PKF MAK ALYANS LLC

PKF
Accountants &
business advisors

JOINT-STOCK COMPANY

"MORTGAGE REFINANCING COMPANY OF UZBEKISTAN"

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
AND INDEPENDENT AUDITOR'S REPORT

CONTENT

Confirmation of the Management's responsibilities for preparation and approval of the financial statement as of 31 December 2023

The Company's Management is responsible for the preparation of financial statements that present fairly, in all material aspects of the financial position of the Joint-Stock Company "Mortgage refinancing company of Uzbekistan" (hereinafter – "the Company") as of 31 December 2023, and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

In preparing the financial statements, management is responsible for:

⇒ selecting and applying appropriate accounting policies;

⇒ presentation of data, including information on accounting policy, in the form of providing timeliness, reliability, matching and clarity of such information;

⇒ observance of requirements of IFRS, also disclosure of additional information in event when implementation of the requirements of IFRS provided to be insufficient for understanding of the users of the financial statements with different transactions and also other events or conditions influence on financial position and financial results of the activity of the Company;

⇒ valuation of ability of the Company to continue in visible future.

The Management is also responsible for:

⇒ designing, implementing and maintaining an effective and reliable system of internal control in the Company;

⇒ maintenance the accounting in the form of which allows to disclose and explain transactions of the Company, and also present any data with the enough precision of financial position of the Company and provide with compliance its financial statements with the requirements of IFRS;

⇒ maintain its accounting system in accordance with the Uzbekistan accounting legislation and standards;

⇒ taking all reasonable possible measures to ensure the safety of the Company's assets;

⇒ exposure and prevention of the facts of financial and other abuses.

These financial statements of the Company as of 31 December 2023 were approved by the Management on 10 April 2024.

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHAR YUNUSOBOD TUMANI AKSIYADORLIK JAMIYATI O'ZBEKISTON IPOTEKANI QAYTA MOLIYALASHTIRISH KOMPANIYASI
O'zIQMK

Farhanov Murodjon Jabborovich
General Director

Nurmamatov Marat Abdelovich
Deputy General Director
for Financial Affairs

Independent Auditor's Report

To the Shareholders and the Supervisory Board of Joint-Stock Company «Mortgage refinancing company of Uzbekistan»

Auditor's opinion

We have audited the financial statements of Joint-Stock Company "Mortgage refinancing company of Uzbekistan" (hereinafter the "Company"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity (the "financial statements") for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

The audit was conducted in accordance with International standards on auditing (ISA). Our duties in accordance with these standards are described later in the section "The Auditor's Responsibility for the audit of the financial statements" of the report.

We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for our opinion.

Independence and quality control

We are independent of the auditee and have complied with the ethical requirements of the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (including International Independence Standards) (the IESBA Code) and the independence requirements in Part 4A of the IESBA Code and the ethical requirements of the Code of Professional Ethics for Auditors of the Republic of Uzbekistan relating to our audit of the financial statements in Uzbekistan. We have also fulfilled our other responsibilities in accordance with these ethical requirements.

Our organization applies International Standard on Quality Management (ISQM) 1, Quality Management in Audit Organizations Performing Audits or Reviews of Financial Statements and Other Assurance or Related Services Engagements, and therefore maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal requirements.

Tel: +99871 294-73-86 • Fax: +99871 294-73-85 • info@pkf.uz • www.pkf.uz • www.pkf.com
PKF MAK ALYANS LLC • 22, Aviasozlar street • 1 passage • Tashkent, Uzbekistan • 100016

Key audit matters

Key audit matters are those matters that, in our professional judgement, would be of most significance in an audit of the financial statements of the reporting period. These matters were considered in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not express a separate opinion on these matters.

Other information

The financial statements of the Company for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 28 April 2023.

The Company's management is responsible for other information. Other information represents the information in the annual report, except the financial statements and audit report with our opinion. We suppose that the annual report will be provided to us after the date of this audit report.

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

Due to the audit of the financial statements, the responsibilities of the auditors include reviewing other information specified above after providing the information. During the review, we consider other information on the subject of significant inconsistencies with data from financial statements or with the information obtained during our audit engagement, as well as other possible significant inconsistencies.

If based on review of annual report we conclude that the information contains significant inconsistencies, we shall inform about this fact to individual responsible for corporate governance.

Management's responsibility and those who are responsible for the corporate governance of the audited entity in relation to the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for maintaining internal control system that management considers necessary for preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements management is responsible for assessing the Company's ability to continue its operations consistently, for the disclosure of appropriate information related to business consistency, and the use of the principle of consistency as the basis of accounting, except when the management intends to liquidate the organization to cease its activities or when it does not have any alternative other than liquidation or termination of its activities.

Those who are responsible for the corporate governance of the Company are responsible for supervising and preparation of the financial statements of the audited entity.

Auditor's responsibility for the audit of the financial statements

Our responsibility is to obtain reasonable assurance that financial statements are free of material misstatements due to fraud or error, and to submit the auditor's report that includes our opinion. Reasonable assurance is a high degree of confidence, but is not a guarantee that an audit conducted in accordance with International standards on auditing (ISA) always detects existing material misstatement.

Distortions might be the result of fraud or error and shall be considered material if on a reasonable basis there is a possibility to assume that individually or collectively, they could influence the economic decisions taken by users based on the financial statements.

In the framework of the audit in accordance with ISA, we apply professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:

⇒ we gain an understanding of the internal control system relevant to the audit, with the aim to establish audit procedures that are appropriate in the certain circumstances, however not with the purpose of expressing an opinion on the efficiency of the internal control system of the Company;

⇒ we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; we develop and conduct audit procedures in response to those risks we obtain the audit evidence that is sufficient and appropriate to express our opinion. The risk of not detecting material misstatements as a result of unfair actions is higher than the risk of not detecting material misstatement as a result of error as unscrupulous actions that include collusion, forgery, deliberate omission, misrepresenting of information or actions that circumvent existing internal control system;

⇒ we make conclusions on the legitimacy of the management's assumptions about consistency of the activities and conclusion about whether there is a significant uncertainty in connection with events or conditions that may raise significant doubts about the ability of the Company to continue its activities consistently based on obtained audit evidence. In the case, we conclude that there is significant uncertainty, we must draw attention to the relevant disclosures in the financial statements in our auditor's report or if such disclosure is inadequate, we shall modify our opinion. Our conclusions based on audit evidence obtained prior to the date of our audit opinion. However, future events or conditions may cause the Company to lose the ability to continue their activities consistently;

⇒ we assess the appropriate character of applied accounting policy and validity of accounting estimates and related disclosures determined by the management;

⇒ we carry out general assessment of the financial statements, its structure and content, including disclosures and whether the financial statements provide the underlying transactions and events to ensure their fair presentation.

⇒ we obtain sufficient appropriate audit evidence relating to the financial information of entities or activities within the Company to express an opinion on the financial statements. We are responsible for directing, supervising and performing the audit of the Company. We remain fully responsible for our audit opinion.

We carry out informational interaction with individuals responsible for corporate governance, inter alia, bring information about the planned scope and term of audit work and significant observations of the audit, including significant deficiencies in the system of internal control to their attention that were identify during our audit engagement.

We also provide individuals responsible for corporate governance, the statement that we have complied with all relevant ethical requirements regarding independence and we informed these individuals about all relationships and other matters that may affect the Auditor's independence and, where necessary, on appropriate precautionary measures.

Of those matters that we communicated to those charged with governance, we identified those matters that were of most significance in our audit of the financial statements of the current period and are therefore the key audit matters. We describe those matters in our auditor's report unless public disclosure of those matters is prohibited by law or regulation, or in extremely rare circumstances, we conclude that a matter should not be communicated in our report because the adverse consequences of communicating that matter would reasonably be expected to outweigh the public benefit of communicating that matter.

Ravshan Asfandiyarov
General Director

Auditor's qualification certificate
No. 05048 dated 25 August 2012

Auditor's qualification certificate
to conduct audits of banks
No. 14/1 dated 27 December 2019

Alimjon Isakov
Head of the Audit Team

Auditor's qualification certificate
№ 04475 dated 05 December 2007

Auditor's qualification certificate
to conduct audits of banks
No. 26 dated 14 April 2023

Audit Company "PKF MAK ALYANS" LLC

10 April 2024
22, Aviasozlar Street, 1st Avenue, Tashkent, Uzbekistan

Joint-Stock Company "Mortgage refinancing company of Uzbekistan"

Statement of financial position

(in thousands of UZS)

Items	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	6	45 241 830	1 308 436
Due from other banks	7	157 196 739	76 054 388
Loans and advances	8	3 205 373 150	1 929 499 914
Investment financial assets	9	48 745 299	51 859 805
Fixed and Intangible assets	10	5 617 504	5 731 785
Deferred tax asset	19	2 013 072	1 056 826
Other assets	11	4 958 923	986 369
TOTAL ASSETS		**3 469 146 517**	**2 066 497 523**
LIABILITIES			
Borrowed funds	12	2 860 887 363	1 928 085 935
Debt securities issued	13	145 538 630	
Other liabilities	14	308 339 079	7 312 991
Total liabilities		**3 314 765 072**	**1 935 398 926**
EQUITY CAPITAL			
Authorised capital	15	132 790 200	112 222 700
Retained earnings	16	21 591 245	18 875 897
Total equity capital		**154 381 445**	**131 098 597**
TOTAL LIABILITIES AND EQUITY		**3 469 146 517**	**2 066 497 523**

Approved and signed on behalf of the Company's management on 10 April 2024.

O'zIQMK

Farmanov Murodjon Jabborovich
General Director

Nurmamatov Marat Abdelovich
Deputy General Director
for Financial Affairs

Notes to the financial statements from pages 12 to 61 are integral part of this report.
See for independent auditor's conclusion on the pages 4 and 7.

Joint-Stock Company “Mortgage refinancing company of Uzbekistan”

Statement of profit and loss and other comprehensive income

(in thousands of UZS)

Items	Notes	for 2023	for 2022
Interest income	17	318 189 188	205 985 429
Interest expense	17	(272 206 005)	(171 781 155)
Net interest income		**45 983 183**	**34 204 274**
Recovery / (Provision) for credit losses on debt financial assets	6, 7, 8,11	(5 689 142)	(1 059 932)
Net interest income after changes in the provision for credit losses		**40 294 041**	**33 144 342**
Commission expenses		(365 009)	(43 591)
Other operating income		6 174	1 098
Personnel and other operating expenses	18	(12 290 896)	(7 953 368)
Profit before tax		**27 644 310**	**25 148 481**
Income tax expense	19	(3 135 769)	(3 260 257)
Net profit for the year		**24 508 541**	**21 888 224**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**24 508 541**	**21 888 224**

Approved and signed on behalf of the Company's management on 10 April 2024.

Farmanov Murodjon Jabborovich
General Director

Nurmamatov Marat Abdelovich
Deputy General Director
for Financial Affairs

Joint-Stock Company "Mortgage refinancing company of Uzbekistan"

Statement of cash flows

(in thousands of UZS)

Items	Notes	for 2023	for 2022
Cash flows from operating activities			
Interest received	17	275 809 374	191 001 691
Interest paid	17	(231 238 338)	(164 452 042)
Commissions paid		(365 009)	-
Other operating income received		6 174	9 371
Personnel costs	18	(8 709 658)	(5 445 179)
Administrative and other operating expenses	18	(1 864 264)	(2 834 439)
Income tax paid	19	(4 092 015)	-
Cash flows from operating activities before change in operating assets and liabilities		**29 546 264**	**18 279 402**
Changes in operating assets (increase) / decrease			
Due from other banks	7	(83 000 000)	27 021 480
Loans and advances	8	(1 279 100 109)	(755 080 177)
Other assets	11	(3 972 555)	(659 683)
Changes in operating liabilities increase / (decrease)			
Other liabilities	14	5 995 577	1 889 297
Net cash flows from operating activities		**(1 330 530 823)**	**(708 549 681)**
Cash flows from investing activities			
Acquisition of fixed and intangible assets	10	(559 031)	(314 610)
Investment financial assets	9	3 336 151	(51 859 805)
Net cash flows from investing activities		**2 777 120**	**(52 174 415)**
Cash flows from financing activities			
Issue of shares	15	20 567 500	-
Dividends paid	15	(21 650 000)	-
Cash proceeds from loans and borrowings	12	1 232 801 428	755 080 930
Cash proceeds on debt securities issued	13	140 000 000	-
Net cash flows from financing activities		**1 371 718 928**	**755 080 930**
Effect of exchange rate changes on cash and cash equivalents		-	-
Effect of changes in expected credit losses on cash and cash equivalents		(49 065)	-
Net increase (decrease) in cash and cash equivalents		**43 916 160**	**(5 643 166)**
Cash and cash equivalents at the beginning of the reporting period	**6**	**1 325 670**	**6 968 836**
Cash and cash equivalents at the end of the reporting period	**6**	**45 241 830**	**1 325 670**

Joint-Stock Company "Mortgage refinancing company of Uzbekistan"

Statement of changes in equity

(in thousands of UZS)

Items	Authorized capital	Reserve capital and funds	Retained earnings	Total change in equity
Balance as at 1 January 2022	100 000 000	-	9 853 674	109 853 674
Issue of shares	-	-	-	-
Dividends capitalised	12 222 700	-	-	**12 222 700**
Dividends paid	-	-	(12 866 001)	**(12 866 001)**
Contributions to reserve capital	-	-	-	-
Comprehensive income for the reporting year	-	-	21 888 224	**21 888 224**
Balance as at 31 December 2022	**112 222 700**	**-**	**18 875 897**	**131 098 597**
Issue of shares	-	-	-	-
Dividends capitalised	20 567 500	-	-	**20 567 500**
Dividends paid	-	-	(21 650 000)	**(21 650 000)**
Bonus payments to staff based on 2022 results	-	-	(143 193)	**(143 193)**
Contributions to reserve capital	-	-	-	-
Comprehensive income for the reporting year	-	-	24 508 541	**24 508 541**
Balance as at 31 December 2023	**132 790 200**	**-**	**21 591 245**	**154 381 445**

Approved and signed on behalf of the Company's management on 10 April 2024.

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHAR YUNUSOBOD TUMANI AJ IPOTEKANI QAYTA MOLIYALASHTIRISH KOMPANIYASI O'zIQMK

Farmanov Murodjon Jabborovich
General Director

Nurmamatov Marat Abdelovich
Deputy General Director
for Financial Affairs

(in thousands of UZS)

1. Principal activity

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2023 for Joint Stock Company "Mortgage Refinancing Company of Uzbekistan" (hereinafter referred to as the "Company").

The Company was incorporated on 04 November 2019 as a Joint Stock Company under Presidential Decree No. PD-5715 dated 13 May 2019 in the city of Tashkent, Republic of Uzbekistan.

The Company is registered to carry out mortgage refinancing activities in accordance with the Decision of the Banking Control Committee of the Central Bank of the Republic of Uzbekistan (hereinafter referred to as the "CBU") No. 224/1 dated 01 June 2020.

The Company is a commercial organisation whose main purpose is to provide long-term resources by refinancing mortgage loans received from banks and other credit institutions, including funds from international financial institutions and foreign governmental financial organisations, and to promote the stable development of the mortgage market in Uzbekistan.

Legal and actual address of the Company: 107-B, Amir Temur street, 100084, Tashkent city, Republic of Uzbekistan.

The total number of the Company's personnel as at the reporting date was 26 (14 person in 2022, respectively).

Shareholders' interest in the Company's authorised capital:

Name of the shareholder	Ownership interest	
	31 December 2023	31 December 2022
State asset management agencies	25,0%	-
Ministry of Economy and Finance of the Republic of Uzbekistan	-	25,0%
JSCMB «Ipoteka Bank»	20,0%	20,0%
JSCB «Business development bank»	10,0%	10,0%
JSC «NBU»	10,0%	10,0%
JSCB «Uzpromstroybank»	8,0%	8,0%
JCS «Xalq Bank»	7,0%	7,0%
JSCB «Agrobank»	5,0%	5,0%
JSC «Asakabank»	5,0%	5,0%
JSCB «Turonbank»	3,0%	3,0%
PJSCB «Orient Finance»	3,0%	3,0%
JSCB «Hamkorbank»	2,0%	2,0%
JSCB «Kapitalbank»	1,0%	1,0%
JSC «InFinBank»	1,0%	1,0%
TOTAL SHAREHOLDERS' INTEREST:	100,0%	100,0%

The ultimate controlling owner of the Company is the Government of the Republic of Uzbekistan.

2. Operating environment in which the Company operates

The Company's principal activities are within the Republic of Uzbekistan and are therefore affected by the economic situation in the Republic of Uzbekistan. The economy of the Republic of Uzbekistan, while significantly improving in recent years, continues to display characteristics of an emerging market. These include, but are not limited to, the non-convertibility of the Uzbek Soum in most countries outside of the Republic of Uzbekistan and a low level of liquidity in the debt and equity securities markets.

In 2023, the Government of the Republic of Uzbekistan continued to implement social and economic reforms and liberalise the market with a focus primarily on attracting foreign direct investment. Consequently, laws and regulations affecting businesses in the Republic of Uzbekistan continue to change rapidly. The prospects for economic stability and future economic direction in the Republic of Uzbekistan are largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with legal, regulatory, and political developments, which are beyond the Company's control.

During 2023, the Government of the Republic of Uzbekistan has carried out work to further increase the level of capitalization of the domestic banking system, strengthen its liquidity and stability. In particular, the total capital of commercial banks as of 01 January 2024 is amounted to 97.1 trillion UZS, (by the end of 2022, 79.5 trillion UZS, respectively). At the moment, the total volume of attracted deposits of commercial banks amounted to 241.7 trillion UZS (by the end of 2022, 216.7 trillion UZS, respectively). The total volume of loan investments amounted to 471.4 trillion UZS (by the end of 2022, 390.0 trillion UZS, respectively), as well as the total volume of assets increased and amounted to 621.1 trillion UZS (by the end of 2022, 556.7 trillion UZS).

Uzbekistan experienced the following key economic indicators for 2023:

⇒ Growth in gross domestic product (GDP): 6.0% (at the year-end 2022: 5.7%);

⇒ The refinancing rate of the Central Bank of the Republic of Uzbekistan is 14% (at the year-end 2022: 15%);

⇒ The rate of inflation no more than 8.8% (at the year-end 2022: 12.3%);

⇒ Official exchange rate on 31 December 2023: 1 US dollar = 12 338.77 UZS; 1 Euro = 13 731.82 UZS (31 December 2022: 1 US dollar = 11 225.46 UZS; 1 Euro = 11 961.85 UZS).

In February 2024, the International Rating Agency "Fitch Ratings" affirmed the long-term foreign currency issuer default rating at "BB-" with "Stable" outlook.

Management is currently monitoring developments in the current environment and is taking such actions as it deems necessary to support the sustainability and development of the Company's business for the foreseeable future. However, the impact of further economic developments on the future operations and financial position of the Company is at this stage difficult to determine.

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and reflect management's assessment of the impact of the economic conditions in the Republic on the operations and the financial position of the Company. Future economic conditions may differ from management's assessment.

3. Important assessments and professional judgement

The preparation of financial statements in accordance with IFRS requires management to make judgments, assumptions and estimates that affect the application of accounting policies and the presentation of assets and liabilities, income and expenses in the financial statements. The estimates and related assumptions are based on historical experience and other applicable factors necessary to determine the carrying amount of assets and liabilities. Despite the fact that the estimated values are based on the management's most complete knowledge of the current situation, the actual results, in the end, may differ significantly from the accepted estimates.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually evaluated based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes judgements and estimates in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can result in significant adjustments to the carrying amounts of assets and liabilities within the next financial year include:

Going concern

These financial statements reflect management's current assessment of the impact of the Company's operations and the financial position of the Company. The future economic development of the Republic of Uzbekistan is largely dependent upon the effectiveness of measures undertaken by the Government of the Republic of Uzbekistan and other factors, including legislative and political developments which are beyond the Company's control. Management is unable to predict the effects of these factors on the Company's future financial position. No adjustments for this risk have been included in the accompanying financial statements.

Classification of financial assets.

An assessment of the business models that are applied to the assets and an assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal outstanding are disclosed in Note 5.

Change in the estimated reserve for expected credit losses.

The measurement of the estimated reserve for expected credit losses for financial assets measured at amortised cost and measured at fair value through other comprehensive income (FVTOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the probability of default by counterparties and the resulting losses). A number of significant judgements are also required when applying accounting requirements to measure expected credit losses, such as:

⇒ Determining the criteria for a significant increase in credit risk;

⇒ Selecting appropriate models and assumptions for measuring expected credit losses;

⇒ Establishing the number and relative weights of possible future scenarios for each product type/market and the corresponding expected credit loss;

⇒ Establishment of groups of similar financial assets for the purposes of estimating expected credit losses.

The estimated reserve for credit losses on financial instruments is affected by a number of factors, which are summarised below:

⇒ Transfers and related estimate of the reserve for credit losses between Stage 1 (12-month expected credit losses) and Stage 2 (lifetime expected credit losses - unimpaired assets) or Stage 3 (lifetime expected credit losses - impaired assets) because, that the balances have experienced a significant increase / (decrease) in credit risk within one Stage or impairment during the period with a subsequent increase / (decrease) from 12-month expected credit losses to lifetime expected credit losses;

⇒ Creation of additional estimated reserve for newly recognised / purchased financial instruments during the period, as well as their reversal in respect of financial instruments derecognised during the period;

⇒ The effect on the estimate of expected credit losses of changes in the probability of default, debt at the time of default and loss in case of default during the period resulting from regular updates of the initial data models;

⇒ The effect on the estimate of expected credit losses of changes in contractual interest requirements, given the effect of timing, as expected credit losses are measured on a present value basis;

⇒ Financial assets derecognised during the period and write-off / reversal of estimated reserve relating to assets written off / reversed during the period;

⇒ Sale of subsidiaries and reclassifications to assets of discontinued operations and assets held for sale;

⇒ The effect of changes in exchange rates on the recalculation of assets denominated in foreign currency and other movements.

Information on inputs, assumptions, estimation techniques and judgements used in measuring expected credit losses is detailed in Note 5 and 24.

Terms related to the estimation of expected credit losses are defined in Note 24.

Fair value of financial instruments

The fair value of financial instruments that do not have a quoted market price in an active market is determined using a variety of valuation techniques. Where valuation techniques (e.g. models) are used to determine fair value, they are validated and regularly reviewed by qualified personnel independent of the department/division applying the techniques. All models are certified before they are used; models are also adjusted to ensure that results reflect actual data and comparative market prices. To the extent acceptable, the models use only observable data, however areas such as credit risk (both own and counterparty risk), variability and correlation require management judgement. Changes in assumptions about these factors could affect the fair value recognised in the financial statements.

4. Basis of reporting

The Company maintains its accounting records in Uzbek Soums in accordance with the requirements of the laws, rules and regulations of the Republic of Uzbekistan in the field of accounting and reporting. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with all material aspects of IFRS, but the national accounting principles have certain differences from similar principles for IFRS purposes.

Every year, the IASB updates International Financial Reporting Standards by issuing both new documents and amendments to existing standards. Here are some of the changes that are mandatory for financial statements for the annual period beginning 1 January 2023:

Amendments to IAS 1 "Presentation of Financial Statements". The International Accounting Standards Board (IASB) has previously clarified the definition of materiality and issued optional Practice Statement No. 2 on the application of IFRSs, Making Judgements about Materiality. Materiality judgement is required not only when making recognition and measurement decisions, but also when deciding what information to disclose and how to present it.

As a final step in improving the concept of materiality, the IASB issued amendments to apply materiality to accounting policy disclosures.

The key amendments to IAS 1 include:

⇒ requiring an entity to disclose its material, rather than significant, accounting policies;

⇒ clarifying that accounting policies related to intangible transactions, other events or conditions are themselves intangible and, as such, are not required to be disclosed; and

⇒ clarifying that not all accounting policies relating to material transactions, other events or conditions are themselves material to the entity's financial statements.

The amendments are consistent with the clarified definition of "materiality":

"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence the decisions that major users of general purpose financial statements make on the basis of those financial statements."

The IASB also included guidance and two additional examples of applying the principle of materiality to accounting policy disclosures in Practice Statement No. 2 on the application of IFRSs, Making Judgements about Materiality.

Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The distinction between accounting policies and accounting estimates is important because changes in accounting policies are generally applied retrospectively and changes in accounting estimates are applied prospectively. Thus, the chosen approach can affect both the presentation of results and the dynamics between periods.

The amendments to IAS 8 also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to fulfil an objective set out in the accounting policy. Thus, the development of an accounting estimate includes:

⇒ the choice of measurement method (valuation method) - for example, the valuation method used to measure the allowance for expected credit losses; and

⇒ selecting the inputs to be used in applying the chosen measurement method - for example, expected cash outflows to determine the provision for warranty obligations.

The effects of changes in the choice of measurement methods or inputs are changes in accounting estimates.

IAS 12 "Income Taxes". The amendments to IAS 12 "Income Taxes" require companies to account for deferred tax on certain transactions - such as leases and decommissioning. The problem is that not all companies recognize the future tax consequences of leases in their financial statements.

The amendments narrow the scope of the initial recognition exemption when it does not apply to transactions that give rise to equal and offsetting temporary differences. All entities will now be required to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of leases and decommissioning provisions.

The amendments clarify that the exemption applies to transactions such as leases and decommissioning obligations. Such transactions give rise to equal and offsetting temporary differences.

For lease liabilities and decommissioning provisions, the related deferred tax assets and liabilities should be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date.

Standards issued but not yet effective. Two new sustainability standards, IFRS S1 and IFRS S2, as well as amendments to four existing standards, come into force in 2024.

Sustainability Standards IFRS S1 and S2. In June 2023, the IASB issued two new sustainability standards for the first time: IFRS S1 "General Disclosure Requirements for Sustainability-Related Financial Information" and IFRS S2 "Climate Change Disclosures".

They establish disclosure requirements about sustainability and climate change risks and opportunities that may affect an enterprise's cash flows, access to finance or cost of capital.

These two standards are the first steps in realising the vision of the International Sustainability Standards Board (ISSB) to create a global framework for sustainability reporting. First and foremost, they are investor-focused and provide a clear picture of what companies should report to meet the needs of global capital markets.

⇒ IFRS S1 contains a number of disclosure requirements to enable entities to communicate to investors the risks and opportunities associated with sustainability in the short, medium and long term.

⇒ IFRS S2 sets out the requirements for climate-related disclosures and is intended to be used with IFRS S1.

The standards came into force on 1 January 2024. Implementation will be phased in over time: in the first year, companies will be limited to disclosing climate risk information under IFRS S2, and from the second year, they will be required to publish data in accordance with the requirements of IFRS S1. During the transition period, ISSB plans to establish a working group to support companies applying the new standards.

Two amendments to IAS 1 "Presentation of Financial Statements". The first change relates to the classification of liabilities. Under the amendment, Classification of Liabilities as Current or Non-Current, a liability is classified as non-current if the entity has the right to defer settlement of the liability for at least 12 months. And that right must exist at the end of the reporting period, regardless of whether the entity plans to exercise that right. If the right to defer settlement of the liability is conditional on the entity meeting certain conditions, the right exists at the end of the reporting period only if the entity has satisfied all of the conditions by that date.

The second amendment, Non-current liabilities with special conditions, requires that an entity may classify a liability arising under a loan agreement as non-current if the entity's right to defer settlement of the liability is conditional on the satisfaction of special conditions within 12 months after the end of the reporting period. Also, disclosures are now required in the notes to the financial statements that enable users to recognise the risk that the liabilities may be repayable within 12 months after the end of the reporting period. Specifically:

⇒ information about special conditions when the entity must fulfil them;

⇒ the carrying amount of the related liabilities;

⇒ and the facts and circumstances surrounding the fulfilment of these conditions.

Amendments to IFRS 16 "Leases" - "Lease liability in sale and leaseback transactions" IFRS 16 was amended to clarify how entities should account for sale and leaseback transactions after the transaction date. A seller-lessee will now be required to account for variable lease payments arising in a sale and leaseback transaction as a lease liability. The new model for accounting for variable payments will require reassessment and possibly restatement of sale and leaseback transactions entered into from 2019.

A sale and leaseback transaction are when an entity sells an asset and leases it back to a new owner for a specified period of time. The new amendment adds to the sale and leaseback requirements in IAS 16 and clarifies that a lessee-seller need not recognise any gain or loss relating to the right of use retained. However, this does not preclude a lessee from recognising gains or losses on the partial or total termination of a lease.

Amendments to IAS 7 and IFRS 7 – "Vendor Financing Arrangements". The IASB amended IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments: disclosures" to address the disclosure requirements for vendor financing arrangements in financial statements. The new amendments will provide an opportunity to increase the transparency of supplier financing arrangements, namely to assess the impact of the arrangements on an entity's liabilities and cash flows. The amendments also apply to agreements such as supply chain financing, accounts payable financing or reverse factoring.

The amendments to IFRS 7 and IAS 7 include disclosure requirements:

⇒ the terms of the funding agreements;

⇒ the carrying amount of financial liabilities that form part of supplier financing arrangements and the line items in which those liabilities are recognised;

⇒ the carrying amount of financial liabilities under which suppliers have already received payment from financial service providers;

⇒ the range of maturities of the financial liabilities that form part of these agreements.

The amendments now require entities to disclose the type and effect of non-cash changes in the carrying amount of financial liabilities that relate to vendor financing arrangements. The amendments are effective for annual periods beginning on or after 1 January 2024, with no comparative information required for the first year.

Uzbekistan has also switched to IFRS from 2021. According to the Decree of the President of the Republic of Uzbekistan from 24 February 2020 № PD-4611 "On additional measures on transition to international financial reporting standards" the first to organise accounting under IFRS are large taxpayers: joint stock companies, commercial banks, insurance organisations and legal entities. They must prepare financial statements in accordance with IFRS starting from the results of 2021.

In the English version of IFRS (in the original) there are many concepts that do not have exact correspondence and equivalent in many countries. Specialists working with international standards have to either use a new system of terms and concepts or adopt English-language versions of the names. In addition, there is no defined and regulated mechanism for obtaining clarifications in case of misunderstandings or ambiguities in the conditions of the company's functioning with IFRS. The cost of consulting foreign professionals is very high, translation and other explanations of international standards are accompanied by considerable expenses.

Management anticipates that the adoption of the above standards and interpretations will not have a material impact on the Company's financial statements in the period of initial application. The Company does not disclose information about new standards and interpretations that are not applicable to the Company's operations or that will not have a material impact on the Company's financial statements.

Using estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities within the next financial period. Because of the inherent uncertainties in making such estimates, actual results recognized in future periods may be based on amounts that differ from those estimates.

Initial recognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company recognises purchases and sales of financial assets and liabilities on standardised settlement date terms. All financial assets are measured initially at fair value. Costs directly attributable to acquisition or issue are added to cost, except for financial assets at fair value through profit or loss.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined based on quoted market prices for similar financial instruments or using a variety of valuation techniques that include the use of mathematical models. Inputs to such models are determined based on observable market data or judgement. Judgement is made considering factors such as the time value of money, level of credit risk, volatility of the instrument, level of market risk, and other applicable factors.

Functional and presentation currency

The financial statements are presented in the currency of the Republic of Uzbekistan (Uzbek Soum), which is the Company's functional and presentation currency and reflects the economic substance of the underlying events and circumstances of the Company. Financial information in the financial statements has been rounded to the nearest thousand.

5. Significant accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention as modified by the initial recognition of financial instruments at fair value. The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented.

Cash and cash equivalents

Cash and cash equivalents are items that are easily converted into a certain amount of cash and are subject to minor changes in value. Cash and cash equivalents include all deposits with other banks with an initial maturity of up to one business day. Funds for which there are restrictions on use for a period of more than three months at the time of provision are excluded from cash and cash equivalents in both the statement of financial position and the statement of cash flows. Cash and cash equivalents are carried at amortised cost because **(i)** they are held to receive contractual cash flows and these cash flows are solely payments of principal and interest, and **(ii)** they are not classified as measured at fair value through profit or loss. Conditions established solely by law (for example, provisions on debt-to-equity conversion in some countries) do not affect the results of the SPPI test, except in cases where they are included in the terms of the contract and would apply even if the legislation subsequently changed.

Payments or receipts of funds presented in the statement of cash flows represent the transfer of funds and their equivalents to the Company, including amounts accrued or credited to the current accounts of the Company's counterparties placed in the Company, such as interest income on a loan or the principal amount of debt collected by debiting funds from the client's current account, interest payments or loans issued, credited to the client's current account, representing cash or its equivalent from the client's point of view.

Due from other banks

Amounts due from banks are recorded when the Company advances money to counterparty banks. Amounts due from banks are carried at amortised cost if (i) they are held to collect contractual cash flows, the cash flows represent solely payments of principal and interest, and (ii) they are not designated at fair value through profit or loss.

Loans and advances

Loans and advances presented in the statement of financial position comprise:

⇒ loans and advances measured at amortised cost; these are initially measured at fair value plus additional direct transaction costs and subsequently measured at amortised cost using the effective interest method;

⇒ loans and advances measured at FVTPL (fair value through profit and loss) on a mandatory basis; such loans are measured at fair value with changes in value recognised immediately in profit or loss; and

When the Company purchases a financial asset and simultaneously enters into an agreement to resell the asset (or substantially the same asset) at a fixed price at a future date, the agreement is accounted for as a loan or advance and the underlying asset is not recognised in the Company's financial statements.

Fixed assets

Fixed assets are stated at cost as described below, less accumulated depreciation and provision for impairment, if any.

Profit and loss arising from the disposal of fixed assets are determined on the basis of their residual value and are reflected under operating expenses in the statement of comprehensive income.

Repair and maintenance costs are reflected in the statement of comprehensive income at the time of their occurrence.

Intangible assets

The Company's intangible assets, other than goodwill, have definite useful lives and primarily include capitalised computer software and intangible assets. Acquired and recognised intangible assets are capitalised on the basis of the costs incurred to acquire and bring these assets to use. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis and assessed for impairment whenever there is an indication that the assets may be impaired.

Depreciation

Depreciation of an item of fixed asset commences from the date the asset is available for use. Depreciation is charged on a straight-line basis over the following useful lives of the assets:

⇒ Buildings – 20 years;

⇒ Office and Computer equipment – from 2.5 to 7 years;

⇒ Transport vehicles – 5 years;

⇒ Intangible assets – 5 years.

The land has an indefinite useful life and is not subject to depreciation.

At the end of its useful life, the residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

Right-of-use assets and lease liabilities

From 1 January 2019, a lease is recognised as a right-of-use asset and a corresponding liability at the date when the leased asset is available for use by the Company. Each lease payment is apportioned between the liability and finance charges. The finance charge is recognised in profit or loss over the lease term so as to achieve a constant periodic rate of interest on the remaining lease liability each period. The right-of-use asset is amortised on a straight-line basis over the shorter of the useful life of the asset and the lease term.

Right-of-use assets are disclosed within "Fixed assets" in the statement of financial position, lease liabilities are disclosed within "Other liabilities" in the statement of financial position. Finance costs are disclosed in the line "Interest expense calculated at the effective interest rate" in the statement of profit or loss, depreciation of right-of-use assets is disclosed in the line "Staff costs and other operating expenses" in the statement of profit or loss.

The assets and liabilities arising from leases are initially measured at their present value. Lease liabilities comprise the net present value of the following lease payments:

⇒ fixed payments (including direct fixed payments), less any lease incentive payments receivable under cancellable and non-cancellable operating leases;

⇒ variable lease payments that depend on a price index or interest rate;

⇒ the amounts expected to be paid by the lessee under the residual value guarantees;

⇒ the exercise price of the purchase option, if the lessee has sufficient confidence in the exercise of this option, and

⇒ paying early termination penalties if the lease term reflects the lessee's potential exercise of an option to terminate the lease early.

Lease payments are discounted using the lessee's incremental borrowing rate, which is the rate that a lessee would have to pay to raise the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost, which includes the following components:

⇒ the amount of the initial cost of the lease liability;

⇒ any lease payments made on or before the commencement date, less any lease incentive payments received;

⇒ any initial direct costs incurred by the lessee and

⇒ estimated restoration costs.

Payments made under short-term leases and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis. Short-term leases are leases with a lease term of twelve months or less.

Financial liabilities

The Company classifies its financial liabilities other than financial guarantees and loan commitments as measured at amortised cost or FVTPL (fair value through profit and loss).

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged or expires).

Financial liabilities categorised as at fair value through profit or loss

The Company may designate certain liabilities as at fair value through profit or loss upon initial recognition. Profit and losses on such liabilities are presented in profit or loss, except for the amount of change in fair value attributable to changes in the credit risk of that liability (defined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recognised in other comprehensive income and is not subsequently reclassified to profit or loss. This is possible if such presentation does not create or exacerbate an accounting mismatch. In that case, profit and losses relating to changes in the credit risk of the liability are also recognised in profit or loss.

Borrowed funds

Borrowings are represented by syndicated loans raised by the Company in the financial markets and trade finance transactions. Borrowings are carried at amortised cost or at FVTPL.

Debt securities issued

Debt Securities - Bonds. These debt securities are evidence of the issuer's obligation to the bondholder. The bondholder is not entitled to share in the profits of the company, but will also receive interest payments in addition to the face value itself. Bonds are carried at amortised cost or at FVTPL.

Settlements with suppliers and other payables

Trade and other payables are accrued when the counterparty has fulfilled its contractual obligations and are carried at amortised cost.

Authorised capital

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

Dividends

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared before the end of the reporting period inclusive. Dividends are disclosed in the subsequent events note if they are declared after the end of the reporting period. Payment of dividends and other distribution of profit is made on the basis of net profit of the current year according to the accounting statements prepared in accordance with the legislation of the Republic of Uzbekistan.

Once approved by the General meeting of shareholders, dividends are recognised in the financial statements as a distribution of profit.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, failing that, in the most advantageous market to which the Company has access at that date. The fair value of the liability reflects the risk that it will not be honoured.

When available, the Company measures the fair value of an instrument using quoted prices for that instrument in an active market. A market is regarded as active if quoted prices are readily available and reflect actual and regularly occurring transactions between independent market participants.

In the absence of current quoted prices in an active market, the Company uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. The chosen valuation techniques include all factors that market participants would consider in the circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration paid or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is not evidenced by a quoted price in an active market for a similar asset or liability and is not based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer recognition of the difference between the transaction price and fair value. Subsequent to initial recognition, the difference is amortised to profit or loss over the life of the instrument but no later than when the valuation is supported wholly by observable inputs or the transaction is closed out.

Where the transaction price in a non-active market is different from the fair value of a current market transaction in a observable market for the same instrument or based on a valuation technique whose inputs include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value ("First Day Earnings") in profit or loss. Where unobservable inputs are used, the difference between the transaction price and model value is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

If an asset or liability measured at fair value has a demand price and an offer price, assets and long positions are valued based on the demand price, liabilities and short positions are valued based on the offer price.

Effective interest rate (discounting method)

Effective interest rate method - is the present value of all future cash flows expected to arise from a financial asset or financial liability at the date when the asset or liability is recognised, using a discount rate.

The discount method is used by the Company to determine the amortised cost of financial instruments.

Discount rate – is the effective interest rate or market interest rate at which all future cash flows of a financial instrument are discounted to its present value.

Discounted cash flows on financial assets and liabilities are discounted based on future cash flows expected to arise from the actual contractual cash flows and an appropriate discount factor determined based on the discount rate

If cash flows on a financial instrument are expected to occur over more than one period (interest income or expense is accrued more than once on specified dates during the life of the financial instrument, and/or principal is repaid in instalments), the calculation of future cash flows, discount factor and discounted amounts of these cash flows is performed for each such period. The present value of the financial instrument at the date of origination is the sum of the discounted future cash flows of the instrument for each period.

The effective interest rate is applied to the gross carrying amount of the financial instrument. The effective interest rate applied to acquired or originated credit-impaired financial assets is the rate adjusted for credit risk. This rate is applied to the amortised cost of acquired or originated credit-impaired assets from the date of initial recognition.

For financial assets that subsequently become credit-impaired, the effective interest rate is also applied to the amortised cost. If, in a subsequent period, the credit risk on a financial asset that is credit-impaired subsequently decreases to such an extent that the asset ceases to be so, the effective interest rate is applied to the gross carrying amount of the financial instrument from the next reporting period.

The calculation of the effective interest rate includes transaction costs and fees and amounts paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Amortised cost of the financial instrument

Amortised cost – of the financial instrument at the end of each reporting period is the amount calculated as the amortised cost of that instrument at the end of the previous reporting period plus/minus the amortisation amount, being the difference between the cash flows for that reporting period calculated at the effective interest rate and the cash flows actually received or paid during that period.

In determining amortisation, the cash flows of a financial instrument include:

⇒ movements in the amount of principal issued or received;

⇒ interest income or expense;

⇒ additional commissions received or paid at the time of granting or raising a loan (such as commissions for organising and granting a loan, reviewing a loan application, opening and maintaining a loan account, etc.) or issuing a debt obligation (e.g. a bond);

⇒ other commissions that are subject to reliable assessment, the payment of which is a prerequisite for issuing a loan or issuing an obligation, or will be made on a regular basis according to the terms of the agreement.

Interest income and expenses on financial instruments recognized at their initial recognition at cost are recognized in the income statement based on the actual rate under the contract.

If a new fair value is determined for a financial instrument for its initial recognition, interest income or expenses are calculated and recognized based on the market interest rate used to determine the new fair value of the financial instrument, which subsequently becomes the effective interest rate on that instrument.

For floating-rate financial instruments, the effective interest rate for discounting cash flows is used until the next date of revision of the floating rate at market rates before the maturity date of the financial instrument.

Interest income and expenses on financial instruments, the amortized cost of which is calculated by discounting flows at the effective interest rate, are calculated based on the new initial cost of the financial instrument at the effective interest rate.

Financial assets and liabilities

Classification of financial instruments

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

⇒ at amortized cost;

⇒ at fair value through other comprehensive income;

⇒ at fair value through profit or loss, depending on:

- ✓ the business model used to manage financial assets;
- ✓ characteristics of a financial asset related to the cash flows provided for under the agreement.

The business models used by the Company are defined by key management personnel and describe the ways in which the Company manages its financial assets in order to generate cash flows.

Financial assets are measured at amortised cost if the following conditions are met simultaneously:

⇒ A financial asset is held within the framework of a business model, the purpose of which is to retain cash flows provided for in the contract;

⇒ The contractual terms provide for the receipt of cash flows on certain dates, which are exclusively payments against the principal amount of the debt and interest on the outstanding part of the principal amount of the debt.

⇒ Cash flows, which are exclusively payments against the principal amount of debt and interest on the outstanding part of the principal amount of debt, are characterized by the following features:

⇒ The principal amount of the debt is the fair value of the financial asset at initial recognition;

⇒ Interest includes only compensation for the temporary value of money, for credit risk in relation to the principal amount of debt remaining outstanding for a certain period of time, and for other ordinary risks (for example, liquidity) and costs (in particular, administrative) associated with lending.

In some cases, the time value of money element contains consideration for other risks and costs, i.e. it is modified. In this case, the Company makes a qualitative or, if necessary, quantitative assessment of the significance of the effect of the modified time value of money element.

Financial assets are measured at fair value through other comprehensive income if the following conditions are met simultaneously:

⇒ a financial asset is held within the framework of a business model, the purpose of which is both to retain cash flows provided for in the contract and to sell financial assets;

⇒ the contractual terms provide for the receipt of cash flows on certain dates, which are exclusively payments against the principal amount of the debt and interest on the outstanding part of the principal amount of the debt.

Financial assets are measured at fair value through profit or loss if they are acquired within the framework of a business model whose purpose is to sell, as well as if they do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income.

In accordance with IFRS 9, **financial liabilities are classified as subsequently measured at amortised cost**, with the exception of:

⇒ financial liabilities measured at fair value through profit or loss;

⇒ financial liabilities that arise when the transfer of a financial asset does not meet the requirements for derecognition or when the principle of accounting for continuing involvement is applied;

⇒ financial guarantee agreements;

⇒ obligations to provide loans at an interest rate below the market rate;

⇒ conditional compensation received as a result of the business combination.

Business model assessment

The Company evaluates the purpose of the business model within which the asset is held at the portfolio level of financial instruments, as this best reflects the way the business is managed and how information is presented to management. The analyzed information includes:

⇒ The policies and objectives set for portfolio management, as well as the implementation of these policies in practice. In particular, is the management strategy focused on obtaining the interest income provided for in the contract, maintaining a certain interest rate structure, ensuring that the maturities of financial assets match the maturities of financial liabilities used to finance these assets, or realizing cash flows through the sale of assets;

⇒ How is the effectiveness of the portfolio assessed and how is this information brought to the attention of the Company's management;

⇒ Risks affecting the effectiveness of the business model (and financial assets held within this business model), and how these risks are managed;

⇒ How is the remuneration of managers responsible for portfolio management carried out (for example, does this remuneration depend on the fair value of the specified assets or on the cash flows received from the assets provided for in the contract);

⇒ The frequency, volume and timing of sales in previous periods, the reasons for such sales, as well as expectations regarding future sales levels. However, information about sales levels is not considered in isolation, but within the framework of a single holistic analysis of how the Company's stated goal of managing financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading, or managed and the performance of which is assessed on the basis of fair value, are measured at fair value through profit or loss, since they are not held either for the purpose of receiving contractual cash flows, or for the purpose of both receiving contractual cash flows and selling financial assets.

Assessment of whether the cash flows provided for in the agreement are solely payments of principal and interest.

For the purposes of this assessment, the "principal amount" is defined as the fair value of a financial asset at its initial recognition. "Interest" is defined as compensation for the time value of money, for credit risk in relation to the principal amount remaining outstanding for a certain period of time, and for other major risks and costs associated with lending (for example, liquidity risk and administrative costs), and also includes profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest on the outstanding portion of the principal amount (the "SPPI criterion"), the Company analyzes the contractual terms of the financial instrument. This includes an assessment of whether the terms of the contract for a financial asset provide for any condition that may change the timing or amount of cash flows under the contract so that the financial asset will not meet the analyzed requirement.

When conducting an assessment, the Company takes into account:

⇒ conditional events that can change the timing or amount of cash flows;

⇒ conditions that have a leverage effect;

⇒ conditions for early repayment and prolongation of the validity period;

⇒ conditions that limit the Company's claims to cash flows from certain assets (for example, "non-recourse" assets);

⇒ conditions that lead to a change in compensation for the time value of money – for example, the revision of interest rates on a periodic basis.

General principles of initial assessment of financial instruments

Financial instruments (financial assets and financial liabilities) are recognized in the accounting of the Company if the Company becomes a party to the contract in respect of this financial instrument.

With the exception of trade receivables (which do not contain a significant financing component) and a financial asset or financial liability measured at fair value through profit or loss, financial instruments are initially recognized at fair value, increased or decreased in the case of a financial asset or financial liability, by the amount of transaction costs that are directly attributable to the acquisition of a financial asset an asset or an issue of a financial liability. The best confirmation of the fair value of a financial instrument at initial recognition is usually the transaction price.

Trade receivables that do not contain a significant financing component are valued at initial recognition at the transaction price.

If the actual contractual rate for a financial instrument is absent or significantly deviates from the market rate for this similar instrument at the date of its occurrence, then a new fair value of the financial instrument is determined for its initial recognition. At the same time:

⇒ in the absence of information on market rates for this financial instrument (or if they cannot be determined with a sufficient degree of reliability), the actual contract rate for this instrument is subject to comparison with market rates for transactions with similar/similar financial instruments;

⇒ a deviation of the actual contractual rate from the market rate for the similar financial instrument on the date of its occurrence is considered material. The decision on materiality is made on the basis of professional judgement of the responsible persons taking into account the content and specifics of the respective transaction.

The new fair value of a financial instrument for its initial recognition is determined by the discount method based on the market interest rate and represents the fair value of this instrument at the date of its occurrence, i.e. the present value of all future (expected) cash flows for this instrument at the date of its occurrence, discounted at the market interest rate for this or similar a financial instrument. The difference between the actual costs at the date of occurrence of a financial instrument and its new initial cost, depending on the reason for its occurrence, may be recognized in equity, income statement or other assets/liabilities of the Company.

The market interest rate on this financial instrument or other similar financial instruments is determined based on the available available internal and external sources of information, depending on the type and nature of the financial instrument and can be determined/calculated based on:

⇒ from well-known interest rates published or posted in information systems www.cbu.uz (official website of the Central Bank of the Republic of Uzbekistan) or public authorities and management on the Internet;

⇒ from the main rate of the CBU for the corresponding period.

In particular, when determining the market rate for loan agreements, the Company uses information published by the CBU on the total cost of the loan, defining the range of market rates as: the upper limit of the range is the loan cost rate and the lower limit of the range is the main rate of the CBU for the corresponding period.

Reclassification

The classification of financial assets after initial recognition does not change, except in the period following the Company changes its business model for managing financial assets. A company should classify financial assets only if it has changed the business model used to manage these financial assets. It is expected that such changes will occur extremely rarely. Such changes should be determined by the Company's top management as a result of external or internal changes and should be significant for the Company's activities and obvious to external parties. Accordingly, a change in the purpose of the Company's business model can occur if and only if the Company begins or ceases to carry out certain activities significant in relation to its operations; for example, in the case of acquisition, disposal or termination of a certain line of business by the Company.

The classification of financial liabilities after initial recognition is not subject to change.

Derecognition of financial instruments

A financial asset is derecognized only when:

⇒ the contractual rights to the cash flows from this financial asset expire or;

⇒ the Company transfers a financial asset, and such transfer satisfies the requirements for derecognition.

In the event of a significant modification of a financial asset, the Company terminates its recognition and recognizes a new asset. The Company defines the criteria for significant modification as:

⇒ changing the currency of a financial instrument;

⇒ changing a fixed interest rate to a floating interest rate and vice versa;

⇒ replacement of the debtor.

A financial liability is derecognized only if it is repaid, that is, when the obligation specified in the contract has been fulfilled, cancelled or expired.

The transfer of a financial asset means:

⇒ transfer of contractual rights to receive cash flows from this financial asset to another party or;

⇒ retention of contractual rights to receive cash flows from a financial asset while simultaneously accepting contractual obligations to pay these funds to one or more recipients under the contract.

When transferring a financial asset, the degree of risks and rewards associated with owning a financial asset is assessed. In this case:

⇒ if the Company transfers substantially all the risks and rewards associated with owning a financial asset, it derecognizes the financial asset and recognizes separately as assets or liabilities those rights and obligations that were created or retained during the transfer;

⇒ if the Company retains substantially all the risks and rewards associated with owning a financial asset, it continues to recognize the financial asset;

⇒ If the Company does not transfer or retain substantially all the risks and rewards associated with owning a financial asset, it must determine whether control of the financial asset remains. And in this case:

- ✓ if the Company does not retain control, it derecognizes the financial asset and recognizes separately as an asset or liability those rights and obligations that were created or retained during the transfer;
- ✓ If the Company retains control, it continues to recognize the financial asset to the extent that it continues to participate in that financial asset.

Upon derecognition, the difference between the carrying amount of a financial asset transferred to another party (estimated at the date of derecognition) and the amount of funds received or receivable in exchange for that asset, less liabilities incurred, is reflected in the income statement for the reporting period.

A significant change in the terms of a financial liability (regardless of the reasons for this change), including the exchange of obligations with significantly different terms, is accounted for as the repayment of an old liability and the recognition of a new one, with the difference between them reflected in the income statement. A significant change is recognized in which the current discounted value of cash flows in accordance with the new conditions differs from the current discounted value of the remaining cash flows of the original financial liability by 10% or more.

Upon derecognition, the difference between the carrying amount of the financial liability repaid or transferred to another party, including the corresponding unamortized part of the actual costs, and the amount of compensation paid for it is reflected in the income statement for the reporting period.

Impairment

The Company recognizes a provision for expected credit losses on the following financial instruments that are not measured at fair value through profit or loss:

⇒ funds in other banks;

⇒ loans to customers;

⇒ debt investment securities.

The Company considers that a debt security has a low credit risk if its credit rating corresponds to the globally accepted definition of the "investment quality" rating.

Assessment of expected credit losses

Expected credit losses are an estimate of credit losses weighted by the probability of default. They are estimated as follows:

⇒ **in respect of financial assets that are not credit-impaired as of the reporting date:** as the present value of all expected cash shortfalls (i.e., the difference between the cash flows due to the Company under the contract and the cash flows the Company expects to receive);

⇒ **with respect to financial assets that are credit impaired as of the reporting date:** as the difference between the gross carrying amount of the assets and the present value of estimated future cash flows;

Restructured financial assets

If the terms of a financial asset are renegotiated or modified by agreement between the parties, or an existing financial asset is replaced by a new financial asset because of financial difficulties of the borrower, an assessment is made as to whether the financial asset should be derecognised and the expected credit losses are estimated as follows:

⇒ If the expected restructuring does not result in the derecognition of an existing asset, the expected cash flows from the modified financial asset are included in the calculation of the cash flow shortfall on the existing asset.

⇒ If the expected restructuring results in the derecognition of an existing asset, the expected fair value of the new asset is treated as the final cash flow on the existing asset when it is derecognised. This amount is included in the calculation of the cash flow deficit on the existing financial asset discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

The Company assesses at each reporting date whether financial assets carried at amortised cost and debt financial assets at fair value through other comprehensive income are credit impaired. A financial asset is "credit-impaired" when it is subject to an event of default.

Provision for expected credit losses

The amounts of the provision for credit losses are presented in the statement of financial position as follows:

⇒ financial assets measured at amortised cost: as a reduction in the gross book value of these assets;

⇒ debt instruments measured at fair value through other comprehensive income: the estimated loss allowance is not recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the amount of the provision for losses is disclosed and recognized as part of the reserve for changes in fair value.

Interest income and expenses calculated using the effective interest rate method

Interest income and expenses on all debt instruments measured at amortised cost and measured at fair value through other comprehensive income are recorded on an accrual basis using the effective interest method.

This calculation includes in interest income and expenses all commissions and payments paid and received by the parties to the agreement and forming an integral part of the effective interest rate, transaction costs, as well as all other bonuses or discounts.

Commissions related to the effective interest rate include commissions received or paid by the Company in connection with the formation or acquisition of a financial asset or the issuance of a financial liability (for example, commissions for assessing creditworthiness, evaluating or accounting for guarantees or collateral, for settling the terms of the instrument and for processing transaction documents).

For credit-impaired financial assets created or acquired, the effective interest rate is the rate that discounts expected cash flows (including initial expected credit losses) to fair value at initial recognition (usually corresponding to the purchase price). As a result, the effective interest is adjusted for credit risk.

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

⇒ financial assets that have become impaired (Stage 3) and for which interest income is calculated by applying the effective interest rate to their amortised cost (less allowance for expected credit losses);

⇒ created or acquired credit-impaired financial assets for which the initial effective interest rate, adjusted for credit risk, is applied to the amortized cost.

Commission income and expenses

Commission income and expenses, which are an integral part of the effective interest rate on a financial asset or liability, are included in the calculation of the effective interest rate.

The Company recognizes other commission income at the time or as it fulfills its obligation to perform under the agreement by providing a service to the client.

Other interest income and expenses

Other interest income and expenses represent interest income and expenses on debt instruments measured under the FVTPL and are recorded on an accrual basis using a nominal interest rate.

Taxation

Income tax expense or refund includes current and deferred taxes and is reflected in the statement of comprehensive income. Tax expenses are reflected in the financial statements in accordance with the requirements of the current legislation of the Republic of Uzbekistan. Current tax payments are calculated on the basis of taxable profit for the year using the income tax rates in effect during the reporting period.

Current tax amounts represent funds payable to the budget or refunded from the budget in connection with taxable profits or losses of the current or previous period. If the financial statements are authorized to be issued before the filing of the relevant tax returns, the tax amounts reflected in them are based on estimated data.

Deferred income tax is calculated using the balance sheet assets and liabilities method for all tax losses to be carried forward and temporary differences between the taxable base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax amounts are estimated at tax rates that have actually entered into force at the end of the reporting period or that are expected to be applied during the period of recovery of temporary differences or use carried over from previous periods of tax losses. Deferred tax assets and liabilities are offset against each other if there is a legally enforceable right to offset current tax assets and liabilities. Deferred tax assets in respect of deductible temporary differences and tax losses are recognized to the extent that it is probable that sufficient taxable profit will be available against which the deductions can be used. Management's judgment is required to determine the amount of deferred tax assets that can be recognized in the financial statements based on the likely timing and amount of future taxable profits, as well as future tax planning strategies.

In addition, the Republic of Uzbekistan has various operating taxes that apply to the Company. These taxes are reflected in the statement of comprehensive income as part of operating expenses.

Offsetting

Financial assets and liabilities are offset and the net present value is reflected in the statement of financial position only when there is a legally established right to offset the recognized amounts, as well as an intention to either offset or simultaneously realize the asset and settle the liability. The right to set-off **(a)** must not be conditioned by a future event and **(b)** must be legally binding in all of the following circumstances: **(i)** in the ordinary course of business, **(ii)** in the event of default and **(iii)** in the event of insolvency or bankruptcy.

Remuneration of employees and contributions to social insurance funds

On the territory of the Republic of Uzbekistan, the Company makes social tax deductions. These deductions are also reflected on the accrual basis. The social tax includes contributions to the Pension Fund. The Company does not have its own pension scheme. Salary expenses, contributions to the state pension fund and the social insurance fund, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued as the relevant services are provided by the Company's employees.

Revaluation of foreign currency

The financial statements are presented in the currency of the Republic of Uzbekistan - Uzbek soums, which is the functional currency of the Company and the reporting currency.

Transactions in foreign currency are recorded at the official exchange rate of the Central Bank effective on the day of the transaction. The exchange difference resulting from the settlement of transactions in foreign currency is included in the statement of comprehensive income at the official exchange rate of the Central Bank in effect on the date of the transaction.

Monetary assets and liabilities in foreign currency are transferred to Uzbek soums at the official exchange rate of the Central Bank on the balance sheet date.

Exchange differences related to other monetary financial assets carried at fair value are included in income and expenses from revaluation of foreign currency.

Exchange differences related to non-monetary items, such as equity securities classified as financial assets at fair value through profit or loss, are recorded as part of gains or losses from revaluation at fair value.

Exchange differences on non-monetary, available-for-sale financial assets are attributed to equity through the revaluation fund for available-for-sale financial assets.

As at 31 December 2023, the official exchange rate used to revalue foreign currency balances was 12 338.77 UZS to 1 US dollar (at the end of 2022: 11 225.46 UZS to 1 US dollar) and 13 731.82 UZS to 1 Euro (at the end of 2022: 11 961.85 UZS to 1 Euro).

Related party transactions

The Company enters into transactions with related parties. Parties are considered to be related if, among other things, one party has the ability to control the other party, is under common control with the other party, is under common control of the other party and a third party, or can exercise significant influence over the other party in making financial and operational decisions.

(in thousands of UZS)

6. Cash and cash equivalents

	31 December 2023	31 December 2022
Funds on current accounts with the Central Bank of the Republic of Uzbekistan	45 290 895	1 325 670
Provision for expected credit losses	(49 065)	(17 234)
Total cash and cash equivalents measured at amortised cost	**45 241 830**	**1 308 436**

As of 31 December 2023, the Company's funds are held only in the Central Bank of the Republic of Uzbekistan.

The table below analyses the credit quality of cash and cash equivalents measured at amortised cost based on credit ratings as at 31 December 2023. A description of the Company's credit risk classification system is provided in Note 24.

The table below provides an analysis of cash and cash equivalents, excluding cash on hand by credit quality as at 31 December 2023:

	Low credit risk	Total
Funds on current accounts with the Central Bank of the Republic of Uzbekistan	45 290 895	**45 290 895**
Provision for expected credit losses	(49 065)	**(49 065)**
Total cash and cash equivalents measured at amortised cost, excluding cash on hand	**45 241 830**	**45 241 830**

The table below provides an analysis of cash and cash equivalents, excluding cash on hand by credit quality as at 31 December 2022:

	Low credit risk	Total
Funds on current accounts with the Central Bank of the Republic of Uzbekistan	1 325 670	**1 325 670**
Provision for expected credit losses	(17 234)	**(17 234)**
Total cash and cash equivalents measured at amortised cost, excluding cash on hand	**1 308 436**	**1 308 436**

(in thousands of UZS)

7. Due from other banks

	31 December 2023	31 December 2022
Term deposits with other banks, placed for more than 90 days	160 073 973	77 000 000
Provision for expected credit losses	(2 877 234)	(945 612)
Total cash and cash equivalents measured at amortised cost	157 196 739	76 054 388

The table below analyses due from other banks by credit quality as at 31 December 2023:

	Low credit risk	Total
Term deposits with other banks, placed for more than 90 days	160 000 000	**160 000 000**
Accrued interest receivable on deposits with banks	73 973	**73 973**
Provision for expected credit losses	(2 877 234)	**(2 877 234)**
Total due from other banks measured at amortised cost	157 196 739	157 196 739

The following table provides an analysis of cash and cash equivalents, excluding cash on hand, by credit quality as at 31 December 2022:

	Low credit risk	Total
Term deposits with other banks, placed for more than 90 days	77 000 000	**77 000 000**
Provision for expected credit losses	(945 612)	**(945 612)**
Total cash and cash equivalents measured at amortised cost	76 054 388	76 054 388

The table below provides a reconciliation of the incoming balances of the allowance for credit losses on amounts due from other banks carried at amortised cost. The approach to estimation of expected credit losses is disclosed in Note 24.

	ECL for 12 months	Total
Balance as at 31 December 2021	1 186 072	1 186 072
Restoration of the provision for expected credit losses	(240 460)	**(240 460)**
Balance as at 31 December 2022	945 612	945 612
Provision for expected credit losses	1 931 622	**1 931 622**
Balance as at 31 December 2023	2 877 234	2 877 234

As at 31 December 2023, there are no overdue balances with other banks measured at amortised cost and no indications of impairment thereon.

(in thousands of UZS)

8. Loans and advances

The following tables analyse the Company's loan portfolio measured at amortised cost:

	31 December 2023	31 December 2022
Loans to banks measured at amortised cost	3 212 522 593	1 933 422 484
Provision for expected credit losses	(7 149 443)	(3 922 570)
Net loans and advances measured at amortised cost	**3 205 373 150**	**1 929 499 914**

The following table shows the credit portfolio risk concentration structure for individual Banks as at 31 December 2023:

	Gross carrying amount	Allowance for credit losses	Carrying amount
JSCB “Uzpromstroybank”	652 526 107	(1 149 137)	651 376 970
JSCB “Hamkorbank”	645 990 069	(1 437 364)	644 552 705
JSCMB “Ipoteka Bank”	643 511 980	(1 182 908)	642 329 072
JSC “Asakabank”	310 713 919	(431 989)	310 281 930
JSC “NBU”	260 617 055	(748 396)	259 868 659
JSCB “Business Development Bank”	236 134 614	(532 754)	235 601 860
JSCB “Turonbank”	225 317 496	(1 101 498)	224 215 998
JSCB “Agrobank”	133 581 942	(301 128)	133 280 814
JSC “Xalq Bank”	73 082 836	(144 440)	72 938 396
PJSCB “Orient Finans”	20 821 918	(70 925)	20 750 993
JSC “InFinBank”	10 224 657	(48 904)	10 175 753
Total loans and advances measured at amortised cost	**3 212 522 593**	**(7 149 443)**	**3 205 373 150**

(in thousands of UZS)

The following is the structure of the risk concentration of the loan portfolio for individual Banks as of 31 December 2022:

	Gross carrying amount	Allowance for credit losses	Carrying amount
JSCB "Uzpromstroybank"	415 911 912	(769 235)	415 142 677
JSCB "Hamkorbank"	395 598 222	(743 956)	394 854 266
JSCMB "Ipoteka Bank"	387 764 339	(657 264)	387 107 075
JSC "Asakabank"	240 460 414	(472 794)	239 987 620
JSCB "Business Development Bank"	175 487 875	(322 527)	175 165 348
JSCB "Turonbank"	143 507 222	(599 588)	142 907 634
JSCB "Agrobank"	92 548 121	(173 769)	92 374 352
JSC "NBU"	61 669 981	(144 658)	61 525 323
JSC "Xalq Bank"	20 474 398	(38 779)	20 435 619
Total loans and advances measured at amortised cost	**1 933 422 484**	**(3 922 570)**	**1 929 499 914**

The tables below provide an analysis of the credit quality of loans measured at amortised cost provided by the Company as at 31 December 2023. The analysis of credit quality of loans measured at amortised cost presented in the tables below is based on the rating scale of international rating agencies, with a description of the terms 12-month expected credit losses, lifetime expected credit losses in Note 24.

	12-month expected credit losses	Total
Low credit risk	2 976 980 440	**2 976 980 440**
Medium credit risk	235 542 153	**235 542 153**
Total gross carrying amount loans and advances	**3 212 522 593**	**3 212 522 593**
Provision for expected credit losses on low credit risks	(5 999 041)	**(5 999 041)**
Provision for expected credit losses on medium credit risks	(1 150 402)	**(1 150 402)**
Total loans and advances measured at amortised cost	**3 205 373 150**	**3 205 373 150**

(in thousands of UZS)

The following tables provide an analysis of the credit quality of loans measured at amortised cost provided by the Company as at 31 December 2022.

	12-month expected credit losses	Total
Low credit risk	1 789 915 262	**1 789 915 262**
Medium credit risk	143 507 222	**143 507 222**
Total gross carrying amount loans and advances	**1 933 422 484**	**1 933 422 484**
Provision for expected credit losses on low credit risks	(3 322 982)	**(3 322 982)**
Provision for expected credit losses on medium credit risks	(599 588)	**(599 588)**
Total loans and advances measured at amortised cost	**1 929 499 914**	**1 929 499 914**

All loans were granted to Banks operating in the Republic of Uzbekistan.

The Company utilised the portfolio provisioning methodology prescribed by IFRS 9 Financial Instruments and created an allowance for impairment losses. The Company's policy is to classify each loan as "neither past due nor impaired" until specific objective evidence of impairment is identified for that loan. During the course of our review, we obtained an understanding or confirmation that the Company is assessing its business models in accordance with IFRS 9 requirements.

The primary factors that the Company considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

As at 31 December 2023 and 2022, there are no overdue balances or impairment indicators for loans and advances measured at amortised cost.

(in thousands of UZS)

9. Investment financial assets

	31 December 2023	31 December 2022
Securities measured at amortised cost	48 745 299	9 051 369
Securities designated at fair value through profit or loss on a mandatory basis	-	42 808 436
Total investment financial assets	**48 745 299**	**51 859 805**

The table below summarises securities measured at amortised cost.

Government bonds	49 294 501	9 101 762
Provision for expected credit losses	(549 202)	(50 393)
Total securities measured at amortised cost	**48 745 299**	**9 051 369**

The following table provides an analysis of credit risk for securities measured at amortised cost as at 31 December 2023 for which a valuation allowance for expected credit losses is recognised based on credit risk levels.

	Low credit loss	Total
Government bonds	49 294 501	49 294 501
Provision for expected credit losses	(549 202)	(549 202)
Total securities measured at amortised cost	**48 745 299**	**48 745 299**

The following table provides an analysis of credit risk for securities measured at amortised cost as at 31 December 2022 for which a valuation allowance for expected credit losses is recognised based on credit risk levels.

	Low credit loss	Total
Government bonds	9 101 762	9 101 762
Provision for expected credit losses	(50 393)	(50 393)
Total securities measured at amortised cost	**9 051 369**	**9 051 369**

(in thousands of UZS)

10. Fixed and intangible assets

The following table summarises the value of property, plant and equipment as at 31 December 2023.

	Transport equipment	Office and computer equipment	Right-of-use assets	Intangible assets	Total
Cost or valuation					
At 01 January 2023	**325 015**	**821 797**	**5 528 763**	**-**	**6 675 575**
Addition	-	366 685	11 846	180 500	**559 031**
Relocation	-	(26 809)	26 809	-	**-**
Disposal	-	-	(29 567)	-	**(29 567)**
At 31 December 2023	**325 015**	**1 161 673**	**5 537 851**	**180 500**	**7 205 039**
Accumulated amortisation					
At 01 January 2023	**(149 240)**	**(276 512)**	**(518 038)**	**-**	**(943 790)**
Depreciation charges	(65 003)	(302 098)	(276 645)	-	(643 746)
Relocation	-	2 957	(2 957)	-	-
At 31 December 2023	**(214 243)**	**(575 652)**	**(797 640)**	**-**	**(1 587 535)**
Carrying amount					
At 01 January 2023	**175 775**	**545 285**	**5 010 725**	**-**	**5 731 785**
At 31 December 2023	**110 772**	**586 021**	**4 740 211**	**180 500**	**5 617 504**

The following is information on the value of fixed assets as of 31 December 2022.

	Transport equipment	Office and computer equipment	Right-of-use assets	Intangible assets	Total
Cost or valuation					
At 01 January 2022	**325 015**	**507 187**	**3 666 885**	**-**	**4 499 087**
Addition	-	314 610	1 861 878	**-**	**2 176 488**
At 31 December 2022	**325 015**	**821 797**	**5 528 763**	**-**	**6 675 575**
Accumulated amortisation					
At 01 January 2022	**(84 237)**	**(102 305)**	**(138 897)**	**-**	**(325 439)**
Depreciation charges	(65 003)	(174 207)	(379 141)	-	(618 351)
At 31 December 2022	**(149 240)**	**(276 512)**	**(518 038)**	**-**	**(943 790)**
Carrying amount					
At 01 January 2022	**240 778**	**404 882**	**3 527 988**	**-**	**4 173 648**
At 31 December 2022	**175 775**	**545 285**	**5 010 725**	**-**	**5 731 785**

(in thousands of UZS)

11. Other assets

	31 December 2023	31 December 2022
Invoices receivable for inventories	4 693 547	4 092
Prepaid expenses for services	258 628	287 419
Balances on corporate card accounts	5 903	13 818
Provision for expected credit losses on corporate cards	(7)	-
Settlements on taxes other than income tax	842	5 496
Settlements with bank employees - Other receivables	10	294
Settlements on taxes, income tax	-	675 249
Total other non-financial assets	**4 958 923**	**986 368**

12. Borrowings

Borrowed funds measured at amortised cost	2 860 887 363	1 928 085 935
Total borrowings measured at amortised cost	**2 860 887 363**	**1 928 085 935**

The Company and the Ministry of Economy and Finance of the Republic of Uzbekistan within the framework of the "Mortgage Market Sector Development Project" signed an agreement on re-crediting funds of the Asian Development Bank (3870-UZB) dated 8 May 2020 in the amount equivalent to, not exceeding 150 000 000 US dollars in soums for refinancing mortgage loans of commercial banks. The term of full disbursement of the loan proceeds is until 31 July 2023. The loan was granted for a period of 20 years, including a 5-year grace period. The interest rate is fixed at 12% per annum, after 17 June 2021 it is equal to the value of the annual interest rate calculated as the main rate of the Central Bank of Uzbekistan as at the sampling date minus 2.5%, but not less than 8% per annum and not more than 12% per annum in any case. Interest accrues and is payable on the selected and outstanding amount of the loan. For the unused portion of the loan, the Company pays a commitment fee of 0.15% per annum, which is calculated in US dollars and paid in sums. As at 31 December 2023, the balance of this loan is amounted to 1 603 890 319 thousand UZS and accrued interest payable is amounted to 23 899 725 thousand UZS.

Also, between the Company and the Ministry of Economy and Finance of the Republic of Uzbekistan under the "Mortgage Market Sector Development Project" was signed an agreement on re-lending additional funds from the Asian Development Bank (4245-UZB) dated 16 March 2023 in an amount equivalent, not exceeding 150 000 000 US dollars in soums to refinance mortgage loans of commercial banks. This agreement is an additional financing under the above loan agreement of Asian Development Bank (3870-UZB) dated 8 May 2020. The term of full disbursement of the loan proceeds is until 30 June 2026. The loan is provided for a period of 20 years, including a 5-year grace period.

(in thousands of UZS)

The interest rate is fixed - equal to the value of the annual interest rate calculated as the main rate of the Central Bank of Uzbekistan minus 2.5%, but not less than 8% per annum and not more than 12% per annum in any case. For the unutilised portion of the loan, the Company pays a fee of 0.15% per annum, which is calculated in US dollars and paid in sums. As at 31 December 2023, the balance of this loan is amounted to 1 197 514 722 thousand UZS, accrued interest payable is amounted to 34 976 417 thousand UZS and there are commission payments for the unused portion of the loan in the amount of 606 180 thousand UZS.

In addition, the Company and the Ministry of Economy and Finance of the Republic of Uzbekistan signed an agreement on granting a targeted budget loan No. 03-05-22/48 dated 05 December 2022 in the amount of 300 000 000 thousand UZS for refinancing mortgage loans of commercial banks. The loan was granted for a period of 3 years with annual repayment of the principal debt in equal instalments. The interest rate is fixed at 12% per annum with the condition of payment every 6 months.

According to the Decree of the President of the Republic of Uzbekistan № PD-394 of 15 December 2023 "On measures on financial support of the activities of JSC "Mortgage Refinancing Company of Uzbekistan"", the funds to be returned to repay the budget loan under the agreement № 03-05-22/48 of 05 December 2022 in the amount of 300 000 000 thousand UZS are directed to increase the state's share in the share capital of the Company.

13. Debt securities issued

Corporate bond	140 000 000	-
Accrued interest payable on securities issued	5 538 630	-
Total debt securities issued, measured at amortised cost	**145 538 630**	**-**

14. Other liabilities

Employee settlements - leave provisions	547 855	385 920
Accounts payable - for inventories and services	215 535	316 690
Employee settlements - accrued labour costs	13 002	68 103
Total other financial liabilities	**776 392**	**770 713**
Deposits under share subscription	300 000 000	-
Lease commitments	5 315 449	5 345 788
Employee settlements - provision for compensation expense	1 646 107	1 014 203
Settlements on taxes other than income tax	510 506	182 287
Other liabilities	90 625	-
Total other non-financial liabilities	**307 562 687**	**6 542 278**
Total other liabilities	**308 339 079**	**7 312 991**

(in thousands of UZS)

15. Authorised capital

	31 December 2023	31 December 2022
Registered authorised capital	**132 790 200**	**112 222 700**
Issued authorised capital	112 222 700	100 000 000
Increase during the reporting period	20 567 500	12 222 700
Decrease during the reporting period	-	-
Total authorised capital	**132 790 200**	**112 222 700**

The issued share capital of the Company as at 31 December 2023 is amounted to 132 790 200 thousand UZS (in 2022, 112 222 700 thousand UZS, respectively). The nominal value of one share is 1 000 UZS.

According to the protocols of the General Meeting of Shareholders of the Company dated 29 May 2023, it was decided to increase the Authorised Capital to 132 790 200 thousand UZS, at the cost of one share of 1 000 UZS, with the condition of additional share issue in the amount of 20 567 500 shares.

16. Retained earnings

The Company maintains its accounting records in accordance with the legislative requirements of the Republic of Uzbekistan. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with all material aspects of IFRS. During the reporting period, the Company's retained earnings in accordance with IFRS is amounted to 21 591 245 thousand UZS.

Only accumulated retained earnings of the Company according to the financial statements prepared in accordance with the accounting rules of the Republic of Uzbekistan may be distributed as dividends. In accordance with the legislation of the Republic of Uzbekistan, undistributed profit is the profit of the current year and previous years remaining at the disposal of the Company after payment of dividends, taxes and contributions to various funds.

The amount of retained earnings of the Company according to the financial statements prepared in accordance with the accounting rules of the Republic of Uzbekistan as of 31 December 2023 is amounted to 31 063 175 thousand UZS.

(in thousands of UZS)

17. Interest income and expense

	31 December 2023	31 December 2022
Interest income calculated at the effective interest rate		
- on loans and advances	292 706 772	185 373 943
- on due from other banks	16 987 617	16 200 079
- on investments held-to-maturity	8 494 799	4 411 407
Total interest income calculated at the effective interest rate	**318 189 188**	**205 985 429**
Interest expense calculated at the effective interest rate		
- on borrowings	(266 283 247)	(171 262 373)
- on issued securities	(5 174 247)	
- on lease liabilities	(748 511)	(518 782)
Total interest expense calculated at the effective interest rate	**(272 206 005)**	**(171 781 155)**
Net interest income	**45 983 183**	**34 204 274**

18. Personnel and other operating expenses

Personnel expenses	(10 553 298)	(6 184 245)
Depreciation costs	(643 747)	(618 351)
Payment for professional services	(435 573)	(870 728)
Administrative expenses	(125 098)	(52 705)
Rent and maintenance expenses	(99 804)	(56 786)
Insurance	(94 570)	(40 172)
Representation and charity	(92 483)	(15 496)
Travel and transport costs	(67 064)	(44 612)
Taxes (other than income tax) and licences	(7 447)	-
Fines and penalties	(10)	(551)
Other expenses	(171 802)	(69 722)
Total operating expenses	**(12 290 896)**	**(7 953 368)**

(in thousands of UZS)

19. Income tax

The amount of income tax as at 31 December 2023 is amounted to 3 135 769 thousand UZS, (in 2022: 3 260 257 thousand UZS, respectively). The current income tax rate applicable to the Company's profit for 2023 is 15 % (in 2022: 15 %, respectively).

Income tax expense comprises the following components:

	31 December 2023	31 December 2022
Current income tax expense	4 092 015	3 549 988
Deferred tax assets	(956 246)	(289 731)
Income tax expense for the year	**3 135 769**	**3 260 257**

The Company provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Uzbekistan, which may differ from IFRS. As certain expenses are not deductible for tax purposes, the Company is subject to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Temporary differences at 31 December 2023 and 31 December 2022 relate mainly to different methods of income and expense recognition as well as the accounting value of certain assets.

The tax effect of temporary differences for 2023 is as follows:

	31 December 2023	(Charged) / Reversed to profit and loss accounts	31 December 2022
Tax effects of temporary differences that reduce/ (increase) the tax base			
Cash and cash equivalents	7 360	(4 775)	2 585
Due from other banks	431 585	(289 743)	141 842
Loans and advances	1 072 417	(484 031)	588 386
Invested financial assets	82 380	(74 821)	7 559
Fixed assets	102 142	(30 267)	71 875
Other assets	317 188	(72 609)	244 579
Net deferred tax assets / (liabilities)	**2 013 072**	**(956 246)**	**1 056 826**
Recognised deferred tax assets	2 013 072	(956 246)	1 056 826
Recognised deferred tax liability	-	-	-
Net deferred tax assets / (liabilities)	**2 013 072**	**(956 246)**	**1 056 826**

The tax effect of temporary differences for 2022 is as follows:

	31 December 2022	(Charged) / Reversed to profit and loss accounts	31 December 2021
Tax effects of temporary differences that reduce/ (increase) the tax base			
Cash and cash equivalents	2 585	1 701	4 286
Due from other banks	141 842	36 069	177 911
Loans and advances	588 386	(189 202)	399 184
Invested financial assets	7 559	(7 559)	-
Fixed assets	71 875	(51 246)	20 629
Other assets	244 579	(79 494)	165 085
Net deferred tax assets / (liabilities)	**1 056 826**	**(289 731)**	**767 095**
Recognised deferred tax assets	1 056 826	(289 731)	767 095
Recognised deferred tax liability	-	-	-
Net deferred tax assets / (liabilities)	**1 056 826**	**(289 731)**	**767 095**

20. Income per share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, less the weighted average number of ordinary shares held in treasury by the Company.

The Company has no ordinary shares that are potentially dilutive to income per share. Therefore, diluted income per share is equal to basic income per share.

Income per share is calculated as follows:

	2023	2022
Net profit for the year (**in thousands UZS**)	24 508 541	21 888 224
Use of profits (**in thousands UZS**)	-	-
Profit attributable to shareholders (in thousands of UZS)	**24 508 541**	**21 888 224**
Weighted average number of ordinary shares outstanding (**in units**)	122 506 450	103 114 277
Basic and diluted income per common share (in sums per share)	**200.06**	**212.27**

21. Contingent financial liabilities

Legal issues

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

Tax legislation

The tax, customs and currency legislation within the Republic of Uzbekistan is subject to varying interpretations and changes, which can occur frequently. Furthermore, legal acts issued by different governmental authorities may be contradictory and management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. The Uzbek tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the relevant tax authorities with respect to taxes for five calendar years preceding the year of review. Fiscal periods remain open to review by the relevant tax authorities for five calendar years preceding the year of review.

Management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained. Accordingly, no provision for potential tax liabilities has been made by management as at 31 December 2023 and 31 December 2022. The Company estimates that there are no potential tax liabilities other than remote tax liabilities.

Compliance with special conditions

The Company is subject to certain special covenants, primarily related to borrowings. The Company had financial covenants with foreign financial organisations. Under these loan agreements, the Company is required to comply with the relevant financial covenants based on financial statements prepared in accordance with IFRS.

The Company has agreed to comply with the following financial covenants prescribed in the relevant loan agreements with the Asian Development Bank (hereinafter referred to as "ADB"):

⇒ be profitable at the time of the most recent audited annual financial statements;

⇒ comply at all times with the regulatory requirements imposed by the CBU, including the following prudential standards set out in the regulations applicable to the Company: **(i)** minimum paid-in equity capital; **(ii)** capital adequacy ratio; **(iii)** liquidity coverage ratio; and **(iv)** net stable funding ratio;

⇒ the ratio of net problem and doubtful loans must be 5.0% or less at the time of the most recent audited annual financial statements.

As at 31 December 2023, the Company is separately reporting compliance with the above financial covenants.

(in thousands of UZS)

22. Related party transactions

For the purposes of these financial statements, parties are considered to be related if they are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions as defined by IFRS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In the normal course of business, the Company enters into transactions with its major shareholders, directors and other parties. These transactions include settlements, loans and deposits. It is the Company's policy that all transactions with related parties are conducted on the same terms as transactions with independent parties.

The table below shows the balances with related parties as at 31 December 2023:

	Shareholders	Other related parties	Total
Assets			
Due from other banks	157 196 739	-	**157 196 739**
Loans and advances	3 205 373 150	-	**3 205 373 150**
Liabilities			
Debt securities issued	85 000 000	-	**85 000 000**
Provision for employee benefits	-	1 646 107	**1 646 107**
Other liabilities	300 000 000	197 533	**300 197 533**

The table below shows income and expense items with related parties for 2023:

	Shareholders	Other related parties	Total
Interest revenue	309 694 389	-	**309 694 389**
Interest expense on securities issued	(2 998 356)	-	**(2 998 356)**
Administrative and other operating expenses	-	(10 553 298)	**(10 553 298)**

(in thousands of UZS)

The table below shows the balances with related parties as at 31 December 2022:

	Shareholders	Other related parties	Total
Assets			
Due from other banks	76 054 388	-	**76 054 388**
Loans and advances	1 929 499 914	-	**1 929 499 914**
Liabilities			
Borrowings	1 928 085 935	-	**1 928 085 935**
Provision for employee benefits	-	1 014 203	**1 014 203**

The table below shows income and expense items with related parties for 2022:

	Shareholders	Other related parties	Total
Interest revenue	205 985 429	-	**205 985 429**
Interest expense	(171 262 373)	-	**(171 262 373)**
Administrative and other operating expenses	-	(3 762 060)	**(3 762 060)**

23. Fair value

Fair value is defined as the price at which an instrument can be exchanged in an ongoing transaction between interested parties wishing to conclude a transaction on market terms, with the exception of a forced sale or liquidation. The best confirmation of fair value is the quotation of a financial instrument in an active market. Since there is no liquid market for most of the Company's financial instruments, their fair value must be determined based on the existing market conditions and the specific risks associated with a particular instrument. The estimates presented below may not correspond to the amounts that the Company is able to receive when selling the entire available package of a particular instrument on the market.

The Company uses the following hierarchy to determine and disclose the fair value of financial instruments, depending on valuation techniques:

⇒ Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;

⇒ Level 2: techniques for which all inputs that have a significant effect on the fair value are observable, either directly or indirectly, in an open market; and;

⇒ Level 3: techniques that use inputs that have a significant effect on the fair value that are not based on observable market data.

(in thousands of UZS)

The table below analyses assets carried at amortised cost carried at fair value by level in the valuation hierarchy as at 31 December 2023:

	Level 1	Level 2	Level 3	Carrying amount
Cash and cash equivalents				
- Funds on current accounts with the CBU	-	45 290 895	-	45 290 895
Due from other banks				
- Term deposits with other banks, placed for more than 90 days	-	160 073 973	-	160 073 973
Loans and advances				
- Loans to banks	-	-	3 212 522 593	3 212 522 593
Investment financial assets				
- Securities valued at amortised cost	-	49 294 501	-	49 294 501
Total	-	254 659 369	3 212 522 593	3 467 181 962

The table below analyses assets carried in the financial statements at fair value by level in the valuation hierarchy as at 31 December 2022:

	Level 1	Level 2	Level 3	Carrying amount
Investment financial assets				
- Securities designated at fair value through profit or loss on a mandatory basis	-	42 808 436	-	**42 808 436**
Total	-	42 808 436	-	42 808 436

(in thousands of UZS)

The table below analyses assets carried at amortised cost carried at fair value by level in the valuation hierarchy as at 31 December 2022:

	Level 1	Level 2	Level 3	Carrying amount
Cash and cash equivalents				
- Funds on current accounts with the CBU	-	1 325 670	-	1 325 670
Due from other banks				
- Term deposits with other banks, placed for more than 90 days	-	77 000 000	-	77 000 000
Loans and advances				
- Loans to banks	-	-	1 933 422 484	1 933 422 484
Investment financial assets				
- Securities valued at amortised cost	9 101 762	-	-	9 101 762
Total	9 101 762	78 325 670	1 933 422 484	2 020 849 916

The table below analyses liabilities carried at amortised cost carried at fair value by level in the valuation hierarchy as at 31 December 2023:

	Level 1	Level 2	Level 3	Carrying amount
Borrowings				
- Borrowings measured at amortised cost	-	-	2 860 887 363	**2 860 887 363**
Debt securities issued				
- Debt securities issued	-	145 538 630	-	**145 538 630**
Other liabilities				
- Other financial liabilities	-	-	776 392	**776 392**
Total	-	145 538 630	2 861 663 755	3 007 202 385

(in thousands of UZS)

The table below analyses liabilities carried at amortised cost carried at fair value by level in the valuation hierarchy as at 31 December 2022:

	Level 1	Level 2	Level 3	Carrying amount
Borrowings				
- Borrowings measured at amortised cost	-	-	1 928 085 935	**1 928 085 935**
Other liabilities				
- Other financial liabilities	-	-	770 713	**770 713**
Total	**-**	**-**	**1 928 856 648**	**1 928 856 648**

Fair value measurements within Level 2 and Level 3 of the fair value hierarchy were performed using a discounted cash flow model. The fair value of floating rate derivatives that do not have a quoted market price in an active market was assumed to be equal to the carrying amount. The fair value of fixed interest rate instruments that do not have a quoted market price in an active market was estimated based on estimated future cash flows discounted at current interest rates in the debt market for new instruments with similar credit risk and remaining maturity.

For the Company's assets, the Company used assumptions about the incremental borrowing rate and counterparty prepayment rates. Liabilities are discounted at the Company's incremental borrowing rate. Liabilities repayable on demand were discounted from the first day that the Company could potentially be required to repay the liability.

24. Risk management

The Company's risk management is carried out in relation to financial risks (credit, market, currency, liquidity and interest rate risks), as well as operational and legal risks. The assessment of accepted risk also serves as the basis for optimal risk-based capital allocation, transaction pricing, and performance evaluation. The Company's management must ensure proper compliance with internal regulations and procedures in order to minimize operational and legal risks.

Credit risk

The Company assumes credit risk, namely the risk that the counterparty will not be able to repay the debt in full on time. The Company controls credit risk by setting limits on a single borrower or a group of related borrowers, as well as by industry segments. The Company regularly monitors such risks; limits are reviewed annually.

Risk reduction and limitation policy. The Company manages, sets limits and controls the concentration of credit risk wherever it is established - in particular, in relation to individual counterparties and groups. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations.

The Company uses a number of techniques and practices to reduce credit risk. The most traditional of them is to obtain collateral for loans issued, which is a common practice. The Company applies guidelines on the acceptability of special security groups or credit risk mitigation.

The main types of collateral for loans and advances are presented below:

⇒ the right to claim a mortgage;

⇒ government securities;

⇒ deposits in banks.

Credit risk. The model of expected credit losses and the basic principles of reservation. The Company applies the expected credit loss model for the purpose of reserving financial debt instruments, the key principle of which is to timely reflect the deterioration or improvement of the credit quality of debt financial instruments, taking into account current and forecast information. The amount of expected credit losses recognized as an estimated reserve for credit losses depends on the degree of deterioration in credit quality since the initial recognition of the debt financial instrument.

Depending on the change in credit quality since initial recognition, the Company classifies financial instruments into one of the following stages:

⇒ Stage 1 – "12-month expected credit losses" – Debt financial instruments for which there was no significant increase in credit risk, and for which 12-month expected credit losses are calculated.

⇒ Stage 2 – "Expected credit losses over the entire life – not impaired assets" - Debt financial instruments with a significant increase in credit risk, but not impaired, for which expected credit losses are calculated over the entire life of the financial instrument.

⇒ Stage 3 – "Expected lifetime credit losses – impaired assets" – impaired debt financial instruments.

For acquired or issued impaired financial assets, an estimated reserve for credit losses is formed in the amount of accumulated changes in the amount of expected credit losses over the entire life of the instrument from the date of acquisition or provision.

Factors indicating a significant increase in credit risk before the asset is recognized as impaired. The main factors indicating a significant increase in credit risk before the asset is recognized as impaired are:

⇒ The presence of overdue debts to the Company for a period of 31 to 90 days (inclusive);

⇒ Significant changes in external and internal credit ratings resulting from changes in credit risk compared to the time of initial recognition;

⇒ Deterioration of the internal rating to the level at which the Company decides to refuse to provide a loan;

⇒ Identification of events that may affect solvency (revocation of a license, the presence of lawsuits, violation of the terms of credit documentation, etc.).

The main signs of classifying a debt financial instrument as impaired (stage 3):

⇒ The borrower is overdue for repayment of any debt owed to the Company by more than 90 days;

⇒ Default restructuring of debt or financial liability for financial market transactions and expected insolvency;

⇒ Other signs of insolvency, the identification of which leads to the assignment of default to the borrower (bankruptcy of the borrower, the expected decision by the borrower to liquidate or terminate activities, the likely non-repayment of debt by the borrower, etc.).

Restoration of credit quality. The improvement of the borrower's credit quality, for which a significant increase in credit risk was detected at the previous reporting dates, to the level of risk related to the first stage, is determined based on an assessment of the change in credit risk at the reporting date compared with the time of initial recognition.

The restoration of credit quality from the impaired level to the level of risk related to the first stage occurs when the indicators of impairment are eliminated at the reporting date, as well as in the absence of factors indicating a significant increase in credit risk at the reporting date.

An approach to reserving for acquired or issued impaired assets. To calculate the estimated allowance for credit losses in respect of acquired or issued impaired assets, the Company estimates the accumulated changes in the amount of expected credit losses over the entire life of the instrument from the date of acquisition or issue.

A financial asset is considered to have been acquired or issued an impaired asset when one or more events have occurred for it that have a negative impact on the estimated future cash flows of such a financial asset, in particular, observable data on the following events at the time of acquisition or issuance:

⇒ significant financial difficulties of the counterparty or issuer;

⇒ violations of the terms of the contract, such as late payment;

⇒ granting by the creditor of an assignment to its counterparty or issuer due to economic reasons or contractual terms related to the financial difficulties of such counterparty or issuer and which the creditor would not have provided otherwise;

⇒ the appearance of the probability of bankruptcy or other financial reorganization;

⇒ the disappearance of an active market for this financial asset as a result of the issuer's financial difficulties;

⇒ purchase or creation of a financial asset with a large discount that reflects the credit losses incurred.

Valuation methods and the method of forming an estimated reserve for credit losses. In order to estimate the expected credit losses for all debt financial instruments, a transaction-level valuation method is used.

The main way to form estimated reserves for credit losses, which is used at the Company level, is to reserve on a collective basis. It is necessarily applied to financial instruments for which the debt is not significant or for which no significant increase in credit risk or impairment was detected in the reporting period.

Reserving financial assets on an individual basis. The value of the estimated reserve for credit losses for each debt financial asset is based on an estimate of the weighted average expected credit losses under the scenarios under consideration.

⇒ The number of scenarios under consideration and their weights are determined based on the methodology developed by the Company, taking into account the current available, as well as reasonable forecast information, however, the number of scenarios under consideration cannot be less than two (including a 100% loss scenario) and the probability of their implementation should be above zero.

⇒ The assessment of expected losses with an individual approach to reserving takes into account the time value of money, as well as reasonable information about past, current and projected future economic conditions. The amount of the estimated reserve for credit losses is defined as the difference between the gross carrying amount of a debt financial asset before deducting the estimated reserve for credit losses at the valuation date and its recoverable amount.

To estimate the recoverable amount, the discounted cash flow method is used, based on expected future payments on a debt financial asset (or other cash flows) using the effective interest rate as the discount rate. This assessment should take into account the following sources of cash flow:

⇒ free cash flows from operating activities;

⇒ future amounts to be reimbursed as a result of the sale of collateral;

⇒ cash receipts from other sources – for example, as a result of court proceedings (other than the sale of collateral) or bankruptcy proceedings.

The basic principle of segmentation for determining the probability of default (PD) for reservation purposes assumes that debt financial instruments with a similar risk profile should be assigned to the same portfolio with a similar level of risk. The risk segment is determined based on the specifics of the counterparty/issuer's activity, country of residence, size and business model.

LGD is a loss given default, the estimated amount of losses as a result of default, based on the difference in the amounts of contractual cash flows receivable and cash flows that the creditor expects to receive, including as a result of collateral. As a rule, this value is expressed as a percentage of EAD. The values are determined using models developed based on internal statistics.

EAD (Exposure at default) is the amount of the credit requirement exposed to the risk of default. The debt at the time of default is determined based on the expected payment schedule, which varies depending on the type of product. For products that are carried at amortised cost and loans with one-time repayment of debt at the time of default, it is determined based on the amounts to be repaid by the borrower under the contract for a 12-month period or for the entire life of the financial instrument. This debt is also adjusted taking into account the expected overpayment on the part of the borrower. Assumptions about early repayment or refinancing are also included in the calculation. For renewable products, debt at the time of default is forecasted by adding a "credit conversion factor" to the current balance of funds used, which takes into account the expected use of the remaining limit at the time of default. These assumptions vary depending on the type of product, the current use of the limit, and other behavioral characteristics of a particular borrower. The values are determined using models developed based on internal statistics.

The credit quality of financial instruments. The classification of financial assets into five categories of credit risk is a summary of information on the credit quality of financial assets falling under IFRS 9.

⇒ "Minimum credit risk" means assets whose counterparties demonstrate a stable ability to meet financial obligations on time with a low probability of default.

⇒ "Low credit risk" means assets whose counterparties have a low probability of default and a high ability to meet financial obligations on time.

⇒ "Average credit risk" – assets whose counterparties have a moderate probability of 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 high probability of default require special attention at the monitoring stage.

⇒ "Default" - assets that, based on observable indicators of impairment, meet the definition of default.

(in thousands of UZS)

Geographical risk

The geographical concentration of the Company's financial assets and liabilities as at 31 December 2023 is as follows:

Assets	Uzbekistan	Other countries	Total as at 31 December 2023
Cash and cash equivalents	45 241 830	-	**45 241 830**
Due from other banks	157 196 739	-	**157 196 739**
Net loans and advances	3 205 373 150	-	**3 205 373 150**
Investment financial assets	48 745 299	-	**48 745 299**
Total assets	**3 456 557 018**	**-**	**3 456 557 018**
Liabilities			
Borrowings	-	2 860 887 363	**2 860 887 363**
Debt securities issued	145 538 630	-	**145 538 630**
Other financial liabilities	776 392	-	**776 392**
Total liabilities	**146 315 022**	**2 860 887 363**	**3 007 202 385**
Net position	**3 310 241 996**	**(2 860 887 363)**	**449 354 633**

An analysis of the geographical concentration of the Company's financial assets and liabilities as at 31 December 2022 is set out below:

Assets	Uzbekistan	Other countries	Total as at 31 December 2022
Cash and cash equivalents	1 308 436	-	**1 308 436**
Due from other banks	76 054 388	-	**76 054 388**
Net loans and advances	1 929 499 914	-	**1 929 499 914**
Investment financial assets	51 859 805	-	**51 859 805**
Total assets	**2 058 722 543**	**-**	**2 058 722 543**
Liabilities			
Borrowings	300 295 890	1 627 790 045	**1 928 085 935**
Other financial liabilities	770 715	-	**770 715**
Total liabilities	**301 066 605**	**1 627 790 045**	**1 928 856 650**
Net position	**1 757 655 938**	**(1 627 790 045)**	**129 865 893**

Assets, liabilities and credit related commitments are generally categorised according to the country in which the counterparty is located. Cash on hand and due from other banks are categorised according to the country in which they are physically held.

(in thousands of UZS)

Currency risk – The Company is exposed to currency risk, which is the risk of loss due to unfavourable movements in foreign currency exchange rates on open positions in foreign currencies.

The table below summarises the Company's exposure to foreign exchange risk at the end of the reporting period:

	31 December 2023			31 December 2022		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Uzbek sum	3 456 557 018	(3 006 596 205)	449 960 813	2 058 722 543	(1 928 856 650)	129 865 893
US dollars	-	(606 180)	(606 180)	-	-	-
Total	**3 456 557 018**	**(3 007 202 385)**	**449 354 633**	**2 058 722 543**	**(1 928 856 650)**	**129 865 893**

The table below summarises the movements in the financial result as a result of reasonably possible changes in the exchange rates used at the end of the reporting period, with all other variables held constant.

The risk was calculated only for cash balances in currencies other than the Company's functional currency.

	31 December 2023	31 December 2022
Strengthening of the US dollar by 9.92% (year-end 2022: 3.58%)	60 133	-
Weakening of the US dollar by 9.92 per cent (end 2022: 3.58 per cent)	(60 133)	-

Liquidity risk

Liquidity risk is the risk that a Company will encounter difficulties in meeting financial obligations. The Company is exposed to risk due to the daily need to use available funds for settlements that are made in cash. The Company does not accumulate funds in case of the need for a one-time fulfillment of all the above obligations, since, based on accumulated work experience, it is possible to predict with a sufficient degree of accuracy the level of funds required to fulfill these obligations. The liquidity risk is managed by the Company's Deputy General Director for Financial Affairs (CFO) as well as the Asset and Liability Management Committee.

The Company tries to maintain a stable financing base, consisting mainly of funds from International and Local Financial institutions through debt and debt capital markets. The Company invests in diversified portfolios of liquid assets in order to be able to quickly and easily meet unforeseen liquidity requirements.

The Company's liquidity management requires an analysis of the level of liquid assets necessary to settle obligations upon maturity; ensuring access to various sources of financing; having plans in case of problems with financing and monitoring compliance with liquidity standards with legislative requirements. The Company calculates liquidity ratios on a monthly basis in accordance with the requirements of the Central Bank of the Republic of Uzbekistan.

By receiving information about financial assets and liabilities, the CFO ensures that an adequate portfolio of short-term liquid assets, mainly consisting of liquid government securities and deposits with banks, is available to maintain a sufficient level of liquidity for the Company as a whole.

The CFO monitors the daily liquidity position and regularly conducts liquidity stress testing under various scenarios covering standard and more unfavorable market conditions.

The table below shows the distribution of obligations by contractual terms remaining until maturity. The amounts of liabilities in the table represent the cash flows provided in the agreement, including the gross amount of liabilities for loans received and other financial obligations. These undiscounted cash flows may differ from the amounts shown in the statement of financial position because the amounts in the statement of financial position are based on discounted cash flows.

The table below shows an analysis by maturity of non-derivative financial assets carried at book value based on contractual maturities, with the exception of assets that can be easily realized if there is a need for cash outflows related to financial liabilities. Such financial assets are included in the maturity analysis based on the expected date of disposal. Impaired loans and borrowings are included in the table at book value less allowance for impairment and based on the expected timing of cash inflows.

In cases where the amount to be paid is not fixed, the amount in the table is determined based on the conditions existing at the end of the reporting period. Currency payments are recalculated using the current exchange rate at the end of the reporting period.

(in thousands of UZS)

The carrying amounts of financial instruments by expected maturity are as follows as at 31 December 2023:

Assets	On demand and less than 1 month	from 1 month to 1 year	from 1 to 5 years	from 5 to 10 years	more than 10 years	Total
Cash and cash equivalents	45 241 830	-	-	-	-	**45 241 830**
Due from other banks	-	128 155 704	29 041 035	-	-	**157 196 739**
Net loans and advances	-	-	200 498 630	160 310 610	2 844 563 910	**3 205 373 150**
Investment financial assets	-	48 745 299	-	-	-	**48 745 299**
Total assets	**45 241 830**	**176 901 003**	**229 539 665**	**160 310 610**	**2 844 563 910**	**3 456 557 018**
Liabilities						
Borrowings	-	59 482 322	507 538 400	933 801 680	1 360 064 961	**2 860 887 363**
Debt securities issued	-	5 538 630	140 000 000	-	-	**145 538 630**
Other financial liabilities	776 392	-	-	-	-	**776 392**
Total liabilities	**776 392**	**65 020 952**	**647 538 400**	**933 801 680**	**1 360 064 961**	**3 007 202 385**
Difference between financial assets and liabilities	44 465 438	111 880 051	(417 998 735)	(773 491 070)	1 484 498 949	**449 354 633**
Difference between financial assets and liabilities on an accrual basis	44 465 438	156 345 489	(261 653 246)	(1 035 144 316)	**449 354 633**	-

(in thousands of UZS)

The carrying amounts of financial instruments by expected maturity are presented in the table below as at 31 December 2022:

Assets	On demand and less than 1 month	from 1 month to 1 year	from 1 to 5 years	from 5 to 10 years	more than 10 years	Total
Cash and cash equivalents	1 308 436	-	-	-	-	**1 308 436**
Due from other banks	-	56 363 788	19 690 600	-	-	**76 054 388**
Net loans and advances	-	139 140 248	536 646 808	546 066 264	707 646 594	**1 929 499 914**
Investment financial assets	9 709 772	33 634 170	8 515 863	-	-	**51 859 805**
Total assets	**11 018 208**	**229 138 206**	**564 853 271**	**546 066 264**	**707 646 594**	**2 058 722 543**
Liabilities						
Borrowings	-	124 195 616	520 778 064	534 630 106	748 482 149	**1 928 085 935**
Other financial liabilities	770 715	-	-	-	-	**770 715**
Total liabilities	**770 715**	**124 195 616**	**520 778 064**	**534 630 106**	**748 482 149**	**1 928 856 650**
Difference between financial assets and liabilities	**10 247 493**	**104 942 590**	**44 075 207**	**11 436 158**	**(40 835 555)**	**129 865 893**
Difference between financial assets and liabilities on an accrual basis	**10 247 493**	**115 190 083**	**159 265 290**	**170 701 448**	**129 865 893**	**-**

The Company's management believes that matching the maturity and interest rates of assets and liabilities is fundamental to the management of the Company. The mismatch of the maturities of assets and liabilities is a temporary factor. In practice, there is usually no complete matching of these positions, as transactions are often of uncertain maturity and vary in nature.