument would no longer meet the SPPI test.

If the modification does not result in a significant change in cash flows, the modification does not result in derecognition. Based on changes in cash flows discounted at the original effective interest rate, the Group recognises gains or losses from the modification, which are presented as part of interest income calculated using the effective interest rate in the consolidated statement of profit or loss and other comprehensive income, before an impairment loss is recognised.

In the case of a modification that does not result in derecognition, the Group also re-evaluates whether there is a significant increase in credit risk or the need to classify assets as credit impaired. After the asset is classified as credit impaired as a result of the modification, it will remain in Stage 3 for at least a 6-month trial period. To transfer a restructured loan from Stage 3, regular payments of more than insignificant amounts of principal or interest are required for at least half of the trial period in accordance with the modified payment schedule.

(in millions of UZS)

3. Significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised in the statement of financial position if:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred the right to receive cash flows from the asset or has assumed an obligation to transfer the received cash flows in full without significant delay to a third party under the terms of a "transit" agreement; and;
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

If the Group has transferred its rights to receive cash flows from an asset, while neither transferring nor retaining substantially all the risks and benefits associated with it, nor transferring control of the asset, such an asset is recorded to the extent of the Group's continuing involvement in that asset. Continued participation in the asset, which takes the form of a guarantee for the transferred asset, is measured at the lowest of the initial carrying amount of the asset and the maximum amount of compensation that can be presented for payment to the Group.

If continued participation in the asset takes the form of an option issued and/or purchased (including an option settled in cash or a similar instrument) for the transferred asset, the amount of the Group's continuing involvement is the value of the transferred asset that the Group can buy back, except in the case of an issued put option (including an option settled in cash or a similar instrument) for an asset measured at fair value. In this case, the amount of the Group's continuing involvement is determined as the lower of two values: the fair value of the transferred asset and the exercise price of the option.

Write off

Financial assets are written off either partially or in whole only when the Group no longer expects their value to be recovered. If the amount to be written off is higher than the accumulated impairment allowance, the difference is first accounted for as an increase in the allowance, which is then applied to the gross carrying amount. Any subsequent recoveries are charged to credit loss expenses. Write-off refers to derecognition.

Financial liabilities

A financial liability is derecognised in the event of fulfillment, cancellation, or expiration of the relevant obligation.

If one existing financial liability is replaced by another obligation to the same creditor on substantially different terms, or if the terms of an existing liability are substantially modified, the original liability is derecognised and the new liability is recognised with the difference in the carrying amount of the liabilities recognised in profit or loss.

Taxation

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

Deferred tax assets and liabilities are calculated for all temporary differences using the balance sheet liability method. Deferred income taxes are recognised for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes, except when deferred income taxes arise as a result of the initial recognition of goodwill, an asset or liability in a transaction that does not constitute a business combination and which, at the time of implementation, does not affect neither for accounting profit, nor for taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which these temporary differences, which reduce the tax base, can be offset. Deferred tax assets and liabilities are measured at the tax rates that will apply during the period when the asset is realised or the liability is settled, based on legislation that has entered into force or actually entered into force at the reporting date.

Deferred income tax is recognised on temporary differences related to investments in subsidiaries and associates, as well as joint ventures, except in cases where the time to recover the temporary difference is controllable and it is likely that the temporary difference will not be restored in the foreseeable future.

In addition, various operating taxes apply to the Group's activities in the Republic of Uzbekistan. These taxes are reflected in other operating expenses.

(in millions of UZS)

3. Significant accounting policies (continued)

Property and equipment

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

The carrying amount of property, plant and equipment (other than buildings) is assessed for impairment in the event of events or changes in circumstances indicating that the carrying amount of this asset may not be recoverable.

After initial recognition at cost, buildings are carried at revalued cost, which is the fair value at the date of revaluation less subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed frequently enough to avoid significant discrepancies between the fair value of the revalued asset and its carrying amount.

Accumulated depreciation at the date of revaluation is eliminated with a simultaneous decrease in the gross carrying amount of the asset, and the amount received is recalculated based on the revalued amount of the asset. The revaluation gain is reflected in the revaluation reserve for fixed assets in other comprehensive income, except for the amounts of restoration of the previous decrease in the value of this asset, previously reflected in profit or loss. In this case, the amount of the increase in the value of the asset is recognised in profit or loss.

A revaluation decrease is recognised in profit or loss, except for the direct offset of such a decrease against a previous increase in value for the same asset recorded in the revaluation reserve for property and equipment.

The annual transfer of amounts from the revaluation reserve for fixed assets to retained earnings is carried out in part of the difference between the amount of depreciation calculated based on the revalued book value of assets and the amount of depreciation calculated based on the original cost of assets. Upon disposal of an asset, the corresponding amount included in the revaluation reserve is transferred to retained earnings.

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

	Useful life (in years)
Buildings	20
Furniture and office equipment	5-10
Vehicles	5
Other	5-7

The asset's residual values, useful lives and depreciation methods of assets are reviewed at the end of each reporting year and adjusted as necessary.

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are initially measured at cost. The initial cost of intangible assets acquired as part of a business combination is their fair value at the acquisition date. After initial recognition, intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses. Intangible assets with a limited useful life are amortised over a useful life of 5 to 10 years and analysed for impairment if there are signs of possible impairment of the intangible asset.

Share capital

Share capital

Ordinary shares and non-redeemable preferred shares with rights to discretionary dividends are reflected in equity. The costs of paying for services to third parties directly related to the issue of new shares, except in cases of business combinations, are reflected in equity as a decrease in the amount received as a result of this issue. The amount of excess of the fair value of the funds received over the nominal value of the issued shares is recorded as additional capital.

Dividends

Dividends are recognised as liabilities and deducted from equity at the reporting date only if they were declared before and including the reporting date. Information about dividends is disclosed in the financial statements if they were recommended before the reporting date, as well as recommended or announced after the reporting date, but before the date of approval of the consolidated financial statements for issue.

(in millions of UZS)

3. Significant accounting policies (continued)

Segment reporting

The Group's segment reporting is based on the following operating segments: services to individuals, services to legal entities and investment banking.

Contingent assets and liabilities

Contingent liabilities are not reflected in the consolidated statement of financial position, while information about them is disclosed in the financial statements, except in cases where an outflow of resources in connection with their repayment is unlikely. Contingent assets are not reflected in the consolidated statement of financial position, while information about them is disclosed in the financial statements in cases where it is probable that economic benefits associated with them will be received.

Recognition of income and expenses

Revenue is recognised if there is a high probability that the Group will receive economic benefits and if revenue can be reliably estimated.

Interest and similar revenue and expenses

The Group calculates interest income on debt financial assets measured at amortised cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired financial assets. The effective interest rate is the rate at which, when discounted, estimated future cash payments or receipts over the estimated life of a financial instrument or for a shorter period of time, where applicable, are accurately adjusted to the net carrying amount of a financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, the right to early repayment) and fees or additional expenses directly related to the instrument, which are an integral part of the effective interest rate, but does not take into account future credit losses. The carrying amount of a financial asset or financial liability is adjusted if the Group reviews estimates of payments or receipts. The adjusted carrying amount is calculated based on the initial effective interest rate, and changes in the carrying amount are recorded as interest income or expenses.

In the case of a financial asset that becomes credit-impaired, the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the default on a financial asset is liquidated and it is no longer credit-impaired, the Group reverts to calculating interest income based on gross value.

In the case of financial asset purchases, the Group calculates interest income by applying the effective interest rate adjusted for credit risk to the amortised cost of the financial asset. The effective interest rate adjusted for credit risk is the rate that, upon initial recognition, discounts estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all financial assets measured under the FVTPL is recognised using the contractual interest rate as part of the item "Other interest income" in the consolidated statement of profit or loss and other comprehensive income.

Fee and commission income

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

Commission income from services that are provided over the certain period of time

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

Commission income from the provision of transaction services

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

(in millions of UZS)

3. Significant accounting policies (continued)

Changes in accounting policy

The Group has applied certain amendments to the standards that have entered into force for annual periods beginning on or after 1 January 2023. The Group has not prematurely applied any standards, clarifications or amendments that have been issued but have not entered into force.

IFRS 17 "Insurance Contracts"

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new comprehensive financial reporting standard for insurance contracts that addresses issues of recognition and measurement, presentation and disclosure. IFRS 17 has entered into force for accounting periods beginning on January 1, 2023.

Amendments to IFRS (IAS) 1 and Practical Recommendations No. 2 on the application of IFRS "Disclosure of Information on Accounting Policies"

In February 2021, the IASB issued amendments to IFRS (IAS) 1 and Practical Recommendations No. 2 on the Application of IFRS "Formation of Materiality Judgments", which contain guidance and examples to help organizations apply materiality judgments when disclosing information about accounting policies.

These amendments did not have any significant impact on the Group's consolidated financial statements.

Amendments to IFRS (IAS) 8 – "Accounting Policies, Changes in Accounting Estimates and Errors"
The amendments to IAS 8 also clarify the relationship between accounting policies and accounting estimates, detailing that the company develops an accounting estimate to achieve the objective set by the accounting policy. Thus, the development of an accounting assessment includes:

- the choice of measurement method (valuation method) – for example, the valuation method used to measure the provision for expected credit losses; and
- selection of input data to be used when applying the selected measurement method – for example, expected cash outflows to determine the provision for warranty obligations.

The consequences of changes in the choice of measurement methods or input data are changes in accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Amendments to IAS 12 – Deferred Taxation in Connection with Assets and Liabilities Arising from a Single transaction

The Group applies "Deferred Tax related to assets and liabilities arising from a single Transaction" (Amendments to IAS 12) starting from January 1, 2023. The amendments narrow the scope of the exemption at initial recognition to exclude transactions that give rise to equal and mutually compensating temporary differences, for example, in leases or decommissioning obligations. For leases and decommissioning obligations, the related deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other capital component at that date. The amendments are applied to all other transactions after the beginning of the earliest submitted period.

Standards that have been released but have not yet entered into force

A number of new standards come into force for annual periods beginning after January 1, 2023, with the possibility of early application. However, the Group did not make an early transition to new and amended standards in the preparation of these consolidated financial statements.

Uncertainty of estimates

In the process of applying the Group's accounting policies, management has used its judgments and estimates in determining the amounts recognised in the consolidated financial statements. The most significant cases of using judgments and estimates are presented below:

Impairment losses on loans to customers

The assessment of impairment losses on loans to customers requires the use of judgment, in particular, in determining the ECL / impairment losses and the assessment of a significant increase in credit risk need to assess the amount and timing of future cash flows and the cost of collateral. Such estimates depend on a number of factors, changes in which may lead to different amounts of estimated impairment reserves.

(in millions of UZS)

4. Significant accounting judgments and estimates

Uncertainty of estimates (continued)

Impairment losses on loans to customers (continued)

In addition, large-scale business disruptions can lead to liquidity problems for some organizations and consumers. The Group's ECL calculations are the result of complex models that include a number of basic assumptions about the choice of input data variables and their interdependencies. The elements of the ECL calculation models, which are considered judgments and estimates, include the following:

- the criteria used by the Group to assess whether there has been a significant increase in credit risk, as a result of which the estimated provision for impairment of loans to customers should be estimated in an amount equal to the lifetime ECL, and a qualitative assessment;
- the segmentation of financial assets when their ECL is assessed on a collective basis;
- development of ECLs calculation models, including various formulas and selection of input data;
- determining the relationship between macroeconomic scenarios and economic data, and also the impact on the indicators of the probability of default (PD);
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

The amount of the valuation allowance recognised in the consolidated statement of financial position as at 31 December 2023 amounted to UZS 570 534 million (31 December 2022: UZS 490 488 million). Detailed information is provided in Note 7.

Revaluation of property and equipment

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

The Group engaged an independent appraiser to determine the fair value of the buildings as at 31 December 2023. The key assumptions used to determine the fair value of property and equipment and sensitivity analysis are detailed in *Note 26*.

(in millions of UZS)

5. Cash and cash equivalents

Cash includes the following items:

	31 December 2023	*31 December 2022*
Cash on hand	**1 514 509**	1 862 670
Current accounts with the CBU rated at BB-	**2 343 682**	4 041 894
Current accounts with other credit institutions:		
Rated from AA+ to AA-	**16 105**	–
Rated from A+ to A-	**455 330**	41 759
Rated from BBB+ to BBB-	**16 576**	10 114
Rated from BB+ to BB-	**202 865**	45 426
Rated from B+ to B-	**23 979**	3 649
Not rated	**1 114 726**	257 855
Total current accounts with other credit institutions	**1 829 581**	358 803
Term deposits with credit institutions up to 90 days:		
Rated from B+ to B-	**61 694**	–
Rated from BB+ to BB-	**480 614**	50 000
Total cash and cash equivalents before deduction of ECL	**6 230 080**	6 313 367
Less the estimated allowance for ECL	**(2 192)**	(3 339)
Total cash and cash equivalents, net of provision for ECL	**6 227 888**	6 310 028

As at 31 December 2023 and 31 December 2022 the Group has no counterparties, except for the CBU, with balances exceeding 10% of the Group's capital.

As at 31 December 2023, amounts due from Russian counterparties represented by cash and cash equivalents in the amount of UZS 1 114 726 million were assigned to Stage 2 for ECL measurement purposes. As at 31 December 2022, in the amount of UZS 257 173 million and UZS 682 million were assigned to Stage 2 and Stage 3, respectively, for ECL measurement purpose.

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
At 31 December 2021	16	–	–	16
Changes in ECL	81	2 683	559	3 323
At 31 December 2022	97	2 683	559	3 339
Changes in ECL	**227**	**(815)**	**(559)**	**(1 147)**
At 31 December 2023	**324**	**1 868**	**–**	**2 192**

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2023	*31 December 2022*
Mandatory reserve with the CBU	**483 753**	466 108
Restricted cash:		
Rated from AA+ to AA-	**–**	261 658
Rated from A+ to A	**282 085**	899 691
Total restricted cash	**282 085**	1 161 349
Term deposits placed for a period of more than 90 days:		
Rated from AA+ to AA-	**332 093**	–
Rated from A+ to A	**94 374**	–
Rated from BB+ to BB-	**219 841**	89 854
Rated from B+ to B-	**40 718**	11 225
Total term deposits placed for a period exceeding 90 days	**687 026**	101 079
Total amounts due from credit institutions	**1 452 864**	1 728 536
Less the estimated allowance for ECL	**(2 056)**	(2 504)
Total amounts due from credit institutions, net of provision for ECL	**1 450 808**	1 726 032

(in millions of UZS)

6. Amounts due from credit institutions (continued)

The mandatory reserve in the CBU is represented by an interest-free cash deposit, the amount of which depends on the amount of funds raised. The Group's ability to withdraw such deposit is limited by the legislation of the Republic of Uzbekistan. As at 31 December 2023, the balance of the mandatory reserve in the CBU amounted to UZS 483 753 million (31 December 2022: UZS 466 108 million).

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

As at 31 December 2023 the Group has no accounts and deposits with banks (31 December 2022: two banks), except for the CBU, that exceed 10% of the Group's capital.

As at 31 December 2023 and 2022, all balances of amounts due from credit institutions are allocated to Stage 1 for ECL measurement purposes.

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 31 December 2021	724	–	–	724
Changes in ECL	1 780	–	–	1 780
As at 31 December 2022	2 504	–	–	2 504
Changes in ECL	**(448)**	**–**	**–**	**(448)**
As at 31 December 2023	**2 056**	**–**	**–**	**2 056**

7. Loans to customers

Loans to customers comprise:

	31 December 2023	*31 December 2022*
Individuals	**19 392 511**	10 495 152
Corporate customers	**7 316 972**	3 792 307
Small and medium-sized businesses	**3 610 045**	2 719 794
Total loans to customers	**30 319 528**	17 007 253
Less the estimated allowance for ECL	**(570 534)**	(490 488)
Total loans to customers, net of provision for ECL	**29 748 994**	16 516 765

The Group uses the following classification of loans by classes:

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

Allowance for ECL of loans to customers measured at amortised cost

The analysis of movements in gross carrying amount of loans and relevant ECL on loans for the year ended 31 December 2023 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2023	**16 064 907**	**505 770**	**436 576**	**17 007 253**
Newly originated assets	**24 941 434**	**–**	**–**	**24 941 434**
Assets repaid	**(10 876 064)**	**(231 621)**	**(720 701)**	**(11 828 386)**
Transfers to Stage 1	**1 272 170**	**(1 272 170)**	**–**	**–**
Transfers to Stage 2	**(2 468 073)**	**2 668 843**	**(200 770)**	**–**
Transfers to Stage 3	**(371 557)**	**(610 968)**	**982 525**	**–**
Unwinding of discount	**–**	**–**	**18 088**	**18 088**
Write offs	**–**	**–**	**(17 864)**	**(17 864)**
Foreign exchange adjustments	**181 291**	**14 362**	**3 350**	**199 003**
As at 31 December 2023	**28 744 108**	**1 074 216**	**501 204**	**30 319 528**

(in millions of UZS)

7. Loans to customers (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**261 009**	**63 009**	**166 470**	**490 488**
Newly originated assets	**268 024**	**–**	**–**	**268 024**
Assets repaid	**(192 893)**	**(37 884)**	**(212 420)**	**(443 197)**
Transfers to Stage 1	**93 360**	**(93 360)**	**–**	**–**
Transfers to Stage 2	**(104 833)**	**226 315**	**(121 482)**	**–**
Transfers to Stage 3	**(7 799)**	**(72 756)**	**80 555**	**–**
Impact on period end ECL of exposures transferred between stages and changes to models and inputs used for measuring ECL during the period	**(11 659)**	**24 672**	**239 920**	**252 933**
Unwinding of discount (recognised in interest revenue)	**–**	**–**	**18 088**	**18 088**
Write offs	**–**	**–**	**(17 864)**	**(17 864)**
Foreign exchange adjustments	**1 355**	**754**	**(47)**	**2 062**
As at 31 December 2023	**306 564**	**110 750**	**153 220**	**570 534**

Below is an analysis of changes in gross carrying amount and relevant ECLs in relation to consumer lending for the year ended 31 December 2022:

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

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

Collateral and other mechanisms for improving credit quality

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

(in millions of UZS)

7. Loans to customers (continued)

Collateral and other mechanisms for improving credit quality (continued)

The main types of collateral obtained are as follows:

- commercial lending – collateral for real estate, transport, equipment and inventory;
- retail lending – collateral for transport and residential properties.

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

The Group's management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment.

The tables below provide an analysis of the current fair values of collateral held and credit enhancements for credit-impaired assets (Stage 3 assets) used by the Group in assessing the ECL.

As at 31 December 2023	***Gross carrying amount of loans to customers***	***Fair value of collateral - for collateral estimated at the reporting date***	***Fair value at the date of recognition/ The fair value has not been determined***
Real estate	**339 929**	**339 929**	**–**
Vehicles	**102 462**	**102 462**	**–**
Equipment	**34 546**	**34 546**	**–**
Insurance policy	**16 657**	**16 657**	**–**
Warranty and guarantee	**7 123**	**–**	**7 123**
Other	**487**	**–**	**487**
Total	**501 204**	**493 594**	**7 610**

As at 31 December 2022	***Gross carrying amount of loans to customers***	***Fair value of collateral - for collateral estimated at the reporting date***	***Fair value at the date of recognition/ The fair value has not been determined***
Real estate	199 484	199 484	–
Vehicles	171 226	171 226	–
Equipment	28 601	28 601	–
Insurance policy	9 706	9 706	–
Warranty and guarantee	3 274	–	3 274
Other	24 285	–	24 285
Total	**436 576**	**409 017**	**27 559**

The tables above do not include overcollateralization.

In the absence of collateral or other credit enhancements, ECLs for loans to customers of Stage 3 as at 31 December 2023 and 2022 would be higher by:

	31 December 2023	**31 December 2022**
Corporate customers	**272 154**	154 828
Total	**272 154**	154 828

Concentration of loans to customers

As at 31 December 2023, the concentration of loans extended by the Group to the ten largest unrelated borrowers amounts to UZS 5 649 150 million or 19% of the total gross value of loans to customers (31 December 2022: UZS 2 449 763 million, 14% of the total gross value of loans to customers). Allowance for ECL on these loans is UZS 55 925 million. (31 December 2022: UZS 43 041 million).

(in millions of UZS)

7. Loans to customers (continued)

Concentration of loans to customers (continued)

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

	31 December 2023	*31 December 2022*
Individuals	**19 392 511**	10 495 152
Industrial manufacturing	**5 976 124**	2 793 595
Trade and services	**3 018 709**	2 527 733
Financial services	**763 426**	305 445
Transport and communications	**735 190**	246 250
Construction	**156 096**	376 172
Agriculture	**48 268**	61 245
Textile production	**11 433**	13 741
Other	**217 771**	187 920
Total loans to customers	**30 319 528**	**17 007 253**

The quality of the loan portfolio

Loans to individuals carried at amortised cost as at 31 December 2023:

As at 31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Non-overdue	**17 488 348**	**77 573**	**2 442**	**17 568 363**
Overdue for less than 30 days	**971 221**	**49 474**	**64**	**1 020 759**
Overdue for a period of 30-90 days	**–**	**670 394**	**–**	**670 394**
Overdue for a period of 91-180 days	**–**	**–**	**91 142**	**91 142**
Overdue for a period of 181-360 days	**–**	**–**	**41 481**	**41 481**
Overdue for more than 360 days	**–**	**–**	**372**	**372**
Total	**18 459 569**	**797 441**	**135 501**	**19 392 511**
Allowance for ECL	**(191 642)**	**(81 011)**	**(44 427)**	**(317 080)**
Carrying amount	**18 267 927**	**716 430**	**91 074**	**19 075 431**

Loans to individual customers carried at amortised cost as at 31 December 2022:

As at 31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Non-overdue	9 814 251	1 554	9 371	9 825 176
Overdue for less than 30 days	345 278	867	1 397	347 542
Overdue for a period of 30-90 days	–	206 069	3 560	209 629
Overdue for a period of 91-180 days	–	–	62 838	62 838
Overdue for a period of 181-360 days	–	–	47 620	47 620
Overdue for more than 360 days	–	–	2 347	2 347
Total	**10 159 529**	**208 490**	**127 133**	**10 495 152**
Allowance for ECL	**(156 775)**	**(22 859)**	**(54 688)**	**(234 322)**
Carrying amount	**10 002 754**	**185 631**	**72 445**	**10 260 830**

The credit quality analysis of loans presented in the tables below is based on the borrowers' credit quality scale developed by the Group:

- "Low credit risk" - assets whose counterparties have a low probability of default and have a high ability to fulfill financial obligations on time;
- "Moderate credit risk" - assets whose counterparties have a moderate probability of default, demonstrate default, demonstrate an average ability to meet financial obligations on time and require more careful attention at the monitoring stage;
- "High credit risk" - assets whose counterparties have a higher probability of default require special attention at the monitoring stage;
- "Non-performing assets" are assets that have signs of impairment, meet the definition of default.

(in millions of UZS)

7. Loans to customers (continued)

The quality of the loan portfolio (continued)

Loans to corporate customers carried at amortised cost as at 31 December 2023:

As at 31 December 2023	Stage 1	Stage 2	Stage 3	Total
Low credit risk	6 833 075	–	–	6 833 075
Moderate credit risk	2 993	36 144	–	39 137
High credit risk	–	171 383	–	171 383
Non-performing assets	–	–	273 377	273 377
Total	**6 836 068**	**207 527**	**273 377**	**7 316 972**
Allowance for ECL	**(65 471)**	**(22 001)**	**(70 143)**	**(157 615)**
Carrying amount	**6 770 597**	**185 526**	**203 234**	**7 159 357**

Loans to corporate customers carried at amortised cost as at 31 December 2022:

As at 31 December 2022	Stage 1	Stage 2	Stage 3	Total
Low credit risk	3 430 417	–	–	3 430 417
Moderate credit risk	–	–	–	–
High credit risk	–	203 617	–	203 617
Non-performing assets	–	–	158 273	158 273
Total	**3 430 417**	**203 617**	**158 273**	**3 792 307**
Allowance for ECL	**(46 619)**	**(27 757)**	**(51 656)**	**(126 032)**
Carrying amount	**3 383 798**	**175 860**	**106 617**	**3 666 275**

Loans to customers, small and medium-sized businesses, carried at amortised cost as at 31 December 2023:

As at 31 December 2023	Stage 1	Stage 2	Stage 3	Total
Non-overdue	3 426 009	46 966	4 829	3 477 804
Overdue for less than 30 days	22 133	4 052	4 248	30 433
Overdue for a period of 30-90 days	–	18 230	6 542	24 772
Overdue for a period of 91-180 days	–	–	31 290	31 290
Overdue for a period of 181-360 days	–	–	21 424	21 424
Overdue for more than 360 days	–	–	24 322	24 322
Total	**3 448 142**	**69 248**	**92 655**	**3 610 045**
Allowance for ECL	**(49 451)**	**(7 738)**	**(38 650)**	**(95 839)**
Carrying amount	**3 398 691**	**61 510**	**54 005**	**3 514 206**

Loans to customers, small and medium-sized businesses, carried at amortised cost as at 31 December 2022:

As at 31 December 2022	Stage 1	Stage 2	Stage 3	Total
Non-overdue	2 463 350	84 728	58 347	2 606 425
Overdue for less than 30 days	11 611	1 373	385	13 369
Overdue for a period of 30-90 days	–	7 562	7 488	15 050
Overdue for a period of 91-180 days	–	–	17 573	17 573
Overdue for a period of 181-360 days	–	–	41 302	41 302
Overdue for more than 360 days	–	–	26 075	26 075
Total	**2 474 961**	**93 663**	**151 170**	**2 719 794**
Allowance for ECL	**(57 615)**	**(12 393)**	**(60 126)**	**(130 134)**
Carrying amount	**2 417 346**	**81 270**	**91 044**	**2 589 660**

(in millions of UZS)

8. Investment securities

In 2023, the Group actively participated in auctions for the placement of government securities (bonds) held by the CBU jointly with the Ministry of Finance of the Republic of Uzbekistan on the Uzbek Republican Currency Exchange. The maturity of the CBU bonds is 1-6 months, the interest rate range is from 15.5% to 17.8%. The maturity of the bonds of the Ministry of Finance of the Republic of Uzbekistan ranges from 6 months to 10 years, the interest rate range is from 16.0% to 17.7% per annum.

The Group's debt securities are as follows:

	31 December 2023	***31 December 2022***
CBU bonds	**1 020 984**	1 545 976
Bonds of the Ministry of Finance of the Republic of Uzbekistan	**907 941**	1 168 998
Other securities	**26 014**	6 000
Total investment securities measured at amortised cost	**1 954 939**	2 720 974
Less the estimated allowance for ECL	**(7 200)**	(9 060)
Total investment securities measured at amortised cost less allowance for ECL	**1 947 739**	2 711 914

An analysis of ECL allowances in relation to debt securities at amortised cost is as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 31 December 2021	1 293	–	–	1 293
Changes in ECL	7 767	–	–	7 767
As at 31 December 2022	9 060	–	–	9 060
Changes in ECL	**(1 860)**	–	–	**(1 860)**
As at 31 December 2023	**7 200**	–	–	**7 200**

9. Assets held for sale

As at 31 December 2023 and 31 December 2022, assets held for sale are represented by buildings (seized collateral for loans to customers) acquired through the transfer of ownership to the Group by a court decision or by amicable agreement in repayment of claims on loans to customers. The Group plans to sell assets held for sale during 2024.

In 2023, the Group sold assets held for sale in the amount of UZS 19 921 million (2022: UZS 63 134 million).

(in millions of UZS)

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

The movements in property and equipment were as follows:

	Buildings	*Furniture and equip-ment*	*Vehicles*	*Other*	*Construc-tion in progress*	*Right-of-use assets*	*Total*
Cost or revalued amount							
As at 31 December 2021	281 704	147 981	27 499	342 594	–	–	799 778
Additions	22 470	32 741	6 220	68 328	46 313	7 434	183 506
Transfer from assets held for sale (Note 9)	38 480	–	–	–	–	–	38 480
Disposals	(69)	(1 886)	(628)	(6 818)	–	–	(9 401)
Write-off of accumulated depreciation as a result of revaluation	(34 919)	–	–	–	–	–	(34 919)
The impact of revaluation	51 668	–	–	–	–	–	51 668
As at 31 December 2022	**359 334**	**178 836**	**33 091**	**404 104**	**46 313**	**7 434**	**1 029 112**
Additions	**74 307**	**105 003**	**10 494**	**140 423**	**–**	**184**	**330 411**
Disposals	**(4 826)**	**(4 503)**	**(864)**	**(5 339)**	**–**	**–**	**(15 532)**
Regrouping	**15 469**	**–**	**–**	**–**	**(15 469)**	**–**	**–**
Write-off of accumulated depreciation as a result of revaluation	**(19 995)**	**–**	**–**	**–**	**–**	**–**	**(19 995)**
The impact of revaluation	**24 226**	**–**	**–**	**–**	**–**	**–**	**24 226**
As at 31 December 2023	**448 515**	**279 336**	**42 721**	**539 188**	**30 844**	**7 618**	**1 348 222**
Accumulated depreciation							
As at 31 December 2021	25 397	30 271	9 875	87 183	–	–	152 726
Accrued depreciation	9 522	15 181	5 838	36 776	–	881	68 198
Disposals	–	(1 886)	(286)	(1 051)	–	–	(3 223)
Write-off of accumulated depreciation as a result of revaluation	(34 919)	–	–	–	–	–	(34 919)
As at 31 December 2022	**–**	**43 566**	**15 427**	**122 908**	**–**	**881**	**182 782**
Accrued depreciation	**23 432**	**33 847**	**6 694**	**61 047**	**–**	**2 456**	**127 476**
Disposals	**(1 208)**	**(3 817)**	**(788)**	**(5 339)**	**–**	**–**	**(11 152)**
Write-off of accumulated depreciation as a result of revaluation	**(19 995)**	**–**	**–**	**–**	**–**	**–**	**(19 995)**
As at 31 December 2023	**2 229**	**73 596**	**21 333**	**178 616**	**–**	**3 337**	**279 111**
Carrying amount							
As at 31 December 2022	359 334	135 270	17 664	281 196	46 313	6 553	846 330
As at 31 December 2023	**446 286**	**205 740**	**21 388**	**360 572**	**30 844**	**4 281**	**1 069 111**

As at 31 December 2023, property and equipment included fully depreciated assets at a cost of UZS 30 162 million (31 December 2022: UZS 10 623 million).

The Group engaged independent appraiser to determine fair value of buildings owned by the Group. The revaluation date is 31 December 2023. More detailed information on the fair value of buildings is disclosed in Note 26.

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

	31 December 2023	*31 December 2022*
Initial cost	**348 961**	352 468
Accumulated depreciation	**(50 561)**	(35 128)
Carrying amount	**298 400**	317 340

(in millions of UZS)

11. Intangible assets

The movement of intangible assets is shown below:

	Intangible assets	*Assets under development*	*Total*
Initial cost			
As at 31 December 2021	135 141	2 327	137 468
Additions	17 207	1 946	19 153
Disposal	(6 012)	–	(6 012)
As at 31 December 2022	**146 336**	**4 273**	**150 609**
Additions	**213 115**	**1 290**	**214 405**
Disposal	**(4 293)**	**(2 034)**	**(6 327)**
As at 31 December 2023	**355 158**	**3 529**	**358 687**
Accumulated depreciation			
As at 31 December 2021	30 612	–	30 612
Accrued depreciation	16 494	–	16 494
Disposal	(1 030)	–	(1 030)
As at 31 December 2022	**46 076**	**–**	**46 076**
Accrued depreciation	**30 243**	**–**	**30 243**
Disposal	**(4 293)**	**–**	**(4 293)**
As at 31 December 2023	**72 026**	**–**	**72 026**
Net carrying amount			
As at 31 December 2022	100 260	4 273	104 533
As at 31 December 2023	**283 132**	**3 529**	**286 661**

As at 31 December 2023, intangible assets included fully depreciated assets at a cost of UZS 2 729 million (31 December 2022: UZS 7 020 million).

12. Income tax

The income tax expense comprises:

	2023	*2022*
Current income tax charge	**390 974**	260 454
Reduction of deferred income tax – creation and reversal of temporary differences	**(7 044)**	(30 177)
Less deferred income tax recognised in other comprehensive income	**(4 845)**	(15 692)
Income tax expense	**379 085**	214 585

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

	2023	*2022*
Revaluation of buildings	**4 845**	15 692
Income tax recognised in other comprehensive income	**4 845**	15 692

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

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

Income tax is accrued in accordance with the Tax Code of the Republic of Uzbekistan. The current income tax rate for banks in 2023 was 20% (2022: 20%) of taxable profit.

(in millions of UZS)

12. Income tax (continued)

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

	2023	*2022*
Profit before income tax	**2 052 729**	1 158 251
The legally established tax rate	**20%**	20%
Theoretical income tax expenses at the legally established tax rate	**(410 546)**	(231 650)
Tax-free profit on government securities	**52 701**	51 314
Expenses on ECL, that do not reduce the tax base	**(8 673)**	(12 092)
Other expenses that do not reduce the tax base	**(12 567)**	(22 157)
Income tax expenses	**(379 085)**	(214 585)

As at 31 December 2023, current income tax assets amounted to UZS 8 204 million (as at 31 December 2022: UZS 23 522 million).

Deferred taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount determined for tax purposes. Temporary differences as at 31 December 2023 and 2022 are mainly related to different methods of accounting for income and expenses, as well as the accounting value of certain assets.

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2021	*In profit or loss*	*In other comprehensive income*	*31 December 2022*	*In profit or loss*	*In other comprehensive income*	*31 December 2023*
Tax effect of deductible temporary differences							
Loans to customers	9 089	42 336	–	**51 425**	**(21 932)**	–	**29 493**
Customer accounts	–	6 455	–	**6 455**	**44 160**	–	**50 615**
Investment securities	–	1 812	–	**1 812**	**(372)**	–	**1 440**
Other liabilities	5 299	(8 966)	–	**(3 667)**	**50 208**	–	**46 541**
Deferred tax asset	**14 388**	**41 637**	**–**	**56 025**	**72 064**	**–**	**128 089**
Tax effect of taxable temporary differences							
Property and equipment and right-of-use assets	(4 531)	11 178	(15 692)	**(9 045)**	**744**	**(4 845)**	**(13 146)**
Other assets	8 247	(6 437)	–	**1 810**	**(57 647)**	**–**	**(55 837)**
Assets held for sale	–	(509)	–	**(509)**	**(3 272)**	**–**	**(3 781)**
Deferred tax liability	**3 716**	**4 232**	**(15 692)**	**(7 744)**	**(60 175)**	**(4 845)**	**(72 764)**
Deferred tax asset/(liability)	**18 104**	**45 869**	**(15 692)**	**48 281**	**11 889**	**(4 845)**	**55 325**

(in millions of UZS)

13. Other assets

Other assets include the following items:

	31 December 2023	*31 December 2022*
Other financial assets		
Settlements with payment systems	**51 188**	73 477
Commission income receivable	**15 286**	1 772
Less the estimated allowance for ECL	**(5 988)**	(6 522)
Total other financial assets	**60 486**	68 727
Other non-financial assets		
Prepayment for services	**609 816**	200 412
Prepayment for equipment and goods	**5 021**	5 758
Settlements with employees	**2 359**	546
Other	**12 044**	10 710
Total other non-financial assets	**629 240**	217 426
Total other assets	**689 726**	286 153

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 31 December 2021	51	51	707	809
Net change for the year	13	222	5 500	5 735
Write-offs	–	–	(22)	(22)
As at 31 December 2022	64	273	6 185	6 522
Net change for the year	**3 405**	**(181)**	**(3 758)**	**(534)**
As at 31 December 2023	**3 469**	**92**	**2 427**	**5 988**

14. Amounts due to credit institutions

Amounts due to credit institutions include the following items:

	31 December 2023	*31 December 2022*
Amounts due to the banks of the Republic of Uzbekistan	**1 099 083**	5 530
Amounts due to foreign banks	**773 283**	137 403
Current accounts of the banks of the Republic of Uzbekistan	**14 104**	9 747
Current accounts of foreign banks	**2 618**	71 757
Total amounts due to credit institutions	**1 889 089**	224 437

As at 31 December 2023, the Group has balances of one bank in the amount of UZS 593 928 million (31 December 2022, nul), the amount of which exceeds 10% of the Bank's capital.

Amounts due to the banks of the Republic of Uzbekistan include the balances of four banks as at 31 December 2023 (31 December 2022: four banks).

Amounts due to foreign banks are represented by balances payable to AKA Ausfuhrkredit Gesellschaft mbH. On 20th July 2020, the Group signed an agreement to open a credit line with AKA Ausfuhrkredit Gesellschaft mbH within a limit of EUR 10,6 million. During 2020-2023, the Group received loans with a term of 1-6 years. The annual interest rate on credit lines is EURIBOR+1.3%-1.65%. The purpose of the loan is to finance export contracts.

As at 31 December 2023, the balances payable to AKA Ausfuhrkredit- Gesellschaft mbH amounted to UZS 196 375 million (31 December 2022: UZS 137 403 million). As at 31 December 2023, Russian banks have a balance of UZS 510 385 million, which closed in January 2024 (31 December 2022: UZS 0).

(in millions of UZS)

15. Amounts due to customers

Amounts due to customers include the following items:

	31 December 2023	*31 December 2022*
Legal entities		
Term deposits	**12 878 366**	8 411 707
Demand deposits	**5 054 511**	4 665 465
Individuals		
Term deposits	**10 411 550**	6 593 040
Demand deposits	**5 176 050**	5 401 803
Total amounts due to customers	**33 520 477**	25 072 015

As at 31 December 2023, the balance of funds held as collateral for letters of credit is UZS 2 284 674 million and UZS 11 347 million for guarantees (31 December 2022: UZS 2 087 264 million and UZS 86 613 million, respectively) Note 24.

In accordance with the legislation of the Republic of Uzbekistan, the Group is obliged to return the deposit amount at the first request of an individual depositor. In cases where the term deposit is returned to the depositor at his request before the expiration term, interest on the deposit is not paid or is paid at a significantly lower interest rate, depending on the terms of the agreement.

As at 31 December 2023, The Group had four customers with the total amount of exceeding 10% of the Groups equity (31 December, 2022: five clients). The total balance of these customers amounted to UZS 5 626 816 million (31 December 2022: UZS 6 409 874 million) of the total amount of due to customers balance.

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

	31 December 2023	*31 December 2022*
Individuals	**15 587 600**	11 994 843
Corporate customers	**13 351 363**	10 347 589
State and budget organisations	**4 581 514**	2 729 583
Total amounts due to customers	**33 520 477**	25 072 015

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

	31 December 2023	*31 December 2022*
Individuals	**15 587 600**	11 994 843
Manufacturing	**6 942 766**	4 318 252
Social funds	**3 746 195**	1 495 870
Trade and other services	**3 209 507**	2 509 686
Transport and telecommunications	**1 814 508**	1 532 616
Construction	**424 846**	422 824
Investments in financial sector	**306 615**	1 265 151
Agriculture and food industry	**192 419**	46 330
Insurance	**131 114**	158 203
Other	**1 164 907**	1 328 240
Total amounts due to customers	**33 520 477**	25 072 015

16. Other borrowed funds

	31 December 2023	*31 December 2022*
Subordinated debt	**1 169 980**	151 338
Loans from the Government of the Republic of Uzbekistan	**179 131**	183 349
Loans from non-bank financial institutions	**83 754**	183 407
Bonds issued	**50 806**	116 848
Total other borrowed funds	**1 483 671**	634 942

(in millions of UZS)

16. Other borrowed funds (continued)

Subordinated debt

As at 31 December 2023, subordinated debt is represented by loans from non-bank institutions with maturities in 2032-2037 and interest rates of 14%-24% per annum in UZS and 5% per annum in USD (as at 31 December 2022: in 2024-2027 and interest rates of 14%-21% per annum in UZS and 5% per annum in USD). Subordinated debt is represented by a long-term loan from 7 different counterparties as at 31 December 2023 in the amount of UZS 1 169 980 million (as at 31 December 2022, UZS 151 338 million from 8 different counterparties).

Loans from the Government of the Republic of Uzbekistan

The funds received from the Government of the Republic of Uzbekistan are represented by a long-term interest-free loan from the Fund for Financing State Development Programs of the Republic of Uzbekistan with a maturity in 2024-2033 in the amount of UZS 26 169 million (31 December 2022: UZS 27 186 million) and a long-term loan from the Ministry of Finance of the Republic of Uzbekistan with a maturity in 2024-2034 with a nominal interest rate of 0%-10% per annum in the amount of UZS 152 962 million (31 December 2022 UZS 156 163 million).

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

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

Loans from non-bank financial institutions

The funds received from non-bank financial organizations are represented by loans received from Abu Dhabi Uzbek Investment LLC in the amount of 20 million USD, with a nominal interest rate of 5.5%-6.5% per annum, and maturity in 2024-2025. The funds were received to finance small and medium-sized businesses in the Republic of Uzbekistan. As at 31 December 2023, loans received from Abu Dhabi Investment LLC amounted to UZS 83 754 million (31 December 2022: UZS 183 407 million).

Bonds issued

As at 31 December 2023, the bonds issued are represented by bonds placed on the Republican Stock Exchange "Toshkent" with maturity in 2027 and an interest rate equal to the refinancing rate of the CBU+ 5% per annum (31 December 2022: in 2027 and an interest rate equal to the refinancing rate of the Central Bank of the Republic of Uzbekistan + 5% per annum).

Reconciliation of changes in other borrowed funds and cash flows from financing activities

	Total
Carrying value as at 31 December 2021	504 292
Receipts	165 472
Repayment	(57 296)
Exchange rate differences	20 991
Other	1 483
Carrying value as at 31 December 2022	**634 942**
Receipts	974 925
Repayment	(159 275)
Exchange rate differences	29 854
Other	3 225
Carrying value as at 31 December 2023	**1 483 671**

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

(in millions of UZS)

17. Other liabilities

Other liabilities include the following items:

	31 December 2023	*31 December 2022*
Other financial liabilities		
Accrued expenses for employee benefits	**160 759**	63 873
Accounts payable for services	**132 407**	48 092
Settlements for money transfers	**104 990**	10 257
Accounts payable to Deposit Guarantee Fund	**37 500**	29 059
Liabilities to payment systems	**26 213**	32 376
Lease liabilities	**4 649**	6 576
ECL allowances for credit related commitments *(Note 24)*	**3 592**	7 366
Other financial liabilities	**6 552**	5 276
Other financial liabilities	**476 662**	202 875
Other non-financial liabilities		
Other tax liability	**2 393**	8 278
Other non-financial liabilities	**2 393**	8 278
Total other liabilities	**479 055**	211 153

18. Equity

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

	Number of shares, pieces		*Nominal value, UZS*					
	Ordinary	*Preference*	*Ordinary*	*Preference*	*Adjust-ment for inflation*	*Total share capital*	*Share premium reserve*	*Total*
As at 1 January 2022	355 839 844	40 000 000	950	950	(1 368)	374 680	272 220	646 900
Increase in share capital	32 986 654	–	950	–	–	31 337	77 507	108 844
As at 31 December 2022	**388 826 498**	**40 000 000**	**950**	**950**	**(1 368)**	**406 017**	**349 727**	**755 744**
Reduction of share capital	**–**	**(40 000 000)**	**–**	**950**	**–**	**(38 000)**	**–**	**(38 000)**
Increase in share capital	**40 000 000**	**–**	**950**	**–**	**–**	**38 000**	**–**	**38 000**
As at 31 December 2023	**428 826 498**	**–**	**950**	**950**	**(1 368)**	**406 017**	**349 727**	**755 744**

As at 31 December 2023, and 31 December 2022, all the authorised shares were issued and fully paid.

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

Dividends

In 2023, the Bank did not declare dividends on ordinary shares. In 2023, the Bank declared and paid dividends in the amount of 8 360 million UZS on preferred shares (UZS 209 per share) (2022: UZS 33 440 million (836 UZS per share)).

Additional paid-in capital

Additional paid-in capital is the amount of issue income by which capital contributions exceeded the nominal value of the issued shares.

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

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

(in millions of UZS)

18. Equity (continued)

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to reflect an increase in the fair value of buildings, as well as a decrease in this value, but only to the extent that such a decrease is related to a previous increase in the value of the same asset previously recognised in equity.

On 31 December 2023, the revaluation reserve amounted to UZS 99 554 million (31 December 2022, UZS 81 001 million).

In 2023, the Group recognised the following changes in the value of buildings as part of the revaluation reserve for property and equipment:

- revaluation recognised in other comprehensive income in the amount of UZS 24 226 million;
- effect on deferred income tax recognised in other comprehensive income in the amount of UZS 4 845 million.

19. Net interest income

Net interest income includes the following items:

	2023	*2022*
Loans to customers	**4 536 122**	2 122 715
Investment securities	**264 835**	256 878
Other interest income	**49 927**	47 713
Total interest income calculated using the effective interest rate	**4 850 884**	2 427 306
Amounts due to customers	**1 847 790**	964 048
Other borrowed funds	**126 295**	63 482
Amounts due to credit institutions	**152 012**	37 714
Accounts payable under repurchase agreements	**111 104**	10 314
Other interest expenses	**1 005**	716
Total interest expenses	**2 238 206**	1 076 274
Net interest income	**2 612 678**	1 351 032

20. Provision for credit losses

The table below shows the ECL expenses on financial instruments reflected in the consolidated statement of profit or loss for the year ended 31 December 2023:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	**(227)**	**815**	**559**	**1 147**
Amounts due from credit institutions	6	**448**	**–**	**–**	**448**
Loans to customers	7	**(45 680)**	**(47 966)**	**15 886**	**(77 760)**
Investment securities	8	**1 860**	**–**	**–**	**1 860**
Other financial assets	13	**(3 405)**	**181**	**3 758**	**534**
Total provision for credit losses		**(47 004)**	**(46 970)**	**20 203**	**(73 771)**

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	(81)	(2 683)	(559)	(3 323)
Amounts due from credit institutions	6	(1 780)	–	–	(1 780)
Loans to customers	7	(135 912)	(19 002)	(86 842)	(241 756)
Investment securities	8	(7 767)	–	–	(7 767)
Other financial assets	13	(13)	(222)	(5 478)	(5 713)
Total provision for credit losses		(145 553)	(21 907)	(92 879)	(260 339)

(in millions of UZS)

21. Net fee and commission income

Net fee and commission income includes the following items:

	2023	*2022*
Transactions with plastic cards	**663 956**	493 296
Settlement operations	**220 632**	208 119
International cash transfers	**128 321**	114 001
Cash operations	**37 032**	39 131
Currency conversion	**25 814**	18 024
Commission on letters of credit	**17 682**	13 838
Commission on Guarantees	**3 202**	4 474
Others	**13 788**	18 204
Fee and commission income	**1 110 427**	909 087
Transactions with plastic cards	**407 256**	418 669
International cash transfers	**62 345**	53 538
Settlement operations	**33 259**	15 523
Currency conversion	**15 317**	7 371
Letters of credit	**12 083**	20 277
Cash collection services	**7 325**	3 791
Others	**13 652**	4 912
Fee and commission expense	**551 237**	524 081
Net fee and commission income	**559 190**	385 006

22. Net gains from foreign currencies

Net profit on foreign currency transactions is presented as follows:

	2023	*2022*
Trading operations	**683 992**	699 269
Realised losses on transactions with currency derivatives	**(2 321)**	(18 685)
Foreign exchange revaluation	**(196 232)**	(91 950)
Total net foreign exchange gain	**485 439**	588 634

23. Personnel and other operating expenses

Staff costs and other operating expenses are presented as follows:

	2023	*2022*
Salaries and bonuses	**767 692**	428 333
Social security contributions	**90 095**	50 095
Total personnel expenses	**857 787**	478 428
Depreciation	**157 719**	84 692
Membership fees to the Deposit Guarantee Fund	**138 259**	85 658
Professional services	**101 458**	15 018
Advertising	**53 452**	35 764
Stationery	**41 022**	22 696
Security	**36 759**	23 127
Repairs	**31 453**	23 144
Charity and sponsorship	**27 748**	20 690
Taxes other than income tax	**27 427**	11 429
Communication	**27 214**	17 775
Rent	**22 501**	13 935
Other	**39 639**	57 681
Total other operating expenses	**704 651**	411 609
Total staff costs and other operating expenses	**1 562 438**	890 037

Expenses for professional services for 2023 include expenses for auditing services in the amount of UZS 4 758 million and non-auditing services in the amount of UZS 255 million provided by one supplier.

(in millions of UZS)

24. Contingencies

Legal issues

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

Tax legislation

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

As at 31 December 2023, the Group's Management believes that it adheres to an adequate interpretation of the relevant legislation, and the Group's position on tax, currency and customs issues will be supported by regulatory authorities.

Credit related commitments

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

	31 December 2023	*31 December 2022*
Letters of credit		
With post-financing	**20 887**	72 724
Without post-financing	**3 653 232**	2 383 629
Guarantees		
Financial guarantees	**68 198**	186 849
Performance guarantees	**–**	2 458
Undrawn loan commitments	**–**	1 614
Credit related commitments	**3 742 317**	2 647 274
ECL allowances for credit related commitments *(Note 17)*	**3 592**	7 366
Deposits held as security against letters of credit *(Note 15)*	**2 284 674**	2 087 264
Deposits held as security against guarantees *(Note 15)*	**11 347**	86 613

Below is an analysis of changes in allowances for ECL for the year ended 31 December 2023:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 31 December 2021	10 405	–	–	10 405
Net change for the year	(3 039)	–	–	(3 039)
As at 31 December 2022	**7 366**	**–**	**–**	**7 366**
Net change for the year	**(3 774)**	**–**	**–**	**(3 774)**
As at 31 December 2023	**3 592**	**–**	**–**	**3 592**

(in millions of UZS)

25. Related party transactions

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

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

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

	As at 31 December 2023			*As at 31 December 2022*			
	Other share-holders	***Entities under common control***	***Key mana-gement personnel***	***Parent company***	***Other share-holders***	***Entities under common control***	***Key mana-gement personnel***
Assets							
Loans to customers	**2 215**	**850 418**	**5 042**	–	7 785	–	7 929
Liabilities							
Amounts due to customers	**163 918**	**81 762**	**233 337**	12 034	78 906	39 256	8 401

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

	For the year ended 31 December 2023			*2022*			
	Other share-holders	***Entities under common control***	***Key mana-gement personnel***	***Parent company***	***Other share-holders***	***Entities under common control***	***Key mana-gement personnel***
Interest income calculated using the effective interest rate	**365**	**53 949**	**950**	–	2 349	–	355
Interest expenses	**(21 105)**	**(2 298)**	**(14 253)**	(28)	(2 574)	(553)	(106)
Credit loss expense	**(17)**	**(9 091)**	**(79)**	–	(566)	–	(108)

Loans to other shareholders, organizations under general control and key management personnel were provided with the maturity from 3 to 15 years, in UZS with an interest rate of 9% to 23% per annum, respectively. Amounts due to customers are presented by demand deposits and term deposits placed both in UZS and in foreign currency. Term deposits from the parent company, other shareholders and key management personnel in UZS were attracted at an interest rate of 17% to 23% per annum, in foreign currency the interest rate was from 3% to 5% per annum.

Remuneration of key management personnel was comprised of the following:

	2023	***2022***
Salaries and other short-term employee benefits	**51 604**	15 120
Social security contributions	**6 193**	1 814
Total key management personnel remuneration	**57 797**	**16 934**

26. Fair value measurements

Fair value hierarchy

For the purpose of fair value disclosure, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability, and the level in the fair value hierarchy as at 31 December 2023 and 31 December 2022 (details of the hierarchies used are provided in sections 3 of these consolidated financial statements).

(in millions of UZS)

26. Fair value measurements (continued)

Fair value hierarchy (continued)

	Fair value measurement using			
As at 31 December 2023	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Property and equipment – buildings	**–**	**–**	**446 286**	**446 286**
Assets for which fair value is disclosed				
Cash and cash equivalents	**1 514 509**	**4 713 379**	**–**	**6 227 888**
Amounts due from credit institutions	**–**	**1 426 907**	**–**	**1 426 907**
Loans to customers	**–**	**–**	**30 445 457**	**30 445 457**
Investment securities	**–**	**1 975 244**	**–**	**1 975 244**
Other financial assets	**–**	**–**	**60 486**	**60 486**
Liabilities for which fair value is disclosed				
Amounts due to credit institutions	**–**	**–**	**1 879 274**	**1 879 274**
Amounts due to customers	**–**	**–**	**33 520 477**	**33 520 477**
Other borrowed funds	**–**	**–**	**1 388 183**	**1 388 183**
Other financial liabilities	**–**	**–**	**476 662**	**476 662**

	Fair value measurement using			
As at 31 December 2022	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Property and equipment – buildings	–	–	359 334	359 334
Assets for which fair value is disclosed				
Cash and cash equivalents	1 862 670	4 447 358	–	6 310 028
Amounts due from credit institutions	–	1 697 075	–	1 697 075
Loans to customers	–	–	16 911 241	16 911 241
Investment securities	–	2 754 465	–	2 754 465
Other financial assets	–	–	68 727	68 727
Liabilities for which fair value is disclosed				
Amounts due to credit institutions	–	–	215 442	215 442
Amounts due to customers	–	–	25 072 015	25 072 015
Other borrowed funds	–	–	484 510	484 510
Other financial liabilities	–	–	202 875	202 875

The Group classifies assets held for sale that are measured at fair value less costs to sell with a book value of UZS 26 548 million to level 3 for fair value measurement purposes (31 December 2022: UZS 23 036 million to level 3).

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

(in millions of UZS)

26. Fair value measurements (continued)

Fair value hierarchy (continued)

	31 December 2023			31 December 2022		
	Carrying value	**Fair value**	***Unrecognised gain/(loss)***	***Carrying value***	***Fair value***	***Unrecognised gain/(loss)***
Financial assets						
Cash and cash equivalents	**6 227 888**	**6 227 888**	**–**	6 310 028	6 310 028	–
Amounts due from credit institutions (2023: 4%-16%, 2022: 4%-13%)	**1 450 808**	**1 426 907**	**(23 901)**	1 726 032	1 697 075	(28 957)
Loans to customers (2023: 8%-24%, 2022: 8%-22%)	**29 748 994**	**30 445 457**	**696 463**	16 516 765	16 911 241	394 476
Investment securities (2023: 18%, 2022: 17%)	**1 947 739**	**1 975 244**	**27 505**	2 711 914	2 754 465	42 551
Other financial assets	**60 486**	**60 486**	**–**	68 727	68 727	–
Financial liabilities						
Amounts due to customers	**33 520 477**	**33 520 477**	**–**	25 072 015	25 072 015	–
Other borrowed funds (2023: 5%-20%, 2022: 4%-14%)	**1 483 671**	**1 388 183**	**95 488**	634 942	484 510	150 432
Other financial liabilities	**476 662**	**476 662**	**–**	202 875	202 875	–
Total unrecognised change in fair value	**76 805 814**	**77 400 578**	**805 370**	**53 467 735**	**53 716 378**	**567 497**

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

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

Investment securities

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

Financial assets and financial liabilities at amortised cost

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

Property and equipment – buildings

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

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

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

(in millions of UZS)

26. Fair value measurement (continued)

When estimating the fair value of real estate by income method, a capitalization rate of 16.10% per annum was used (2022: 10.16%). The increase in capitalization rate would reduce the fair value of buildings. The sensitivity analysis is given below, with an increase in the capitalization rate:

Currency	*Change in the capitalization rate, in %* *2023*	*Impact on the cost of buildings* *2023*	*Change in the capitalization rate, in %* *2022*	*Impact on the cost of buildings* *2022*
Effect on the buildings value	**1%**	**(4 460)**	1%	(3 593)
	-1%	**4 460**	-1%	3 593

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

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

As at the valuation date 31 December 2023, the fair value of real estate is based on estimates made by an independent certified appraiser, Veritas LLC.

27. Risk management

Introduction

Risk is inherent in the Group's activities. The Group manages risks through an ongoing process of identification, assessment and monitoring, as well as through the establishment of risk limits and other internal control measures. The risk management process is crucial to maintaining stable profitability of the Group, and each individual employee of the Group is responsible for the risks associated with his or her responsibilities. The Group is exposed to operational risk, credit risk, liquidity risk and market risk, which, in turn, is divided into trading risk and non-trading risk.

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

Risk management structure

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

Supervisory Board

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

Management Board

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

Risk management

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

(in millions of UZS)

27. Risk management (Continued)

Compliance control

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

Treasury

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

Internal audit

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

Risk assessment and risk communication systems

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

Risk monitoring and control are mainly based on the limits set by the Group/Risk profile/Indicators of risk appetite, local acts of the bank on risk management, etc., as well as through the participation of employees of the Risk Management Department in the Management Board/Credit Committees under the Management Board/Finance Committee as invited persons without the right of an advisory vote, but with the right of "veto". The above instruments reflect the business strategy and market conditions in which the Group operates, as well as the level of risk that the Group is willing to accept, with particular attention being paid to individual industries. In addition, the Group monitors and evaluates its overall exposure to risks for all significant types of risks (credit risk. market risk, liquidity risk, operational risk).

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

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

Risk mitigation

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

Excessive risk concentration

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

Risk concentration reflects the relative sensitivity of the Group's performance to changes in conditions that affect a particular industry or geographical region.

In order to avoid excessive concentration of risk, the Group's policies and procedures include special principles aimed at maintaining a diversified portfolio. The identified risk concentrations are managed, including through the Risk Profile/Indicators of risk appetite.

(in millions of UZS)

27. Risk management (Continued)

Credit risk

Credit risk is the risk that the Group will incur losses due to the fact that its customers or counterparties have not fulfilled their contractual obligations. The Group manages credit risk by setting a limit on the amount of risk that the Group is willing to accept for individual counterparties, geographical or industry risk concentrations, risk profiles, risk appetite indicators, as well as by monitoring compliance with established risk limits/risk profile/risk appetite indicators.

Derivative financial instruments

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

Credit-related commitments risks

The Group makes available to its customers guarantees/letters of credit which may require that the Group make payments on their behalf. Clients reimburse such payments to the Group in accordance with the terms of the guarantee/letter of credit agreements. Under these agreements, the Group incurs risks that are similar to those of loans and that are mitigated using the same risk control procedures and policies.

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

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

Impairment assessment

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

Probability of default (PD)	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

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

Stage 1:	when loans are first recognised, the Group recognises an allowance based on 12m ECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
Stage 2:	when a loan has shown a significant increase in credit risk since origination, the Group recognises an allowance for the lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
Stage 3:	loans considered credit impaired. The Group recognises an allowance for the lifetime ECL.
POCI:	purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

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

(in millions of UZS)

27. Risk management (continued)

Definition of default and cure (continued)

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

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

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

Treasury and interbank relationships

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

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

As at 31 December 2023, for the purposes of assessing the ECL of organizations registered in the Russian Federation, the Group was classified in Stage 2. For the purposes of determining the probability of default, the pre-default rating of international rating agencies was used. The level of losses in default was determined at 62%:

Corporate lending

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

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

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

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

(in millions of UZS)

27 Risk managements (continued)

Definition of default and cure (continued)

Exposure at Default

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

Loss given default

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

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

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

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine how much it is necessary to create an estimated impairment reserve for an instrument or a portfolio of instruments (i.e. in the amount of 12-month ECL or ECL for the entire period), the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk for a financial instrument since initial recognition when contractual payments on a financial instrument are more than 30 days past due.

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

Grouping financial assets measured on a collective and individual basis

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

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

- all assets within Stage 3, the debt on which is more than 0,2% of the arithmetic average size of equity for the last 2 years according to IFRS;
- the Stage 1 and Stage 2 commercial loan portfolio, the debt on which is more than UZS 25 000 million;
- the treasury and interbank relationships (such as amounts due from banks, cash equivalents and investment securities);
- financial assets that have been classified as POCI when the original loan was derecognised, and a new loan was recognised as a result of a credit driven debt restructuring.

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

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

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

(in millions of UZS)

27 Risk management (continued)

Definition of default and cure (continued)

Credit quality by financial asset classes

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

31 December 2023	*Note*	*Stage*	High	Standard	Sub-standard	Impaired	Total
Cash and cash equivalents, except for cash on hand	5	Stage 1	**471 435**	**3 127 218**	**–**	**–**	**3 598 653**
		Stage 2	**–**	**–**	**1 114 726**	**–**	**1 114 726**
Amounts due from credit institutions	6	Stage 1	**708 552**	**703 593**	**38 663**	**–**	**1 450 808**
Loans to customers	7	Stage 1	**–**	**28 433 546**	**–**	**–**	**28 433 546**
		Stage 2	**–**	**–**	**963 466**	**–**	**963 466**
		Stage 3	**–**	**–**	**–**	**351 982**	**351 982**
Investment securities	8	Stage 1	**–**	**1 947 739**	**–**	**–**	**1 947 739**
Letters of credit	24	Stage 1	**–**	**3 674 119**	**–**	**–**	**3 674 119**
Financial guarantees	24	Stage 1	**–**	**68 198**	**–**	**–**	**68 198**
Total			**1 179 987**	**37 954 413**	**2 116 855**	**351 982**	**41 603 237**

31 December 2022	*Note*	*Stage*	High	Standard	Sub-standard	Impaired	Total
Cash and cash equivalents, except for cash on hand	5	Stage 1	43 823	4 145 942	–	–	4 189 765
		Stage 2	–	–	257 385	–	257 385
		Stage 3	–	–	–	208	208
Amounts due from credit institutions	6	Stage 1	1 161 306	556 005	8 721	–	1 726 032
Loans to customers	7	Stage 1	–	15 803 898	–	–	15 803 898
		Stage 2	–	–	442 761	–	442 761
		Stage 3	–	–	–	270 106	270 106
Investment securities	8	Stage 1	–	2 711 914	–	–	2 711 914
Undrawn loan commitments	24	Stage 1	–	1 614	–	–	1 614
Letters of credit	24	Stage 1	–	2 456 353	–	–	2 456 353
Financial guarantees	24	Stage 1	–	189 307	–	–	189 307
Total			1 205 129	25 865 033	708 867	270 314	28 049 343

(in millions of UZS)

27. Risk management (continued)

Geographical risk

The table below provides a geographical analysis of the Group's assets and liabilities as at 31 December 2023 and 2022:

	31 December 2023				***31 December 2022***			
	Uzbekistan	***OECD countries***	***Other countries***	***Total***	***Uzbekistan***	***OECD countries***	***Other countries***	***Total***
Financial assets								
Cash and cash equivalents	**4 624 052**	**482 364**	**1 121 472**	**6 227 888**	6 001 972	97 225	210 831	6 310 028
Amounts due from credit institutions	**742 296**	**522 227**	**186 285**	**1 450 808**	564 727	1 161 305	–	1 726 032
Loans to customers	**29 748 994**	**–**	**–**	**29 748 994**	16 516 765	–	–	16 516 765
Investment securities	**1 947 739**	**–**	**–**	**1 947 739**	2 711 914	–	–	2 711 914
Other financial assets	**60 486**	**–**	**–**	**60 486**	68 727	–	–	68 727
Total financial assets	**37 123 567**	**1 004 591**	**1 307 757**	**39 435 915**	**25 864 105**	**1 258 530**	**210 831**	**27 333 466**
Financial liabilities								
Amounts due to credit institutions	**1 113 187**	**196 375**	**579 527**	**1 889 089**	15 277	137 403	71 757	224 437
Amounts due to customers	**26 271 906**	**657 908**	**6 590 663**	**33 520 477**	18 942 293	56 093	6 073 629	25 072 015
Other borrowed funds	**926 932**	**556 739**	**–**	**1 483 671**	634 942	–	–	634 942
Other financial liabilities	**476 662**	**–**	**–**	**476 662**	202 875	–	–	202 875
Total financial liabilities	**28 788 687**	**1 411 022**	**7 170 190**	**37 369 899**	**19 795 387**	**193 496**	**6 145 386**	**26 134 269**
Net position on financial assets and liabilities	**8 334 880**	**(406 431)**	**(5 862 433)**	**2 066 016**	**6 068 718**	**1 065 034**	**(5 934 555)**	**1 199 197**

Liqudity risk

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

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

(in millions of UZS)

27. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Group's financial liabilities as at 31 December 2023 and 31 December 2022 based on contractual undiscounted repayment obligations. Repayments, which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2023	*On demand and less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Amounts due to credit institutions	**1 421 284**	**144 041**	**15 728**	**353 817**	**–**	**1 934 870**	**1 889 089**
Amounts due to customers	**10 749 365**	**1 122 630**	**7 288 042**	**17 936 759**	**312 683**	**37 409 479**	**33 520 477**
Other borrowed funds	**8 540**	**42**	**75 830**	**262 350**	**1 300 666**	**1 647 428**	**1 483 671**
Other financial liabilities	**–**	**–**	**476 662**	**–**	**–**	**476 662**	**476 662**
Total undiscounted financial liabilities	**12 179 189**	**1 266 713**	**7 856 262**	**18 552 926**	**1 613 349**	**41 468 439**	**37 369 899**

As at 31 December 2022	*On demand and less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*More than 5 years*	*Total gross amount outflow*	*Carrying amount*
Amounts due to credit institutions	92 227	–	63 806	34 586	42 143	232 762	224 437
Amounts due to customers	10 262 152	373 899	4 357 734	11 826 949	24 598	26 845 332	25 072 015
Other borrowed funds	792	5 360	49 046	156 771	585 462	797 431	634 942
Other financial liabilities	–	–	202 875	–	–	202 875	202 875
Total undiscounted financial liabilities	10 355 171	379 259	4 673 461	12 018 306	652 203	28 078 400	26 134 269

Market risk

Market risk is the probability of losses (loss) and (or) non–receipt of planned income as a result of changes in exchange rates, interest rates and prices of financial instruments.

Interest rate risk

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

Sensitivity of the consolidated statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on net interest income for one year, calculated on the basis of non-trading financial assets and financial liabilities with a floating interest rate available as at 31 December 2023.

(in millions of UZS)

27. Risk management (continued)

Interest rate risk (continued)

Currency	*Increase in basis points 2023*	*Sensitivity of net interest income 2023*
UZS	100	(45 221)
EUR	100	(5 225)
UZS	(100)	45 221
EUR	(100)	5 225

The Group believes that the interest rate risk as at 31 December 2023 is insignificant due to the insignificant amount of assets and liabilities with floating interest rates.

Currency risk

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

The following table shows the currencies in which the Group has significant open currency positions in 2023 and 2022 for monetary assets and liabilities.

As at 31 December 2023	**UZS**	**USD**	**EUR**	**Other currencies**	**Total**
Financial assets	24 663 005	11 944 136	2 039 783	788 991	39 435 915
Total financial liabilities	19 761 395	14 951 885	1 964 884	691 735	37 369 899
Net position	**4 901 610**	**(3 007 749)**	**74 899**	**97 256**	**2 066 016**

As at 31 December 2022	**UZS**	**USD**	**EUR**	**Other currencies**	**Total**
Financial assets	16 535 472	8 993 666	1 300 512	539 228	27 368 878
Total financial liabilities	13 116 841	11 092 663	1 363 639	544 667	26 117 810
Net position	**3 418 631**	**(2 098 997)**	**(63 127)**	**(5 439)**	**1 251 068**

The analysis performed consists in calculating the impact of a possible change in exchange rates relative to the UZS on the consolidated statement of profit or loss and other comprehensive income (due to the presence of non-trading monetary assets and liabilities, the fair value of which is sensitive to changes in the exchange rate). The impact on equity does not differ from the impact on the consolidated statement of profit or loss and other comprehensive income. Negative amounts in the table reflect a potential net decrease in the consolidated statement of profit or loss and other comprehensive income or equity, while positive amounts reflect a potential net increase.

Currency	*Change in currency rate in % 2023*	*Effect on profit before tax 2023*	*Change in currency rate in % 2022*	*Effect on profit before tax 2022*
USD	**10%**	**(300 775)**	10%	(209 900)
	-10%	**300 775**	-10%	209 900
EUR	**10%**	**7 490**	10%	(6 312)
	-10%	**(7 490)**	-10%	6 312

Operational risk

Operational risk is the probability of losses and (or) shortfall in planned revenues arising as a result of imperfections in internal processes, intentional or careless actions of personnel or other persons, errors in the internal systems of the Group or the influence of external events.

If the control system is not functioning at an adequate level, operational risks can damage reputation, have legal consequences, or lead to financial losses. The Group cannot expect to eliminate all operational risks, but with the establishment of an appropriate system of control, monitoring and timely response to potential risks, the Group can manage operational risks. The control system provides for effective segregation of duties, access rights, authorization and reconciliation procedures, assessment processes, staff training, including the use of internal audit.

(in millions of UZS)

28. Maturity analysis of assets and liabilities

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

	As at 31 December 2023			*As at 31 December 2022*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	**6 227 888**	**–**	**6 227 888**	6 310 028	–	6 310 028
Amounts due from credit institutions	**618 672**	**832 136**	**1 450 808**	763 373	962 659	1 726 032
Loans to customers	**5 728 381**	**24 020 613**	**29 748 994**	3 020 015	13 496 750	16 516 765
Investment securities	**1 118 695**	**829 044**	**1 947 739**	2 209 107	502 807	2 711 914
Assets held for sale	**26 548**	**–**	**26 548**	23 036	–	23 036
Property and equipment and right-of-use assets	**–**	**1 069 111**	**1 069 111**	–	846 330	846 330
Intangible assets	**–**	**286 661**	**286 661**	–	104 533	104 533
Current income tax assets	**8 204**	**–**	**8 204**	23 522	–	23 522
Deferred income tax assets	**–**	**55 325**	**55 325**	–	48 281	48 281
Other assets	**689 726**	**–**	**689 726**	214 751	71 402	286 153
Total assets	**14 574 104**	**27 092 890**	**41 666 994**	12 563 832	16 032 762	28 596 594
Liabilities						
Amounts due to credit institutions	**1 563 796**	**325 293**	**1 889 089**	153 968	70 469	224 437
Amounts due to customers	**16 788 622**	**16 731 855**	**33 520 477**	14 701 109	10 370 906	25 072 015
Other borrowed funds	**84 412**	**1 399 259**	**1 483 671**	49 970	584 972	634 942
Other liabilities	**476 662**	**–**	**476 662**	211 153	–	211 153
Total liabilities	**18 913 492**	**18 456 407**	**37 369 899**	15 116 200	11 026 347	26 142 547
Net position	**(4 495 378)**	**8 636 483**	**4 141 105**	(2 552 368)	5 006 415	2 454 047

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

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

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

(in millions of UZS)

29. Segment information

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

Operating segments

The Group operates in the following operating segments:

- individuals — provision of banking services to private clients, maintenance of current accounts of private clients, acceptance of savings accounts and deposits, maintenance of debit cards, provision of consumer loans and loans secured by real estate;
- legal entities — maintaining settlement accounts, attracting deposits, providing loans and other lending services, direct debit, transactions with foreign currencies and derivative financial instruments;
- investment-banking — transactions related to the placement (receipt) of interbank deposits, the purchase of securities and transactions with other borrowed funds and loans.

In 2023 and 2022, the Group did not have revenue from transactions with a single external client or counterparty, which would have amounted to 10 percent or more of its total revenue.

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

As at 31 December 2023	*Individuals*	*Legal entities*	*Investment banking*	*Unallocated*	*Total*
Cash and cash equivalents	–	–	6 227 888	–	6 227 888
Amounts due from credit institutions	–	–	1 450 808	–	1 450 808
Loans to customers	19 044 720	10 704 274	–	–	29 748 994
Investment securities	–	–	1 947 739	–	1 947 739
Assets held for sale	–	–	–	26 548	26 548
Property and equipment and right-of-use assets	–	–	–	1 069 111	1 069 111
Intangible assets	–	–	–	286 661	286 661
Current income tax assets	–	–	–	8 204	8 204
Deferred income tax assets	–	–	–	55 325	55 325
Other assets	117 944	584 786	–	(13 004)	689 726
Total assets	19 162 664	11 289 060	9 626 435	1 432 845	41 511 004
Liabilities					
Amounts due to credit institutions	–	–	1 889 089	–	1 889 089
Amounts due to customers	15 587 600	17 932 877	–	–	33 520 477
Other borrowed funds	–	1 253 734	229 937	–	1 483 671
Other liabilities	329 462	143 041	–	6 552	479 055
Total liabilities	15 845 236	19 401 478	2 119 026	6 552	37 372 292

(in millions of UZS)

29. Segment information (continued)

Operating segments (continued)

As at 31 December 2022	***Individuals***	***Legal entities***	***Investment banking***	***Unallocated***	***Total***
Cash and cash equivalents	–	–	6 310 028	–	**6 310 028**
Amounts due from credit institutions	–	–	1 726 032	–	**1 726 032**
Loans to customers	10 260 688	6 256 077	–	–	**16 516 765**
Investment securities	–	–	2 711 914	–	**2 711 914**
Assets held for sale	–	–	–	23 036	**23 036**
Property and equipment and right-of-use assets	–	–	–	846 330	**846 330**
Intangible assets	–	–	–	104 533	**104 533**
Current income tax assets	–	–	–	23 522	**23 522**
Deferred income tax assets	–	–	–	48 281	**48 281**
Other assets	69 273	206 170	–	10 710	**286 153**
Total assets	**10 329 961**	**6 462 247**	**10 747 974**	**1 056 412**	**28 596 594**
Liabilities					
Amounts due to credit institutions	–	–	224 437	–	**224 437**
Amounts due to customers	11 994 843	13 077 172	–	–	**25 072 015**
Other borrowed funds	127 117	507 825	–	–	**634 942**
Other liabilities	135 565	70 312	–	5 276	**211 153**
Total liabilities	**12 257 525**	**13 655 309**	**224 437**	**5 276**	**26 142 547**

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

For the year ended 31 December 2023	***Individuals***	***Legal entities***	***Investment banking***	***Unallocated***	***Total***
Interest income	2 779 460	1 759 713	311 711	–	4 850 884
Interest expenses	(894 266)	(1 232 836)	(111 104)	–	(2 238 206)
Net interest income	**1 885 194**	**526 877**	**200 607**	**–**	**2 612 678**
Credit loss expense	(119 251)	42 787	2 693	–	(73 771)
Net interest income after credit loss expense	**1 765 943**	**569 664**	**203 300**	**–**	**2 538 907**
Fee and commission income	689 921	420 506	–	–	1 110 427
Fee and commission expense	(408 033)	(143 204)	–	–	(551 237)
Net gains from foreign currencies:	–	–	485 439	–	485 439
Net losses from initial recognition of financial assets measured at amortised cost	–	12 466	–	–	12 466
Other income	–	–	–	19 165	19 165
Personnel and other operating expenses	(864 348)	(506 060)	–	(192 030)	(1 562 438)
Profit before income tax expense	**1 183 483**	**353 372**	**688 739**	**(172 865)**	**2 052 729**
Income tax expense	–	–	–	(379 085)	(379 085)
Net profit for the year	**1 183 483**	**353 372**	**688 739**	**(551 950)**	**1 673 644**

(in millions of UZS)

29. Segment information (continued)

Operating segments (continued)

For the year ended 31 December 2022	*Individuals*	*Legal entities*	*Investment banking*	*Unallocated*	*Total*
Interest income	1 521 674	630 115	275 517	–	2 427 306
Interest expenses	(436 083)	(629 877)	(10 314)	–	(1 076 274)
Net interest income	**1 085 591**	**238**	**265 203**	**–**	**1 351 032**
Credit loss expense	(137 453)	(111 796)	(11 090)	–	(260 339)
Net interest income after credit loss expense	**948 138**	**(111 558)**	**254 113**	**–**	**1 090 693**
Fee and commission income	674 915	234 172	–	–	909 087
Fee and commission expense	(451 469)	(72 612)	–	–	(524 081)
Net gains from foreign currencies:	–	–	588 634	–	588 634
Net losses from initial recognition of financial assets measured at amortised cost	–	(33 329)	–	–	(33 329)
Other income	–	–	–	17 284	17 284
Personnel and other operating expenses	(664 447)	(79 553)	–	(146 037)	(890 037)
Profit before income tax expense	**507 137**	**(62 880)**	**842 747**	**(128 753)**	**1 158 251**
Income tax expense	–	–	–	(214 585)	(214 585)
Net profit for the year	**507 137**	**(62 880)**	**842 747**	**(343 338)**	**943 666**

30. Capital management

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

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

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

According to Amendment No. 2693-11 dated June 6, 2023, all banks of the Republic of Uzbekistan are required to increase the minimum amount of their share capital to UZS 200 billion by September 1, 2023.

As at 31 December 2023 and 31 December 2022, the Bank met the requirements to regulatory capital requirements set by the Regulation.

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

	31 December 2023	*31 December 2022*
Tier I capital	**3 828 702**	2 314 860
Tier II capital	**1 671 025**	625 187
Total capital	**5 499 727**	2 940 047
Total amount of risk-weighted assets	**34 410 090**	18 896 503
K1	**15.98%**	15.56%
K2	**11.13%**	12.25%

(in millions of UZS)

31. Subsequent events

There were no events after the reporting date that significantly affected the financial result.

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

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

Seal

Allayorova D.N.
Chief Accountant of the Bank

13 March 2024