



**IПОТЕКА BANK**



**Interim condensed consolidated  
financial information  
for six months ended  
30 June 2020 (unaudited)**

**JOINT-STOCK COMMERCIAL  
MORTGAGE BANK**

**“IПОТЕКА BANK”**

**AND ITS SUBSIDIARIES**

# ***Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries***

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## **Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**

### **STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)**

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the consolidated financial position of JSCMB “Ipoteka bank” (“the Bank”) and its subsidiaries (collectively – “the Group”) as at 30 June 2020, the results of its operations, changes in equity and cash flows for the six months then ended, in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”).

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance; and
- Making an assessment of the Group’s ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group comply with IAS 34;
- Maintaining accounting records in compliance with the legislation of the Republic of Uzbekistan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 was authorized for issue by the Management Board on 22 October 2020.

On behalf of the Management Board:

  
Shukhrat Atabaev  
Chairman of the Board

22 October 2020  
Tashkent, Uzbekistan

  
Elyor Normetov  
Chief Accountant

22 October 2020  
Tashkent, Uzbekistan

## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries ("the Group") as at 30 June 2020 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



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

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

22 October 2020  
Tashkent, Uzbekistan

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

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

Director  
"Deloitte & Touche" Audit Organisation LLC

**Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries**  
**Interim Condensed Consolidated Statement of Financial Position as at 30 June 2020 (unaudited)**

	Notes	30 June 2020 (unaudited)	31 December 2019
<i>In millions of Uzbekistan Soums</i>			
<b>ASSETS</b>			
Cash and cash equivalents	6	2,911,565	2,630,173
Due from other banks	7	762,581	845,018
Loans and advances to customers	8	20,883,011	19,839,756
Debt securities of the Government of the Republic of Uzbekistan	9	664,055	131,149
Financial assets at fair value through other comprehensive income		6,114	6,572
Investment in associates		1,931	1,964
Premises, equipment and intangible assets	10	278,550	276,601
Current income tax prepayment		-	8
Deferred income tax asset		66,422	57,451
Other financial assets		11,732	5,210
Other non-financial assets	11	88,401	51,076
<b>Total assets before assets held for distribution to owners</b>		<b>25,674,362</b>	<b>23,844,978</b>
Assets held for distribution to owners	12	53,496	-
<b>TOTAL ASSETS</b>		<b>25,727,858</b>	<b>23,844,978</b>
<b>LIABILITIES</b>			
Due to other banks	13	664,664	284,533
Customer accounts	14	7,908,442	7,935,719
Debt securities in issue		4,658	14,850
Borrowings from government, state and international financial institutions	15	12,787,873	11,530,321
Other borrowed funds		425,905	425,905
Other financial liabilities	16	10,685	53,050
Other non-financial liabilities	16	59,428	52,445
<b>Total liabilities before liabilities associated with assets held for distribution to owners</b>		<b>21,861,655</b>	<b>20,296,823</b>
Liabilities associated with assets held for distribution to owners	12	18,816	-
<b>TOTAL LIABILITIES</b>		<b>21,880,471</b>	<b>20,296,823</b>
<b>EQUITY</b>			
Share capital		2,815,810	2,815,810
Share capital reserve		151,807	90,656
Retained earnings		884,465	644,542
Revaluation reserve of financial assets at fair value through other comprehensive income		(589)	(225)
<b>Net assets attributable to the Bank's owners</b>		<b>3,851,493</b>	<b>3,550,783</b>
Non-controlling interest		(4,106)	(2,628)
<b>TOTAL EQUITY</b>		<b>3,847,387</b>	<b>3,548,155</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>25,727,858</b>	<b>23,844,978</b>

Approved for issue and signed on behalf of the Management Board on 22 October 2020.

Shukhrat Atabaev  
Chairman of the Board

Elyor Normetov  
Chief Accountant

**Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries**  
**Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the**  
**six months ended 30 June 2020 (unaudited)**

<i>In millions of Uzbekistan Soums</i>	Notes	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Interest income	17	1,169,386	919,008
Interest expense	17	(481,643)	(422,815)
<b>Net interest income before provision for credit losses</b>		<b>687,743</b>	<b>496,193</b>
Charge for credit losses on loans and advances to customers	5	(252,330)	(128,989)
<b>Net interest income</b>		<b>435,413</b>	<b>367,204</b>
Fee and commission income	18	122,819	119,356
Fee and commission expense	18	(33,712)	(21,452)
Net gain from trading in foreign currencies		3,250	2,157
Net gain from foreign exchange translation		25,380	4,247
Dividend income		10	117
Impairment charge on other financial assets and contingencies	5	(6,316)	(7,833)
Other operating income		26,609	14,533
Administrative and other operating expenses	19	(291,540)	(240,796)
Share of result of associates		(33)	(48)
<b>Profit before tax</b>		<b>281,880</b>	<b>237,485</b>
Income tax expense	20	(43,435)	(39,369)
<b>NET PROFIT FOR THE PERIOD</b>		<b>238,445</b>	<b>198,116</b>
<b>Profit attributable to:</b>			
- Owners of the Bank		239,923	199,078
- Non-controlling interest		(1,478)	(962)
<b>NET PROFIT FOR THE PERIOD</b>		<b>238,445</b>	<b>198,116</b>
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Fair value adjustment on financial assets at fair value through other comprehensive income		(456)	128
Tax effect		92	(44)
<b>Total other comprehensive (loss) / income for the period</b>		<b>(364)</b>	<b>84</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>238,081</b>	<b>198,200</b>
<b>Total comprehensive income attributable to:</b>			
- Owners of the Bank		239,559	199,162
- Non-controlling interest		(1,478)	(962)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>238,081</b>	<b>198,200</b>
<b>Basic and diluted earnings per ordinary share in UZS</b>	<b>21</b>	<b>0.08</b>	<b>0.18</b>

Approved for issue and signed on behalf of the Management Board on 22 October 2020.

Shukhrat Atabaev  
 Chairman of the Board

Elyor Normetov  
 Chief Accountant

**Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries**  
**Interim Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2020 (unaudited)**

<i>In millions of Uzbekistan Sourns</i>	Share capital	Share subscription reserve	Share premium	Share capital reserve	Retained earnings	Revaluation reserve of financial assets at fair value through other comprehensive income	Total	Non-controlling interest	Total equity
<b>31 December 2018</b>	983,979	124,723	754	60,873	443,726	(731)	1,613,324	(1,199)	1,612,125
Net profit/(loss) for the period	-	-	-	-	199,078	-	199,078	(962)	198,116
Other comprehensive income for the period	-	-	-	-	-	84	84	-	84
Total comprehensive income / (loss) for the period	-	-	-	-	199,078	84	199,162	(962)	198,200
Share subscription deposit - ordinary shares	-	-	-	56,036	-	-	56,036	-	56,036
Ordinary shares issued	417,199	(124,723)	-	-	-	-	292,476	-	292,476
Dividends declared - ordinary shares	-	-	-	-	(111,580)	-	(111,580)	-	(111,580)
Share decrease in subsidiaries with non-controlling interest	-	-	-	-	-	-	-	(518)	(518)
<b>30 June 2019 (unaudited)</b>	1,401,178	-	754	116,909	531,224	(647)	2,049,418	(2,679)	2,046,739

**Joint Stock Commercial Mortgage Bank "Ipoteka Bank" and its subsidiaries**  
**Interim Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2020 (unaudited)**

	Attributable to owners of the Bank							Total equity	
	Share capital	Share subscription reserve	Share premium	Share capital reserve	Retained earnings	Revaluation reserve of financial assets at fair value through other comprehensive income	Total		
<i>In millions of Uzbekistan Soms</i>									
<b>31 December 2019</b>	<b>2,815,810</b>	-	-	<b>90,656</b>	<b>644,542</b>	<b>(225)</b>	<b>3,550,783</b>	<b>(2,628)</b>	<b>3,548,155</b>
Net profit / (loss) for the period	-	-	-	-	239,923	-	239,923	(1,478)	238,445
Other comprehensive loss for the period	-	-	-	-	-	(364)	(364)	-	(364)
Total comprehensive income / (loss) for the period	-	-	-	-	239,923	(364)	239,559	(1,478)	238,081
Share subscription deposit - ordinary shares	-	-	-	61,151	-	-	61,151	-	61,151
<b>30 June 2020 (unaudited)</b>	<b>2,815,810</b>	-	-	<b>151,807</b>	<b>884,465</b>	<b>(589)</b>	<b>3,851,493</b>	<b>(4,106)</b>	<b>3,847,387</b>

Approved for issue and signed on behalf of the Management Board on 22 October 2020.



Shukhrat Atabaev  
 Chairman of the Board

Elyor Normetov  
 Chief Accountant

# Joint Stock Commercial Mortgage Bank "Ipoteka Bank"

## Interim Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2020 (unaudited)

<i>In millions of Uzbekistan Soums</i>	Notes	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
<b>Cash flows from operating activities</b>			
Interest received		899,921	817,032
Interest paid		(500,042)	(405,337)
Fees and commissions received		115,580	113,447
Fees and commissions paid		(33,712)	(21,452)
Income received from trading in foreign currencies		3,250	2,157
Other operating income received		25,371	14,413
Staff costs paid		(215,457)	(160,714)
Administrative and other operating expenses paid		(80,848)	(58,781)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>214,063</b>	<b>300,765</b>
Net decrease / (increase) in due from other banks		79,891	(415,041)
Net increase in loans and advances to customers		(697,613)	(3,531,919)
Net decrease in other financial assets		7,751	4,251
Net increase in other non-financial assets		(17,000)	(15,894)
Net increase in due to other banks		367,690	-
Net (decrease) / increase in customer accounts		(169,514)	430,166
Net decrease in other financial liabilities		(2,459)	(7,072)
Net increase / (decrease) in other non-financial liabilities		28,164	(7,686)
<b>Net cash used in operating activities</b>		<b>(189,027)</b>	<b>(3,242,430)</b>
<b>Cash flows from investing activities</b>			
Purchase of premises, equipment and intangible assets		(82,276)	(37,184)
Proceeds from disposal of premises, equipment and intangible assets		1,265	5,169
Net cash inflow associated with assets held for distribution to owners		7,188	-
Purchase of debt securities of the Government of the Republic of Uzbekistan		(530,099)	(164,415)
Proceeds from debt securities of the Government of the Republic of Uzbekistan		10,000	-
Dividend income received		10	117
<b>Net cash used in investing activities</b>		<b>(593,912)</b>	<b>(196,313)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings from government, state and international financial institutions		2,585,101	3,404,376
Repayment of borrowings from government, state and international financial institutions		(1,622,620)	(551,074)
Proceeds from issue of debt securities		-	7,650
Repayment of debt securities		(10,100)	(500)
Dividends paid		(21)	-
Share decrease in subsidiaries non-controlling interest		-	(518)
Proceeds from stock subscription		-	292,817
<b>Net cash from financing activities</b>		<b>952,360</b>	<b>3,152,751</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>111,971</b>	<b>21,709</b>
<b>Net increase in cash and cash equivalents</b>		<b>281,392</b>	<b>(264,283)</b>
Cash and cash equivalents at the beginning of the year	6	2,630,173	1,315,362
<b>Cash and cash equivalents at the end of the period</b>		<b>2,911,565</b>	<b>1,051,079</b>
<b>Non-cash transactions</b>			
Reposessed assets		4,624	4,054
Utilization of share subscription reserve to increase share capital		-	124,723

Approved for issue and signed on behalf of the Management Board on 22 October 2020.

Shukhrat Atabaev  
Chairman of the Board

Elyor Normetov  
Chief Accountant

**Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**  
**Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)**

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## 1. Introduction

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

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

**Principal activity.** The Bank’s principal activity is commercial banking and retail banking, operations with securities, foreign currencies and trade financing. The Bank accepts deposits from legal entities and individuals and makes loans, transfers payments in Uzbekistan and abroad. The Bank conducts its banking operations from its head office in Tashkent and 39 branches within Uzbekistan as at 30 June 2020 (unaudited) (31 December 2019: 39 branches). As at 30 June 2020 (unaudited) and 31 December 2019, the number of employees of the Bank was 4,452 and 4,461, respectively.

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

**Registered address and place of business.** The Bank’s registered address is: Shahrizabz Street 30, Tashkent, 100000, Uzbekistan.

**Presentation currency.** This interim condensed consolidated financial information is presented in millions of Uzbekistan Soums (“UZS millions”), except for earnings per share amounts and unless otherwise indicated.

**Shareholders.** As at 30 June 2020 and 31 December 2019, the interest of the shareholders in the Bank’s capital was as follows:

	30 June 2020 (unaudited)	31 December 2019
<b>Shareholders</b>		
Fund for the Reconstruction and Development of the Republic of Uzbekistan (UFRD)	81.5%	81.5%
Ministry of Finance of the Republic of Uzbekistan	10.5%	10.5%
Uzbekneftgaz JSC	2.7%	-
Uzneftmahsulot JSC	-	2.7%
Others (individually less than 5%)	5.3%	5.3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Subsidiaries and associates.** During the six months ended 30 June 2020 (unaudited), the composition and ownership share in the Bank’s subsidiaries and associates remained unchanged except for establishment of a new associate with 20% ownership - Joint stock company “Mortgage Refinancing Company of Uzbekistan” based on the decision of the Supervisory Board made in June. Subsequent to the reporting date, the Bank has invested UZS 20,000 million into the share capital of the new associate.

The subsidiaries controlled by the Group are consolidated in this condensed consolidated financial information and associates are accounted for using an equity method.

**Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**  
**Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)**

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**1. Introduction (Continued)**

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

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

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

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

In June 2020, S&P Global Ratings revised Uzbekistan's rating outlook from stable to negative. The decision was made due to rapid rise in the country's external and fiscal debt, partly due to USD 1 billion (UZS 10,173,380 million at the exchange rate prevailing as at the reporting date) in additional government spending in response to the coronavirus pandemic. In addition, in April and September 2020, the CBU reduced the refinancing rate from 16% to 15% and from 15% to 14%, respectively.

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

Management of the Group is monitoring developments in the current environment and taking the following measures, it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

- Towards the end of Q1 2020, the Group has implemented remote work arrangements and restricted business travel effective mid-March.
- Based on application of customers, the Group has also provided holidays till the end of Q3 2020 for repayment of interest and/or principal of loans.
- expanded offering of banking products through digital and distance channels, which were previously provided exclusively at the Bank's branches.

**Going concern.** This interim condensed consolidated financial information have been prepared on the assumption that the Group will continue to operate as a going concern for the foreseeable future.

For the six months ended 30 June 2020 (unaudited), the Group had a cash outflow from operating activities mainly as a result of on-lending the funds received from international financial institutions and the State to finance the government and investment projects increasing the loans and advances to customers by 5%.

**Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**  
**Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)**

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**1. Introduction (Continued)**

As at 30 June 2020 (unaudited), the Group had a cumulative liquidity deficit up to one year of UZS 3,721,110 million of which UZS 362,847 million was attributable to a non-compliance with the cost-to-income ratio stipulated in the tripartite subsidiary loan agreements #3471 dated 5 April 2017 and No. 3673 dated 19 November 2018 between the Republic of Uzbekistan (the “State”), the Rural Restructuring Agency and the Bank (the “Subsidiary Loan Agreements”) that were entered into in connection with a programme between the State and the Asian Development Bank (“ADB”) and certain project agreements with ADB as detailed in Note 15.

The Bank has been proactively communicating with both ADB and the State about its non-compliance with the cost-to-income ratio and in December 2019 produced an action plan (the “Action Plan”) to achieve compliance with such covenant during 2019-2021. ADB confirmed it had no objection to the Action Plan and, as at 30 June 2020, had not requested the acceleration of the State’s debt obligations and the State had in turn not sought prepayment of the Bank’s debt obligations as a consequence of past and/or ongoing non-compliance with the above financial covenant under the terms of the Subsidiary Loan Agreements.

Due to the on-going effects of the pandemic on the Uzbek economy and banking sector, the Bank estimates that it might need to take additional measures to ensure compliance with the cost-to-income ratio. These measures include but not limited to increase of online lending to reduce operating costs, closing inefficient branches, optimisation of staff costs and substituting state financed low margin lending with high margin commercial lending. In addition, the Bank monitors its non-performing loans ratio impacted by various measures adopted by the State to combat the negative impact of pandemic (including postponement of payments of borrowers facing financial difficulties until 1 October 2020 and a moratorium on enforcement measures in relation to assets of the borrowers negatively impacted by the pandemic). Subsequent to 30 June 2020, the updated Action Plan for 2019 – 2024 covering these two covenants was agreed with ADB and the Ministry of Finance. In addition, the State confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants. The Management believes that such non-compliance is not expected to adversely affect the Group’s financial performance, and in particular its liquidity position.

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

- State ownership and continued ongoing support by the State. As at 30 June 2020 (unaudited) , 92% of the Bank’s issued share capital is owned by the State through the UFRD and the Ministry of Finance of the Republic of Uzbekistan (“the Ministry of Finance”). The Presidential Decree PP-2660 dated 22 November 2016 exempted the Bank from payment of corporate income and property taxes for five years commencing from 1 January 2017. According to the above decree, the funds saved from such tax relief are directed to the share capital of the Bank as a contribution of the Ministry of Finance.
- The Bank plays a vital role as a government arm/vehicle to channel the State funds to the strategic sectors of the economy of Uzbekistan. The Management believes that in spite of a substantial portion of customer accounts being on demand, the fact that significant portion of these customer accounts are of large State controlled entities which are either the Group’s shareholders or its entities under common control and the past experience of the Group, indicate that these customer accounts provide a long-term and stable source of funding for the Group. As at 30 June 2020 (unaudited), total current accounts and borrowings with maturities up to one year of the State and State controlled entities amounted to UZS 1,941,029 million. The State lends most of the borrowings of the Group (as at 30 June 2020 (unaudited): UZS 7,815,268 million). Should the Group’s liquidity position require more funding, the Group’s Management believes that the terms of the State borrowings and deposits of the State controlled entities could be re-negotiated. The Group’s cumulative liquidity position up to one year adjusted for exclusion of the State borrowings and deposits of the State controlled entities would result in the amount of UZS 1,780,080 million.
- In 2020, the Group entered into an agreement with the International Financial Corporation (“IFC”) for a USD 35 million (UZS 356,068 million at the exchange rate prevailing as at the reporting date) of credit line that will mature on 31 December 2022 to finance micro, small or medium sized enterprises. Subject to satisfying certain prescribed conditions, IFC may be entitled to partially or fully convert this credit line into the ordinary shares of the Bank.

**Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**  
**Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)**

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**1. Introduction (Continued)**

- Based on a regular assessment of the customer accounts, in particular with respect to those of other non-State owned entities, their past performance and the analysis of events subsequent to the reporting date, the Group’s management believes that the customers intend to hold their deposits with the Group and that they will remain at a similar level for the foreseeable future forming a stable funding base.

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

**2. Summary of Significant Accounting Policies**

***Basis of preparation.***

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

In preparing this interim condensed consolidated financial information, the Group has applied the same accounting policies and methods of computation as those applied in the annual consolidated financial statements of the Group for the year ended 31 December 2019.

The interim condensed consolidated financial information is unaudited and does not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards (“IFRS”), such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Group’s annual consolidated financial statements for the year ended 31 December 2019 prepared in accordance with IFRS. Management believes that the disclosures in this interim condensed consolidated financial information is adequate to make the information presented not misleading if this interim condensed consolidated financial information is read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019 prepared in accordance with IFRS. In management’s opinion, this interim condensed consolidated financial information reflects all adjustments necessary to present fairly the Group’s financial position, results of operations, statements of changes in shareholders’ equity and cash flows for the interim reporting periods.

The Group is required to maintain its records and prepare its financial information for regulatory purposes in Uzbekistan Soums in accordance with Uzbekistan Accounting Legislation and related instructions (“UAL”). This interim condensed consolidated financial information is based on the Group’s UAL books and records, adjusted and reclassified in order to comply with IFRS.

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

	<b>30 June 2020</b>	<b>31 December 2019</b>
<b>Closing exchange rates – [UZS]</b>		
1 USD	10,173.38	9,507.56
1 EUR	11,411.48	10,624.70
<b>Average exchange rates for the six months ended 30 June - [UZS]</b>		
1 USD	9,790.22	8,426.84
1 EUR	10,784.89	9,519.18

### **3. Critical Accounting Estimates and Judgements in Applying Policies**

In preparing this interim condensed consolidated financial information, the significant judgments made by the management in applying the Group’s accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group’s annual consolidated financial statements for the year ended 31 December 2019 prepared in accordance with IFRS. There have been no changes to the basis upon which the significant accounting estimates have been determined compared with 31 December 2019, except for those disclosed in this Note below.

#### ***Measurement of allowances for expected credit losses (“ECL”).***

Almost all sectors of the economy of Uzbekistan, both in terms of individuals and legal entities, have been adversely affected by the unprecedented economic and social disruption resulting from Covid-19 which has led to significant government interventions and support. This has caused an increased level of uncertainty and volatility in the economic activity of Uzbekistan during Q2 2020.

In addition, currently limited observable data available to inform a supportable, fully-modelled view on how the economic impacts of this pandemic might affect customers has further exacerbated the ability of the banking sector of Uzbekistan to assess the levels of ECL. The Group incorporates forward-looking information into a measurement of ECL when there is a statistically proven correlation between the macro-economic variables and the NPL. As at the reporting date, statistical tests have failed and ECL across all loan portfolios has not been adjusted for forward-looking information and macroeconomic scenarios. The Management updates its statistical tests for correlation as at each reporting date.

Therefore, due to the increased risk and uncertainties at this time to incorporate the specific effects of the pandemic and the related government support measures, the Management of the Group considered to apply additional overlay in measuring the ECL by introducing the following adjustments in its methodology.

As discussed in Note 8, in line with the government resolution, the Group has provided the borrowers with holidays till the end of Q3 2020 for repayment of interest and/or principal on loans with the outstanding balance of nearly 37% of the total loan portfolio as at 30 June 2020 (unaudited).

The calculation of the PD rates applied across all portfolios (corporate, small business loans and consumer loans) of the Group except for residential mortgage loans and the loans provided to the State-owned enterprises (“SOEs”) was based on the Management’s assumption that the payment holidays granted during the lockdown were the evidence of a significant increase in credit risk (SICR). However, the Management is of the view that the actual default rates could materialize to be lower due to:

- the retail loans (consumer and residential mortgage loans) have automatically received the payment holidays as instructed by the government and not by the direct request of the individual borrowers;
- some legal entities (corporate and small businesses) could have requested the restructuring due to temporary liquidity constraints as a result of the lockdown effect and not as a result of deterioration of the credit risk.

As a result of the assumptions used above the PD rates across all portfolios have been adjusted to reflect the increased credit risk by classifying all Stage 1 loans restructured due to the effects of the pandemic (except for loans to the SOEs and mortgage loans) as Stage 2, but in measuring the ECL the Management has applied an overlay by moving these restructured loans back to Stage 1.

Additional overlay was applied to the restructured loans to the SOEs and the residential mortgage loans by retaining their pre-pandemic staging and assuming that restructuring is not an automatic evidence of significant increase in their credit risk. The basis for this overlay was that the Management believes the government will continue to support the SOEs to meet their obligations and for residential mortgage loans the payment holidays were automatically granted without the request of the individual borrowers but rather as the government policy. These residential mortgage loans were predominantly provided to the families with stable income and employed by the state-owned enterprises and organizations funded by the state budget and, therefore, the Management expects that the government will ensure a stable income for the borrowers to retain their dwellings that have been impacted by the pandemic. As such, the restructuring that took place during the period of the pandemic in these two categories of borrowers did not automatically move them to Stage 2 for a life-time loss calculation.

### **3. Critical Accounting Estimates and Judgements in Applying Policies (Continued)**

The Management has also adjusted the calculation of loss given default rates (LGD) by excluding the loan recovery results of the second quarter of 2020, assuming the recovery pattern during the lockdown period does not accurately reflect the financial performance of the borrowers. Cash flows and turnover of customer accounts observed during pre and post quarantine periods suggest that significant slow-down in the recovery of loans were mainly attributable to factors other than the financial standing of the borrowers. This adjustment to LGD has been applied across all portfolios of the Group.

The Management will closely monitor the servicing of the loan portfolio to assess the adequacy of the overlay during Q4 2020, and update the ECL measurement as more information becomes available to support an update, incorporating alternative economic scenarios.

Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods.

### **4. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements**

The following amended standards and interpretations became effective for the Group from 1 January 2020, but did not have any significant impact on the Group’s interim condensed consolidated financial information for the six months ended 30 June 2020:

- Amendments to IFRS 3 Definition of a business;
- Amendments to IAS 1 and IAS 8 Definition of material;
- Amendments to References to the Conceptual Framework in IFRS Standards.

The Group did not early adopt any other standards, amendments or interpretations that have been issued and are not yet effective.

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**5. Provisions for Expected Credit Losses**

The following table illustrates the movement in provisions for loans and advances to customers and for financial assets for the six months ended 30 June 2020.

	Loans and advances to customers (Note 8)			Cash and cash equivalents (Note 6)	Due from other banks (Note 7)	Guarantees (Note 16, 25)			Other financial assets	Debt securities of the Government of the Republic of Uzbekistan (Note 9)	Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 1	Stage 2	Stage 3	Stage 3	Stage 1	
<b>1 January 2020</b>	<b>246,381</b>	<b>57,931</b>	<b>237,674</b>	<b>73</b>	<b>8,799</b>	<b>594</b>	<b>236</b>	<b>628</b>	<b>392</b>	<b>1,124</b>	<b>553,832</b>
Transfer to stage 1	27,181	(26,298)	(883)	-	-	-	-	-	-	-	-
Transfer to stage 2	(2,266)	88,763	(86,497)	-	-	-	-	-	-	-	-
Transfer to stage 3	(5,150)	(13,187)	18,337	-	-	-	-	-	-	-	-
New originations	265,475	-	-	66	2,029	1,061	-	-	942	3,248	272,821
Transfer of new originations**	(76,399)	6,923	69,476	-	-	-	-	-	-	-	-
Derecognition of financial assets	(95,904)	(12,230)	(33,479)	(52)	(9)	(164)	(236)	-	-	(80)	(142,154)
Other changes*	11,216	(40,993)	158,245	6	(767)	69	-	169	-	34	127,979
Recovery of bad debt written-off / (Bad debt written off)	-	-	-	-	-	-	-	-	-	-	-
Currency translation difference	4,271	3,525	1,488	2	10	72	-	91	-	-	9,459
<b>30 June 2020 (unaudited)</b>	<b>374,805</b>	<b>64,434</b>	<b>364,361</b>	<b>95</b>	<b>10,062</b>	<b>1,632</b>	<b>-</b>	<b>888</b>	<b>1,334</b>	<b>4,326</b>	<b>821,937</b>
<b>Total</b>			<b>803,600</b>	<b>95</b>	<b>10,062</b>			<b>2,520</b>	<b>1,334</b>	<b>4,326</b>	<b>821,937</b>

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

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

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**5. Provisions for Expected Credit Losses (Continued)**

The following table illustrates the movement in provisions for loans and advances to customers and for financial assets for the six months ended 30 June 2019.

	Loans and advances to customers (Note 8)			Cash and cash equivalents (Note 6)	Due from other banks (Note 7)	Guarantees (Note 16, 25)	Other financial assets	Debt securities of the Government of the Republic of Uzbekistan (Note 9)	Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 1	Stage 3	Stage 1	
<b>1 January 2019</b>	<b>125,819</b>	<b>9,839</b>	<b>133,012</b>	<b>50</b>	<b>3,806</b>	<b>315</b>	<b>20</b>	<b>960</b>	<b>273,821</b>
Transfer to stage 1	64,242	(8,589)	(55,653)	-	-	-	-	-	-
Transfer to stage 2	(435)	1,884	(1,449)	-	-	-	-	-	-
Transfer to stage 3	(2,477)	(604)	3,081	-	-	-	-	-	-
New originations	63,127	-	-	14	7,368	197	155	1,424	72,285
Transfer of new originations**	(13,946)	386	13,560	-	-	-	-	-	-
Derecognition of financial assets	(2,937)	(547)	(3,428)	(11)	(592)	(93)	-	(463)	(8,071)
Other changes*	(14,938)	1,416	86,296	(26)	(441)	209	-	92	72,608
Recovery of bad debt written-off / (Bad debt written off)	-	-	(7,470)	-	-	152	-	-	(7,318)
Currency translation difference	318	6	212	-	-	-	-	-	536
<b>30 June 2019 (unaudited)</b>	<b>218,773</b>	<b>3,791</b>	<b>168,161</b>	<b>27</b>	<b>10,141</b>	<b>780</b>	<b>175</b>	<b>2,013</b>	<b>403,861</b>
<b>Total</b>			<b>390,725</b>	<b>27</b>	<b>10,141</b>	<b>780</b>	<b>175</b>	<b>2,013</b>	<b>403,861</b>

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**6. Cash and Cash Equivalents**

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Cash on hand	522,606	485,924
Cash balances with the CBU (other than mandatory reserve deposits)	1,787,815	895,114
Correspondent accounts and overnight placements with other banks	360,659	874,388
Placements with other banks with original maturities of less than three months	240,580	374,820
Less – Provision for expected credit losses (Note 5)	(95)	(73)
<b>Total cash and cash equivalents</b>	<b>2,911,565</b>	<b>2,630,173</b>

The credit quality of cash and cash equivalents, excluding cash on hand, as at 30 June 2020 (unaudited) is summarized below:

<i>In millions of Uzbekistan Soums</i>	<b>Cash balances with the CBU (other than mandatory reserve deposits)</b>	<b>Correspondent accounts and overnight placements with other banks</b>	<b>Placements with other banks with original maturities of less than three months</b>	<b>Total</b>
<i>Neither past due nor impaired</i>				
- Central bank of Uzbekistan	1,787,815	-	-	1,787,815
- "Aa2" (Moody's)	-	1,297	-	1,297
- "Aa3" (Moody's)	-	5,042	-	5,042
- "A1" (Moody's)	-	66,508	-	66,508
- "A2" (Moody's)	-	197,116	-	197,116
- "A3" (Moody's)	-	42,476	-	42,476
- "Ba1" (Moody's)	-	5,514	-	5,514
- "B1" (Moody's)	-	3,123	100,000	103,123
- "B2" (Moody's)	-	-	120,000	120,000
- "B2" (Standard & Poors)	-	651	-	651
- "Baa3" (Moody's)	-	2,151	-	2,151
- "BB-" (Standard & Poors)	-	-	20,000	20,000
- "B" (Standard & Poors)	-	36,781	580	37,361
Less – Provision for expected credit losses (Note 5)	(45)	(38)	(12)	(95)
<b>Total cash and cash equivalents, excluding cash on hand</b>	<b>1,787,770</b>	<b>360,621</b>	<b>240,568</b>	<b>2,388,959</b>

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**6. Cash and Cash Equivalents (Continued)**

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

	Cash balances with the CBU (other than mandatory reserve deposits)	Correspondent accounts and overnight placements with other banks	Placements with other banks with original maturities of less than three months	Total
<i>In millions of Uzbekistan Soums</i>				
<i>Neither past due nor impaired</i>				
- Central bank of Uzbekistan	895,114	-	-	895,114
- "Aa2" (Moody's)	-	1,205	-	1,205
- "Aa3" (Moody's)	-	3,878	-	3,878
- "A1" (Moody's)	-	103,419	-	103,419
- "A2" (Moody's)	-	682,494	-	682,494
- "A3" (Moody's)	-	50,921	-	50,921
- "Ba1" (Moody's)	-	7,145	64,333	71,478
- "B2" (Moody's)	-	2,915	159,369	162,284
- "B2" (Standard & Poors)	-	17,623	-	17,623
- "Baa3" (Moody's)	-	629	-	629
- "BB-" (Standard & Poors)	-	4,159	2,252	6,411
- "BB-" (Fitch)	-	-	148,746	148,746
- "B" (Standard & Poors)	-	-	120	120
Less – Provision for expected credit losses (Note 5)	(22)	(26)	(25)	(73)
<b>Total cash and cash equivalents, excluding cash on hand</b>	<b>895,092</b>	<b>874,362</b>	<b>374,795</b>	<b>2,144,249</b>

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**7. Due from Other Banks**

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Long term placements with other banks	484,439	447,769
Short term placements with other banks with original maturities of more than three months	178,632	90,692
Mandatory reserve deposit held with CBU	109,572	315,356
Less – Provision for expected credit losses (Note 5)	(10,062)	(8,799)
<b>Total due from other banks</b>	<b>762,581</b>	<b>845,018</b>

Due to the effect of the pandemic, the commercial banks of Uzbekistan were provided with additional liquid resources as a result of easing the requirements for mandatory reserves with CBU. This measure has allowed the Bank to enjoy additional liquidity that it could use to fund its operations.

As at 30 June 2020 (unaudited) long term placements with other banks include long term loans provided to other local banks in the amount of UZS 259,796 million (31 December 2019: UZS 276,600 million) which were funded from UFRD according to the PD# 4231 dated 7 March 2019 (Purpose: Development of family entrepreneurship in regions). These loans were provided with 5% interest rate until March 2026.

As at 30 June 2020 (unaudited), due from other banks include investments in debt securities of commercial banks of Uzbekistan with the balance of UZS 2,074 million (31 December 2019: UZS 2,301 million).

As at 30 June 2020 (unaudited), due from other banks include deposits placed with State owned banks in the amount of UZS 204,163 million (31 December 2019: UZS 94,953 million).

Analysis by credit quality of amounts due from other banks outstanding at the end of the periods are as follows:

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
<i>Neither past due nor impaired</i>		
- Central Bank of Uzbekistan	109,984	315,356
- "A1" (Moody's)	43	40
- "A2" (Moody's)	26	24
- "A3" (Moody's)	-	14,930
- "BBB-" (Fitch)	-	747
- "Ba1" (Moody's)	2	1,997
- "BB-" (Fitch)	8,615	6,391
- "BB-" (Standard & Poors)	14,585	7,111
- "B1" (Moody's)	7,744	7,200
- "B" (Fitch)	48,900	48,400
- "B2" (Standard & Poors)	-	1,000
- "B2" (Moody's)	426,698	279,050
- "B3" (Moody's)	37,964	43,700
- "B" (Standard & Poors)	3,700	3,500
- "B-" (Standard & Poors)	72,190	24,200
- "B-" (Fitch)	15,000	15,000
- Unrated	27,192	85,171
Less – Provision for expected credit losses (Note 5)	(10,062)	(8,799)
<b>Total due from other banks</b>	<b>762,581</b>	<b>845,018</b>

Geographical analyses of due from other banks are disclosed in Note 23.

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**8. Loans and Advances to Customers**

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Corporate loans	6,579,108	7,998,400
Residential mortgage loans	7,153,135	5,169,389
Small business loans	6,671,401	6,391,443
Consumer loans	1,282,967	822,510
<b>Total loans and advances to customers before provision for expected credit losses</b>	<b>21,686,611</b>	<b>20,381,742</b>
Provision for expected credit losses (Note 5)	(803,600)	(541,986)
<b>Total loans and advances to customers</b>	<b>20,883,011</b>	<b>19,839,756</b>

In line with the Presidential Decree #5978 dated 3 April 2020, the Group has also provided holidays till the end of Q3 2020 for repayment of interest and/or principal on loans with outstanding balance of nearly 37% of the total loan portfolio which comprise nearly 45% of the loans to legal entities and nearly 26% of the loans to individuals as at 30 June 2020 (unaudited). As at the same date, the amount of principal, the repayment of which the Group has extended beyond Q3 2020, was UZS 1,377,739 million (10.4%) and UZS 144,216 million (1.7%) of the loans to legal entities and individuals, respectively.

In relation to restructured loans above, interest continued to accrue on the outstanding principal of the loans and was distributed over the remaining period of the loans with final maturities predominantly extended by six months.

Deterioration in Non-performing loans (“NPL”) to gross loans and in NPL coverage ratios at 30 June 2020 was mainly driven by the increase in non-performing borrowers during the second quarter of 2020 on the back of COVID-19 pandemic outbreak. NPLs are loans in which the borrower is in default due to the fact that they have not made the scheduled payments for 90 days or more.

The following table presents information about NPLs as at 30 June 2020 and as at 31 December 2019:

	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Non-performing loans (in millions of Uzbekistan Soums)	741,182	380,202
Non-performing loans ratio (Non-performing loans balance divided by the gross loan portfolio)	3.4%	1.9%
NPL coverage ratio	108%	143%

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**8. Loans and Advances to Customers (Continued)**

As at 30 June 2020 (unaudited), loans and advances to customers include loans provided to State owned enterprises in the amount of UZS 3,182,270 million (31 December 2019: UZS 3,296,426 million).

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Stage 1	19,892,431	18,668,575
Stage 2	820,795	997,929
Stage 3	973,385	715,238
<b>Total loans and advances to customers before provision for expected credit losses</b>	<b>21,686,611</b>	<b>20,381,742</b>
Less: Provision for expected credit losses (Note 5)	(803,600)	(541,986)
<b>Total loans and advances to customers</b>	<b>20,883,011</b>	<b>19,839,756</b>

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

	<b>Loans and advances to customers</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying amount as at 31 December 2019</b>	<b>18,668,575</b>	<b>997,929</b>	<b>715,238</b>	<b>20,381,742</b>
Transfer to stage 1	578,316	(574,292)	(4,024)	-
Transfer to stage 2	(174,338)	505,865	(331,527)	-
Transfer to stage 3	(288,126)	(211,177)	499,303	-
New financial assets originated or purchased	8,293,469	-	-	8,293,469
Transfer of new originations*	(273,464)	129,403	144,061	-
Derecognition of financial assets	(6,263,883)	(86,169)	(69,858)	(6,419,910)
Changes in EAD	(648,118)	59,236	20,192	(568,690)
Bad debt written off	-	-	-	-
<b>Gross carrying amount as at 30 June 2020 (unaudited)</b>	<b>19,892,431</b>	<b>820,795</b>	<b>973,385</b>	<b>21,686,611</b>

**Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**  
**Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)**

**8. Loans and Advances to Customers (Continued)**

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

\* “Transfer of new originations” reflects the transfers of new loans originated during the reporting period from Stage 1 to other stages.

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

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

<i>In millions of Uzbekistan Soums</i>	30 June 2020 (unaudited)		31 December 2019	
	amount	%	amount	%
Individuals	8,436,102	38.9	5,991,899	29.4
Manufacturing	7,395,214	34.2	6,440,904	31.6
Trade and services	2,062,307	9.5	1,638,102	8.0
Construction	1,783,394	8.2	4,794,719	23.5
Agriculture	1,475,224	6.8	993,322	4.9
Transport and communication	287,532	1.3	281,290	1.4
Municipal services	196,646	0.9	214,403	1.1
Oil & Gas	30,652	0.1	9,242	0.0
Other	19,540	0.1	17,861	0.1
<b>Total loans and advances to customers before provision for expected credit losses</b>	<b>21,686,611</b>	<b>100</b>	<b>20,381,742</b>	<b>100</b>

As at 30 June 2020 (unaudited), the Group had 10 borrowers (31 December 2019: 10 borrowers) with the aggregate loan balance of UZS 4,607,103 million (31 December 2019: UZS 7,473,199 million) or 21% (31 December 2019: 37%) of total loans and advances to customers.

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**8. Loans and Advances to Customers (Continued)**

Information about collateral at 30 June 2020 (unaudited) was as follows (unaudited):

<i>In millions of Uzbekistan Soums</i>	<b>Corporate loans</b>	<b>Residential mortgage loans</b>	<b>Small business loans</b>	<b>Consumer loans</b>	<b>Total</b>
Loans collateralised by:					
-real estate	1,385,715	7,146,922	4,556,090	868	<b>13,089,595</b>
-letters of surety	488,293	1,842	725,238	598,793	<b>1,814,166</b>
-state guarantee	1,804,681	-	-	-	<b>1,804,681</b>
-insurance	431,694	4,145	381,153	371,693	<b>1,188,685</b>
-equipment and inventory	818,160	-	306,237	-	<b>1,124,397</b>
-cash deposit	679,510	-	1,147	232,988	<b>913,645</b>
-vehicles	87,236	-	664,922	78,556	<b>830,714</b>
-other assets	655,984	-	28,530	69	<b>684,583</b>
-future cash flow	227,835	226	8,084	-	<b>236,145</b>
<b>Total loans collateralised</b>	<b>6,579,108</b>	<b>7,153,135</b>	<b>6,671,401</b>	<b>1,282,967</b>	<b>21,686,611</b>
<b>Total loans and advances to customers before provision for expected credit losses</b>	<b>6,579,108</b>	<b>7,153,135</b>	<b>6,671,401</b>	<b>1,282,967</b>	<b>21,686,611</b>

Information about collateral at 31 December 2019 was as follows:

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

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

**Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**  
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**8. Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 30 June 2020 is as follows (unaudited):

<i>In millions of Uzbekistan Soums</i>	<b>Corporate loans</b>	<b>Residential mortgage loans</b>	<b>Small business loans</b>	<b>Consumer loans</b>	<b>Total</b>
Not past due loans	5,778,655	6,935,646	6,161,503	1,236,547	<b>20,112,351</b>
<b>Total not past due loans</b>	<b>5,778,655</b>	<b>6,935,646</b>	<b>6,161,503</b>	<b>1,236,547</b>	<b>20,112,351</b>
<i>Past due loans</i>					
- less than 30 days overdue	662,865	35,074	51,704	3,245	<b>752,888</b>
- 31 to 90 days overdue	10,483	1,732	29,793	11,878	<b>53,886</b>
- 91 to 180 days overdue	7,333	142,220	220,461	21,313	<b>391,327</b>
- 181 to 360 days overdue	4,805	36,123	171,100	7,907	<b>219,935</b>
- more than 360 days overdue	9,238	2,340	36,840	2,077	<b>50,495</b>
<b>Total past due loans</b>	<b>694,724</b>	<b>217,489</b>	<b>509,898</b>	<b>46,420</b>	<b>1,468,531</b>
<i>Loans individually determined to be impaired (gross)</i>					
- less than 30 days overdue	26,304	-	-	-	<b>26,304</b>
- 91 to 180 days overdue	20,124	-	-	-	<b>20,124</b>
- 180 to 360 days overdue	59,301	-	-	-	<b>59,301</b>
<b>Total individually impaired loans (gross)</b>	<b>105,729</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>105,729</b>
- Impairment provisions for individually impaired loans	(36,864)	-	-	-	<b>(36,864)</b>
- Impairment provisions assessed on portfolio basis	(107,468)	(335,572)	(268,864)	(54,832)	<b>(766,736)</b>
<b>Less provision for expected credit losses</b>	<b>(144,332)</b>	<b>(335,572)</b>	<b>(268,864)</b>	<b>(54,832)</b>	<b>(803,600)</b>
<b>Total loans and advances to customers</b>	<b>6,434,776</b>	<b>6,817,563</b>	<b>6,402,537</b>	<b>1,228,135</b>	<b>20,883,011</b>

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**Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)**

**8. Loans and Advances to Customers (Continued)**

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

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

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**months ended 30 June 2020 (unaudited)**

**9. Debt securities of the Government of the Republic of Uzbekistan**

<i>In millions of Uzbekistan Soums</i>	%	Maturity	30 June 2020 (unaudited)	31 December 2019
Government bonds of the Ministry of Finance of the Republic of Uzbekistan	15% - 16%	September, 2020 - July, 2022	616,395	132,273
Bonds of Central bank of Uzbekistan	16%	August, 2020	51,986	-
Less - Provision for expected credit losses (Note 5)			(4,326)	(1,124)
<b>Total debt securities of Government of the Republic of Uzbekistan</b>			<b>664,055</b>	<b>131,149</b>

As at 30 June 2020 (unaudited), the Government bonds of the Ministry of Finance with the carrying value of UZS 400,000 million were pledged under the repurchase agreement that the Group has entered into with the CBU (Note 13). The carrying value of these debt securities approximate their fair value.

**10. Premises, Equipment and Intangible Assets**

As at 30 June 2020 (unaudited), Premises, Equipment and Intangible assets amounted to UZS 278,550 million UZS (31 December 2019: UZS 276,601 million) and increased mainly due to:

- Purchase of automated teller machines amounting to UZS 13,822 million;
- Purchase of point of sale terminals amounting to UZS 11,549 million;
- Renovation of the Bank's branches amounting to UZS 7,578 million.

As at 31 December 2019, Premises, Equipment and Intangible assets relating to Assets held for distribution to owners in the amount of 28,573 net of depreciation was included within Premises, Equipment and Intangible assets.

As at 30 June 2020 (unaudited), Premises, Equipment and Intangible assets in the amount of UZS 28,553 million net of depreciation was shown within Assets held for distribution to owners (Note 12).

**Joint Stock Commercial Mortgage Bank “Ipoteka Bank” and its subsidiaries**  
**Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 (unaudited)**

**11. Other Non-Financial Assets**

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Prepayments	43,568	22,305
Assets for finance lease	19,410	16,317
Repossessed assets	11,972	7,348
Prepayment for intangible assets	6,500	1,043
Inventories	2,612	2,841
Insurance assets	534	76
Other	3,805	1,146
<b>Total other non-financial assets</b>	<b>88,401</b>	<b>51,076</b>

As at 30 June 2020 (unaudited), prepayments include advance payments for leasing equipment in the amount of UZS 28,440 million (31 December 2019: UZS 3,656), for purchase of plastic cards in the amount of UZS 4,699 million (31 December 2019: 3,527 million) and for renovation of branches in the amount of UZS 3,614 million (31 December 2019: 3,042 million).

As at 30 June 2020 (unaudited) and 31 December 2019, assets for finance lease include vehicles and equipment purchased by subsidiary company “Ipoteka Leasing” LLC for the purpose of finance lease.

**12. Assets Held for Distribution to Owners**

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

According to the Decree of the Cabinet of Ministers # 362 dated 5 June 2020, it has been agreed and approved that the Bank to transfer its shareholding in a number of subsidiaries, predominantly in the fisheries, and equity securities at fair value through other comprehensive income (“non-core assets”) to other state owned enterprises. The above decree stipulated that the transfer is to be compensated via utilization of the funds accumulated in the Share capital reserve in the amount equivalent to the carrying value of the non-core assets as at the date of transfer.

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

As the transfer of these non-core assets is not expected to be compensated in cash to qualify as a sale, but rather via a reduction of the government’s share in the Bank’s shareholders’ equity, the management of the Group has accounted for these assets as “Assets held for distribution to owners” in line with the rules of IFRS 5 “*Non-current Assets Held for Sale and Discontinued Operations*”.

The management of the Group believes that as at 30 June 2020 these non-core assets meet the criterion necessary to qualify for an accounting under IFRS 5 due to the following:

- The transfer is highly probable as the Group is committed to transfer the assets within 12 months and necessary approvals of the government, the main shareholder, have been received through the issuance of the above decree;
- The assets are available for immediate distribution at their present condition;

As at 30 June 2020, the non-core assets are measured at their carrying amounts as the management does not expect their fair value less costs to distribute to be materially different.

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**12. Assets Held for Distribution to Owners (Continued)**

The major classes of assets and liabilities held for distribution to owners as at 30 June 2020 are as follows.

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>
<b>Assets:</b>	
Premises, equipment and intangible assets	28,553
Due from other banks	15,980
Other non-financial assets	8,843
Cash and cash equivalents	120
<b>Total assets</b>	<b>53,496</b>
<b>Liabilities:</b>	
Payable to suppliers	11,842
Payable to employees	664
Other payables	6,310
<b>Total liabilities</b>	<b>18,816</b>
<b>Net assets</b>	<b>34,680</b>

**13. Due to Other banks**

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Repurchase agreements with the CBU	400,000	-
Short-term placements of other banks	264,664	284,533
<b>Total due to other banks</b>	<b>664,664</b>	<b>284,533</b>

For information on securities pledged under the repurchase agreement see Note 9.

**14. Customer Accounts**

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
<b>State and public organisations</b>		
- Current/settlement accounts	1,353,771	1,473,109
- Term deposits	2,925,703	3,113,328
<b>Other legal entities</b>		
- Current/settlement accounts	1,120,342	1,119,693
- Term deposits	607,623	409,958
<b>Individuals</b>		
- Current/settlement accounts	892,483	692,424
- Term deposits	1,008,520	1,127,207
<b>Total customer accounts</b>	<b>7,908,442</b>	<b>7,935,719</b>

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**14. Customer Accounts (Continued)**

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>		<b>31 December 2019</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
State and budgetary organisations	4,279,474	54	4,586,437	58
Individuals	1,901,003	24	1,819,631	23
Private enterprises	952,055	12	1,014,692	13
Non-governmental organisations	378,172	5	183,863	2
Joint ventures	271,688	3	199,423	3
Other	126,050	2	131,673	1
<b>Total customer accounts</b>	<b>7,908,442</b>	<b>100</b>	<b>7,935,719</b>	<b>100</b>

As at 30 June 2020 (unaudited), the Group had top 10 customers (31 December 2019: top 10 customers) with outstanding balances of UZS 2,713,620 million (31 December 2019: UZS 2,956,464 million) or 34% (31 December 2019: 37%) of total customer accounts.

As at 30 June 2020 (unaudited) and 31 December 2019, customer accounts include funds pledged against letters of credit and guarantees in the amount of UZS 820,083 million and UZS 334,234 million, respectively.

**15. Borrowings from Government, State and International Financial Institutions**

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Borrowings from the Ministry of Finance of the Republic of Uzbekistan	6,932,267	7,189,496
Borrowings from International Financial Institutions	3,916,226	2,363,981
Borrowings from Domestic Financial Institutions	970,062	981,936
Borrowings from the Fund for the Reconstruction and Development of the Republic of Uzbekistan	883,001	906,729
Borrowings from the CBU	73,232	76,101
Debt component of preference shares	13,085	12,078
<b>Borrowings from government, state and international financial institutions</b>	<b>12,787,873</b>	<b>11,530,321</b>

As at 30 June 2020 (unaudited), the borrowings have increased due to the attraction of the following new funds:

- Credit Suisse AG has advanced UZS 855,861 million (EUR 75 million) bearing an interest in the range of 4.5% and 5.5%;
- European Bank for Reconstruction and Development has opened a new credit line in the amount of UZS 183,121 million (EUR 18 million) bearing an interest of 2.6% + 6 months Euribor;
- New funds in the amount of UZS 56,867 million (USD 5 million) were received from the Ministry of Finance of the Republic of Uzbekistan sourced from Asian Development Bank.

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

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

In 2017 and 2018, ADB advanced two loans to the State, in connection with financing of certain horticulture projects in Uzbekistan. The State on-lent a part of these loans to the Bank under the Subsidiary Loan Agreements. The loan agreements between ADB and the State require the latter to cause the Bank to ensure maintenance of a number of covenants including a cost-to-income ratio throughout the implementation period of the project. The same financial covenants are included in the Subsidiary Loan Agreements. As at 30 June 2020 (unaudited), the Group was not in compliance with the cost-to-income ratio stipulated in the Subsidiary Loan Agreements that had an outstanding balance of UZS 362,847 million. As a result of the above covenant non-compliance, as at 30 June 2020 (unaudited), the Group classified its long-term borrowings for the total amount of UZS 362,847 million as “Less than 3 months” for the IFRS reporting purposes.

Pursuant to the terms of the Subsidiary Loan Agreements, any non-compliance with such covenants gives the State the right to demand prepayment of the loans advanced to the Bank. The Bank has been proactively communicating with both ADB and the State to establish a strategic action plan in order to rectify the non-compliance with cost-to-income ratio and to ensure compliance with this covenant in the future. In December 2019, the Bank produced the Action Plan to achieve compliance with such covenant by 2021. ADB confirmed in writing it had no objection to the proposed Action Plan and, as at 30 June 2020, had not requested the acceleration of the State’s debt obligations and the State had in turn not sought prepayment of the Bank’s debt obligations as a consequence of past and/or ongoing non-compliance with the above financial covenant under the terms of the Subsidiary Loan Agreements. In addition, the Group has received a letter from the State confirming that no event of default has occurred under the Subsidiary Loan Agreements as a result of non-compliance with cost-to-income ratio.

Due to the effects of the pandemic on the Uzbek economy and banking sector, the Bank estimates that it might need to take additional measures to ensure compliance with the cost-to-income ratio. In addition, the Bank monitors its non-performing loans ratio impacted by various measures adopted by the State to combat the negative impact of pandemic (including postponement of payments of borrowers facing financial difficulties until 1 October 2020 and a moratorium on enforcement measures in relation to assets of the borrowers negatively impacted by the pandemic). Subsequent to 30 June 2020, the updated Action Plan for 2019 – 2024 covering these two covenants was agreed with ADB and the Ministry of Finance. In addition, the State confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants. The Management believes that non-compliance with these covenants is not expected to adversely affect the Group’s financial performance, and in particular its liquidity position.

Maturity analysis of borrowings from government, state and international financial institutions is disclosed in Note 23.

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**16. Other Liabilities**

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Payable to suppliers	10,105	50,270
Dividends payable	580	601
Other payables	-	2,179
<b>Total other financial liabilities</b>	<b>10,685</b>	<b>53,050</b>
Insurance liabilities	12,148	3,556
Other tax liabilities	5,459	2,033
Expected liability for bank guarantees	2,520	1,458
Unearned revenue	1,521	1,579
Payable to State deposit insurance fund	814	3,424
Payables to employees	469	29,334
Other	36,497	11,061
<b>Total other non-financial liabilities</b>	<b>59,428</b>	<b>52,445</b>
<b>Total other liabilities</b>	<b>70,113</b>	<b>105,495</b>

As at 30 June 2020 (unaudited) and 31 December 2019, payables to suppliers include:

- Payable for acquisition of point of sale (POS) terminals in the amount of UZS 5,221 million and UZS 23,284 million, respectively.
- Payable for acquisition of automated teller machines (ATM) in the amount of UZS 123 million and UZS 16,069 million, respectively.

As at 30 June 2020 (unaudited), other item in other non-financial liabilities includes payable by subsidiary leasing company in the amount of UZS 25,092 million (31 December 2019: UZS 872 million).

As at 30 June 2020 (unaudited) and 31 December 2019, insurance liabilities include unearned insurance premium reserves in the amount of UZS 10,889 million and UZS 3,224 million, respectively.

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**17. Interest Income and Expense**

<i>In millions of Uzbekistan Soums</i>	<b>Six months ended 30 June 2020 (unaudited)</b>	<b>Six months ended 30 June 2019 (unaudited)</b>
<b>Interest income</b>		
Loans and advances to customers	1,093,784	880,202
Due from other banks	44,882	19,968
Debt securities of the Government of the Republic of Uzbekistan	30,720	18,838
<b>Total interest income</b>	<b>1,169,386</b>	<b>919,008</b>
<b>Interest expenses</b>		
Customer accounts	238,439	196,737
Borrowings from government, state and international financial institutions	234,492	224,761
Other borrowed funds	6,344	-
Due to other banks	1,675	483
Debt securities in issue	693	834
<b>Total interest expense</b>	<b>481,643</b>	<b>422,815</b>
<b>Net interest income</b>	<b>687,743</b>	<b>496,193</b>

Interest income from loans and advances to customers include interest income earned from State owned enterprises in the amount of UZS 126,250 million and UZS 129,506 million during six months ended 30 June 2020 (unaudited) and 2019 (unaudited), respectively.

Interest income accrued on individually impaired loans during six months ended 30 June 2020 (unaudited) and 30 June 2019 (unaudited) amounted to UZS 4,251 million and UZS 1,357 million, respectively.

**18. Fee Commission Income and Expense**

<i>In millions of Uzbekistan Soums</i>	<b>Six months ended 30 June 2020 (unaudited)</b>	<b>Six months ended 30 June 2019 (unaudited)</b>
<b>Fee and commission income:</b>		
Settlement transactions	90,722	97,675
Cash transactions	11,891	1,730
Guarantees and letters of credit	8,716	3,358
Foreign currency conversion operations	8,533	12,653
Other	2,957	3,940
<b>Total fee and commission income</b>	<b>122,819</b>	<b>119,356</b>
<b>Fee and commission expense:</b>		
Settlement transactions	22,352	6,650
Cash collection services	4,024	12,568
Conversion operations	2,288	1,790
Cash transactions	210	22
Other	4,838	422
<b>Total fee and commission expense</b>	<b>33,712</b>	<b>21,452</b>
<b>Net fee and commission income</b>	<b>89,107</b>	<b>97,904</b>

Due to the lockdown introduced by the government during the six months ended 2020, the volumes of mobile and online banking have sharply increased leading to a substantial change in the structure of commission income and expense.

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**19. Administrative and Other Operating Expenses**

<i>In millions of Uzbekistan Soums</i>	<b>Six months ended 30 June 2020 (unaudited)</b>	<b>Six months ended 30 June 2019 (unaudited)</b>
Staff costs	187,785	170,797
Depreciation and amortisation	21,123	12,925
Security services	15,142	15,626
Charity and sponsorship	11,258	1,525
Stationery and Supplies	8,544	8,217
Repair and maintenance of property and equipment	5,215	4,065
Membership fees	4,720	3,652
Postage, Telephone and Fax	3,530	2,958
Advertising and Publicity	2,709	1,342
Professional services	2,347	3,865
Rent expenses	2,282	2,560
Utilities	1,992	1,686
Business trip and travel expenses	1,911	1,416
Taxes other than income tax	1,564	1,238
Fuel	1,088	939
Software maintenance	269	286
Representation and entertainment	183	512
Insurance	54	30
Penalties incurred	21	1,032
Other operating expenses	19,803	6,125
<b>Total administrative and other operating expenses</b>	<b>291,540</b>	<b>240,796</b>

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**20. Income Taxes**

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

Income tax expense comprises the following:

<i>In millions of Uzbekistan Soums</i>	<b>Six months ended 30 June 2020 (unaudited)</b>	<b>Six months ended 30 June 2019 (unaudited)</b>
Current tax charge	52,314	55,472
Deferred tax credit	(8,879)	(16,103)
<b>Income tax expense for the period through Profit or Loss</b>	<b>43,435</b>	<b>39,369</b>
Deferred tax credit (charge) through Other Comprehensive Income	(92)	44
<b>Income tax expense for the period through Profit or Loss and Other Comprehensive Income</b>	<b>43,343</b>	<b>39,413</b>

The statutory income tax rate was 20% in 2019 and 2020.

**21. Earnings per Share**

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

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

<i>In millions of Uzbekistan Soums</i>	<b>Six months ended 30 June 2020 (unaudited)</b>	<b>Six months ended 30 June 2019 (unaudited)</b>
Profit for the period attributable to ordinary shareholders	237,438	197,109
Profit for the period attributable to preference shareholders	1,007	1,007
<b>Net profit for the period</b>	<b>238,445</b>	<b>198,116</b>
Weighted average number of ordinary shares (in thousands)	2,809,392,130	1,118,945,617
<b>Basic and diluted earnings per ordinary share in UZS</b>	<b>0.08</b>	<b>0.18</b>

**22. Segment Reporting**

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

The Group’s operations are single reportable segment.

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

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

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**23. Financial Risk Management**

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

The CBU sets a number of requirements for foreign currency position. As at 30 June 2020, the Bank has a long position in respect of one currency above statutory requirements as a result of the actions taken to satisfy the requirements of the Presidential decree #PP-4487 dated 9 October 2019. As at 30 June 2020, the CBU had granted the waiver not to account for the effects of this decree in the calculation of the net currency position for regulatory purposes.

The table below summarises the Group’s exposure to foreign currency exchange rate risk as at 30 June 2020 (unaudited):

<i>In millions of Uzbekistan Soums</i>	<b>UZS</b>	<b>US Dollars</b>	<b>Euros</b>	<b>Other</b>	<b>Total</b>
<b>Monetary financial assets</b>					
Cash and cash equivalents	1,319,590	593,801	974,172	24,002	<b>2,911,565</b>
Due from other banks	621,601	20,416	120,562	2	<b>762,581</b>
Loans and advances to customers	14,105,455	5,234,987	1,542,569	-	<b>20,883,011</b>
Debt securities of the Government of the Republic of Uzbekistan	664,055	-	-	-	<b>664,055</b>
Other financial assets	9,031	1,154	1,547	-	<b>11,732</b>
<b>Total monetary financial assets</b>	<b>16,719,732</b>	<b>5,850,358</b>	<b>2,638,850</b>	<b>24,004</b>	<b>25,232,944</b>
<b>Monetary financial liabilities</b>					
Due to other banks	400,156	264,508	-	-	<b>664,664</b>
Customer accounts	5,540,592	2,254,831	93,186	19,833	<b>7,908,442</b>
Debt securities in issue	4,658	-	-	-	<b>4,658</b>
Borrowings from government, state and international financial institutions	7,425,577	2,636,413	2,725,883	-	<b>12,787,873</b>
Other borrowed funds	425,905	-	-	-	<b>425,905</b>
Other financial liabilities	6,556	1,991	2,138	-	<b>10,685</b>
<b>Total monetary financial liabilities</b>	<b>13,803,444</b>	<b>5,157,743</b>	<b>2,821,207</b>	<b>19,833</b>	<b>21,802,227</b>
<b>Net balance sheet position</b>	<b>2,916,288</b>	<b>692,615</b>	<b>(182,357)</b>	<b>4,171</b>	

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**23. Financial Risk Management (Continued)**

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

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

The above analysis includes only monetary assets and liabilities. Financial assets at fair value through other comprehensive income and non-monetary assets are not considered to give rise to any material currency risk.

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

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
	<b>Impact on profit or loss</b>	<b>Impact on profit or loss</b>
US Dollars strengthening by 20% (2019: 20%)	138,523	219,551
US Dollars weakening by 20% (2019: 20%)	(138,523)	(219,551)
Euro strengthening by 20% (2019: 20%)	(46,338)	(11,437)
Euro weakening by 20% (2019: 20%)	46,338	11,437

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

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**23. Financial Risk Management (Continued)**

**Geographical risk.** The geographical concentration of the Group’s financial assets and liabilities at 30 June 2020 is set out below (unaudited):

<i>In millions of Uzbekistan Soums</i>	<b>Uzbekistan</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	2,571,080	312,438	28,047	2,911,565
Due from other banks	762,510	69	2	762,581
Loans and advances to customers	20,883,011	-	-	20,883,011
Debt securities of the Government of the Republic of Uzbekistan	664,055	-	-	664,055
Financial assets at fair value through other comprehensive income	6,114	-	-	6,114
Other financial assets	11,732	-	-	11,732
<b>Total financial assets</b>	<b>24,898,502</b>	<b>312,507</b>	<b>28,049</b>	<b>25,239,058</b>
<b>Financial liabilities</b>				
Due to other banks	664,664	-	-	664,664
Customer accounts	7,908,442	-	-	7,908,442
Debt securities in issue	4,658	-	-	4,658
Borrowings from government, state and international financial institutions	8,871,647	3,151,096	765,130	12,787,873
Other borrowed funds	425,905	-	-	425,905
Other financial liabilities	10,685	-	-	10,685
<b>Total financial liabilities</b>	<b>17,886,001</b>	<b>3,151,096</b>	<b>765,130</b>	<b>21,802,227</b>
<b>Net position in on-balance sheet financial instruments</b>	<b>7,012,501</b>	<b>(2,838,589)</b>	<b>(737,081)</b>	
<b>Credit related commitments</b>	<b>1,117,240</b>	<b>-</b>	<b>-</b>	<b>1,117,240</b>

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**23. Financial Risk Management (Continued)**

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

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

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

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

**Liquidity risk.** As at 30 June 2020 (unaudited), the Group had a cumulative liquidity deficit up to one year of UZS 3,721,110 million of which UZS 362,847 million was attributable to a non-compliance with the cost-to-income ratio stipulated in the Subsidiary Loan Agreements as detailed in Note 15.

The State and ADB confirmed they have no objection to the Group's Action Plan to rectify the non-compliance with cost-to-income ratio and, as at 30 June 2020, ADB had not requested the acceleration of the State's debt obligations and the State had in turn not sought prepayment of the Bank's debt obligations as a consequence of past and/or ongoing non-compliance with the above financial covenant under the terms of the Subsidiary Loan Agreements.

Due to the effects of the pandemic on the Uzbek economy and banking sector, the Bank estimates that it might need to take additional measures to ensure compliance with the cost-to-income ratio. In addition, the Bank monitors its non-performing loans ratio impacted by various measures adopted by the State to combat the negative impact of pandemic (including postponement of payments of borrowers facing financial difficulties until 1 October 2020 and a moratorium on enforcement measures in relation to assets of the borrowers negatively impacted by the pandemic). Subsequent to 30 June 2020, the updated Action Plan for 2019 – 2024 covering these two covenants was agreed with ADB and the Ministry of Finance. In addition, the State confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants. The Management believes that such non-compliance is not expected to adversely affect the Group's financial performance, and in particular its liquidity position.

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**23. Financial Risk Management (Continued)**

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

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

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

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

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

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

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

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

As at 30 June 2020, the contingency plan of the Group consisted of the following:

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

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**23. Financial Risk Management (Continued)**

- Attraction of funds through repo facility with the CBU using the Bank’s government bond portfolio;
- Attraction of funds through swap line with the CBU to attract UZS liquidity in return for USD on short-term basis;
- Attraction of deposits from inter-bank money markets within the limits set by the local commercial banks.

The Management of the Group is of the view that through their contingency plans the Group will be able to attract resources sufficient to cover any potential negative liquidity gap as at 30 June 2020.

The Group monitors remaining contractual maturities, which may be summarised as follows at 30 June 2020 (unaudited):

<i>In millions of Uzbekistan Soums</i>	<b>Less than 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	2,911,565	-	-	-	2,911,565
Due from other banks	101,184	174,263	487,134	-	762,581
Loans and advances to customers	355,993	2,337,369	8,183,822	10,005,827	20,883,011
Debt securities of the Government of the Republic of Uzbekistan	27,627	501,884	134,544	-	664,055
Financial assets at fair value through other comprehensive income	6,114	-	-	-	6,114
Other financial assets	11,732	-	-	-	11,732
<b>Total financial assets</b>	<b>3,414,215</b>	<b>3,013,516</b>	<b>8,805,500</b>	<b>10,005,827</b>	<b>25,239,058</b>
<b>Liabilities</b>					
Due to other banks	664,664	-	-	-	664,664
Customer accounts	4,387,851	1,825,387	1,155,794	539,410	7,908,442
Debt securities issued	258	700	3,700	-	4,658
Borrowings from government, state and international financial organisations	918,779	2,338,704	3,048,117	6,482,273	12,787,873
Other borrowed funds	1,813	-	88,352	335,740	425,905
Other financial liabilities	10,685	-	-	-	10,685
<b>Total financial liabilities</b>	<b>5,984,050</b>	<b>4,164,791</b>	<b>4,295,963</b>	<b>7,357,423</b>	<b>21,802,227</b>
<b>Net liquidity gap based on contractual maturities</b>	<b>(2,569,835)</b>	<b>(1,151,275)</b>	<b>4,509,537</b>	<b>2,648,404</b>	<b>3,436,831</b>
<b>Cumulative liquidity gap at 30 June 2020 (unaudited)</b>	<b>(2,569,835)</b>	<b>(3,721,110)</b>	<b>788,427</b>	<b>3,436,831</b>	<b>-</b>

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**23. Financial Risk Management (Continued)**

Remaining contractual maturities as at 31 December 2019:

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

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**24. Management of capital**

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

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

- Ratio of regulatory capital to risk weighted assets (“Regulatory capital ratio”) above a prescribed minimum level of 13% (31 December 2019: 13%). Actual ratio as at 30 June 2020 (unaudited): 19% (31 December 2019: 25.6%).
- Ratio of Group’s tier 1 capital to risk weighted assets (“Capital adequacy ratio”) above a prescribed minimum level of 10% (31 December 2019: 10%). Actual ratio as at 30 June 2020 (unaudited): 16.8% (31 December 2019: 19.2%).
- Ratio of Group’s tier 1 capital to total assets less intangibles (“Leverage ratio”) above a prescribed minimum level of 6.0% (31 December 2019: 6.0%). Actual ratio as at 30 June 2020 (unaudited): 12.7% (31 December 2019: 12.2%).

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

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019 (unaudited)</b>
Tier 1 capital	3,497,105	3,064,443
Tier 2 capital	462,946	1,021,481
<b>Total regulatory capital</b>	<b>3,960,051</b>	<b>4,085,924</b>

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

**25. Contingencies and Commitments**

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

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

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

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

Management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency legislation and customs positions will be sustained. Accordingly, as at 30 June 2020 (unaudited), no provision for potential tax liabilities had been recorded (31 December 2019: no provision). The Group estimates that it has no potential obligations from exposure to other than remote tax risks (31 December 2019: no obligations).

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**25. Contingencies and Commitments (Continued)**

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

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

Outstanding credit related commitments are as follows:

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
Letters of credit	308,933	332,420
Guarantees	591,098	94,232
Undrawn loan commitments	217,209	30,514
<b>Total gross commitments and contingencies</b>	<b>1,117,240</b>	<b>457,166</b>
Less – Cash held as security against letters of credit and guarantees	(311,414)	(334,234)
Less – Provision for expected credit losses (Note 5)	(2,520)	(1,458)
<b>Total net commitments and contingencies</b>	<b>803,306</b>	<b>121,474</b>

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

Credit related commitments are denominated in currencies as follows:

<i>In millions of Uzbekistan Soums</i>	<b>30 June 2020 (unaudited)</b>	<b>31 December 2019</b>
US Dollars	940,268	245,214
UZS	108,050	39,198
Euros	66,836	110,128
Other	2,086	62,626
<b>Total</b>	<b>1,117,240</b>	<b>457,166</b>

## **26. Fair Value of Financial Instruments**

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

The fair values of the Group's financial assets and financial liabilities are measured at fair value on a recurring basis.

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

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

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

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

As at 30 June 2020 and 31 December 2019, the fair value of financial assets and financial liabilities except for those shown below approximate their carrying value.

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**months ended 30 June 2020 (unaudited)**

**26. Fair Value of Financial Instruments (Continued)**

Financial Assets/Liabilities as at 30 June 2020 (unaudited)	Carrying value	Fair value	Fair value		Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
			Fair value	Fair value hierarchy			
Due from other banks	762,581	768,580		Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value
Loans and advances to customers	20,883,011	16,165,713		Level 2	Valuation model based on DCF. Future cash flows are estimated based on average interest rates (from observable interest rates (from Statistical bulletin of the CBU)	Not applicable	The greater the discount - the smaller the fair value
Customer accounts Borrowings from government, state and international financial organisations	7,908,442	7,896,079		Level 2	Valuation model based on DCF. Future cash flows are estimated based on average interest rates (from observable interest rates (from Statistical bulletin of the CBU)	Not applicable	The greater the discount - the smaller the fair value
	12,787,873	12,884,081		Level 3	Valuation model based on DCF	Discount factor - market interest rate	The greater the discount - the smaller the fair value

Starting from 30 June 2019, the Group determines the fair value for some of its financial instruments using the discounted cash flow model and publicly available interest rates published by CBU in the Statistical bulletin, which became available starting from 2019, as a proxy market rate taking into account the risk characteristics (tenor, currency, etc) of the respective financial instruments. Such financial instruments were categorised as Level 2.

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

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

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**26. Fair Value of Financial Instruments (Continued)**

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

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**27. Related Party Transactions**

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

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

As at 30 June 2020 and 31 December 2019, the outstanding balances with related parties were as follows:

	30 June 2020 (unaudited)		31 December 2019	
	Related party balances	Total category as per the financial information caption	Related party balances	Total category as per the financial information caption
<i>In millions of Uzbekistan Soums</i>				
<b>ASSETS</b>				
Debt securities of the Government of the Republic of Uzbekistan	<b>664,055</b>	<b>664,055</b>	<b>131,149</b>	<b>131,149</b>
- entities with significant influence over the Group	664,055	-	131,149	-
<b>LIABILITIES</b>				
Customer accounts	<b>1,033,527</b>	<b>7,908,442</b>	<b>966,422</b>	<b>7,935,719</b>
- entities with significant influence over the Group	1,033,527	-	966,422	-
Borrowings from government, state and international financial institutions	<b>7,815,268</b>	<b>12,787,873</b>	<b>8,096,225</b>	<b>11,530,321</b>
- entities with significant influence over the Group	7,815,268	-	8,096,225	-
Other borrowed funds	<b>425,905</b>	<b>425,905</b>	<b>425,905</b>	<b>425,905</b>
- entities with significant influence over the Group	425,905	-	425,905	-

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**27. Related Party Transactions (Continued)**

The income and expense items with related parties for the six months ended 30 June 2020 and 2019 were as follows:

	30 June 2020 (unaudited)		30 June 2019 (unaudited)	
	Related party transactions	Total category as per the financial information caption	Related party transactions	Total category as per the financial information caption
<i>In millions of Uzbekistan Soums</i>				
Interest income	27,355	1,169,386	7,660	919,008
- entities with significant influence over the Group	27,355	-	7,660	-
Interest expense	158,046	481,643	141,322	422,815
- entities with significant influence over the Group	158,046	-	141,322	-
Fee and commission income	-	122,819	433	119,356
- entities with significant influence over the Group	-	-	433	-
Other operating income	-	26,609	108	14,533
- entities with significant influence over the Group	-	-	108	-
Administrative and other operating expenses	1,625	291,540	1,792	240,796
- key management personal	1,625	-	1,792	-

Key management compensation is presented below:

	30 June 2020 (unaudited)	30 June 2019 (unaudited)
<i>In millions of Uzbekistan Soums</i>		
<b>Short-term benefits:</b>		
- Salaries and other short term benefits	1,300	1,434
- Social Security costs	325	358
<b>Total key management personnel compensation</b>	<b>1,625</b>	<b>1,792</b>

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**28. Subsequent Events**

In September 2020, the CBU reduced the refinancing rate from 15% to 14% which may lead to attraction of funding and their reinvestment into loans and advances to customers at lower rates.

During July and August 2020, equity securities carried at fair value through other comprehensive income and assets held for distribution to owners together with associated liabilities were transferred to the government in return for the reduction of the government's share in the Bank's equity, specifically Share Capital Reserve, by UZS 36,736 million. As at 30 June 2020 (unaudited), the carrying value of the transferred assets together with associated liabilities above were UZS 5,738 million and UZS 34,680 million, respectively.

In relation to the non-compliance with the cost-to-income ratio set by the Ministry of Finance as instructed by ADB detailed in Note 1, subsequent to 30 June 2020, the updated Action Plan for 2019 – 2024 covering these two covenants was agreed with ADB and the Ministry of Finance. In addition, the State confirmed to the Bank in writing that it will not take any action to demand prepayment of the loans under the Subsidiary Loan Agreements as a consequence of past and/or on-going breaches of these covenants.

In July 2020 the Bank invested UZS 20 billion into the share capital of the JSC “Mortgage Refinancing Company of Uzbekistan”.

On 8 July 2020, the Government reinstated significant restrictions on the movement of vehicles and closed non-food shopping malls, markets, parks, cafes, restaurants and entertainment venues in response to a surge of new COVID-19 cases in the country. These restrictions were lifted on 15 August 2020.