



STATE COMMERCIAL BANK OF TURKMENISTAN “TURKMENISTAN”

Financial Statements
for the year ended December 31, 2020

and independent auditors' report

STATE COMMERCIAL BANK OF TURKMENISTAN “TURKMENISTAN”

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STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

The following statement, which should be read in conjunction with the independent auditors' responsibilities is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the financial statements of the State Commercial Bank of Turkmenistan "Turkmenistan" (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2020, the results of its operations, cash flows and changes in capital for the year ended December 31, 2020, in accordance with International Financial Reporting Standards ("IFRS") and requirements set by the Central bank of Turkmenistan on the financial statements of banks and finance-credit institutions (the "CBT requirements").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal control, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation, accounting standards of the Turkmenistan and requirements set by the Central bank of Turkmenistan;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended December 31, 2020 were approved and authorized for issue on November 29, 2021 by the management of the Bank.

On behalf of the Management:



Hajyyev M.Ch.
Chairman of the Management Board

November 29, 2021
Ashgabat, Turkmenistan

Hojageldiyev A.
Chief Accountant

November 29, 2021
Ashgabat, Turkmenistan

INDEPENDENT AUDITORS' REPORT

To the Management of the State Commercial Bank of Turkmenistan "Turkmenistan":

Qualified opinion

We have audited the financial statements of the State Commercial Bank of Turkmenistan "Turkmenistan" (the "Bank"), which comprise the statement of financial position as at December 31, 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters discussed under first and second paragraph of the Basis of Qualified Opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (the "IFRS").

Basis for a qualified opinion

The Bank calculates the allowance for expected credit losses on loans to customers, according to the instruction of the Central bank of Turkmenistan (the "CBT"), which differs from the approach of the International Financial Reporting Standards and specifically with the allowance of IFRS 9 "Financial instruments" (the IFRS 9). As at December 31, 2020 and 2019, the allowance for expected credit losses amounted to 167,999 thousand manats and 189,945 thousand manats, respectively (Note 12). Due to the fact that IFRS 9 became effective from January 1, 2018 the approach with regards to the valuation of the loan portfolio and determining the amount of allowance for expected credit losses has changed. As at the reporting date, the Bank has not implemented IFRS 9 for valuation of expected credit losses on loans to customers, consequently we were unable to estimate the difference between the final results of the calculation of the allowance for expected credit losses in accordance with the CBT instruction and the IFRS 9 approach, and the impact of this discrepancy on the assessment of the Bank's loan portfolio and the amount of allowance for expected credit losses in the financial statements as at December 31, 2020.

As described in Note 14, the Bank performed revaluation of its property and equipment. As at December 31, 2020 the fair value adjustment was amounting to 23,351 thousand manat (23,666 thousand manat as at December 31, 2019). The revaluation was made using various indices prescribed by the Ministry of Finance of Turkmenistan which does not conform to the requirements of IAS 16 "Property, plant and equipment" and IFRS 13 "Fair value measurement". It was not practicable to extend our audit procedures to determine the impact of this departure from IFRS and so we are not able to quantify the effect of this departure on the amounts reported in the financial statements as property and equipment, depreciation expenses, revaluation reserve and retained earnings.

Material uncertainty related to going concern

Without further qualifying our opinion, we draw your attention to Note 2 to the financial statements. According to the National standards of financial reporting accepted in Turkmenistan the Bank is profitable and has a positive balance of retained earnings. During the year the Bank capitalizes part of retained earnings for reaching the required level of share capital according to the Central bank of Turkmenistan requirements. In these financial statements the balance of retained earnings account is negative since there are differences between approaches for certain transactions in accordance with IFRS and National standards of financial reporting accepted in Turkmenistan. Consequently, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of the recorded asset amounts, the amounts and classification of liabilities or any other adjustments that might result should the Bank be unable to continue as a going concern. Our opinion is not modified in respect of this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkmenistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matter

Without further qualifying our opinion we draw your attention to Notes 12 and 27 to the financial statements. As at December 31, 2020 the Bank does not comply with some prudential requirements prescribed by the Central Bank of Turkmenistan. The Bank is undergoing the regular inspections from the Central Bank of Turkmenistan, the last one being performed in 2020. Also, the Bank sends reports to the Central Bank on a monthly basis, which include information on compliance with prudential requirements and did not receive any warning reports on this regard.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of advances paid

As described in Note 17 as at December 31, 2020 the Bank had advances paid for construction of nursery, fitness center and golf club. There is a high probability that the constructions will be transferred to the balance of the Ashgabat City Municipality. In this regard, the Management of the Bank carried out estimation of the possibility of future losses and made a decision to create an appropriate allowance. Estimation of the required amount of allowance was made on the basis of available information at the time of issue of the financial statements, and fully reflects the probability of loss of the Bank's assets.

How we addressed the matter

We reviewed Management's assessment of the allowance, taking into account the possibility of future losses, existing practice for similar transactions and other available information and have come to the conclusion that Management assessment is valid.

Responsibilities of Management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

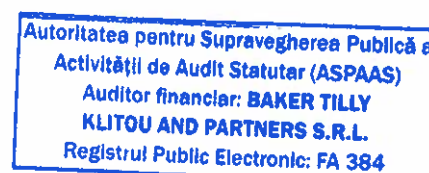
Other matters

This report, including the opinion of the auditor, was prepared and intended solely for information and use by the Bank's management. To the maximum extent permitted by law, the audit was carried out in order to provide all the information required in the audit report and not for any other purposes. We are not responsible for the use of information for other purposes or by other users who may ever become familiar with this report.

Auditor:

Baker Tilly Klitou SP

BAKER TILLY KLITOU AND PARTNERS
Recorded in the public electronic register
of auditors and audit firms under FA 384



29 November 2021 r.

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020

(in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2020	For the year ended December 31, 2019
Interest income	4	235,210	216,025
Interest expenses	4	(81,470)	(96,351)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON LOANS TO CUSTOMERS		153,740	119,674
Accrual of allowance for expected credit losses on loans to customers		21,946	(30,751)
NET INTEREST INCOME		175,686	88,923
Commission income	5	68,258	68,529
Commission expenses	5	(10,526)	(4,980)
Net gain from investing operations		472	630
Net gain on foreign currency transactions	6	2,306	3,007
Other expenses, net	7	(5,463)	(13,757)
NET NON-INTEREST INCOME		55,047	53,429
Operating expenses	8	(94,295)	(82,749)
PROFIT BEFORE INCOME TAX		136,438	59,603
Income tax (benefit)/expenses	9	(66,830)	1,506
NET PROFIT		69,608	61,109
Other comprehensive income		315	404
TOTAL COMPREHENSIVE INCOME		69,923	61,513

On behalf of the Management:



Hajyyev M.Ch.
Chairman of the Management Board

November 29, 2021
Ashgabat, Turkmenistan

Hojageldiyev A.
Chief Accountant

November 29, 2021
Ashgabat, Turkmenistan

The notes on pages 11-47 form an integral part of the financial statements. The independent auditor's report is on pages 3-5.

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2020

(in thousands of Turkmen manat)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Cash and cash equivalents	10	1,699,901	1,424,359
Due from banks	11	76,778	101,889
Loans to customers	12	6,046,888	5,336,891
Investment securities	13	92,390	110,765
Property and equipment	14	88,661	77,992
Intangible assets	15	1,741	1,869
Investment property	16	5,345	8,923
Advances paid for construction	17	1	29
Other assets	18	86,568	147,024
TOTAL ASSETS		8,098,273	7,209,741
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		1,951	2,459
Customer accounts	19	4,492,842	4,062,449
Loans received from banks and other financial institutions	20	3,059,589	2,731,841
Deferred tax liabilities	9	101,365	41,107
Other liabilities	21	10,656	9,623
		7,666,403	6,847,479
EQUITY			
Share capital	22	370,000	310,000
General reserves		94,344	89,183
Revaluation reserve of property and equipment		23,351	23,666
Retained earnings		(55,825)	(60,587)
		431,870	362,262
TOTAL LIABILITIES AND EQUITY		8,098,273	7,209,741

On behalf of the Management:



Hajyyev M.Ch.
Chairman of the Management Board

November 29, 2021
Ashgabat, Turkmenistan

Hojageldiyev A.
Chief Accountant

November 29, 2021
Ashgabat, Turkmenistan

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STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2020

(in thousands of Turkmen manat)

	Note	Share capital	General reserves	Revaluation reserve of property and equipment	Retained earnings	Total equity
Balance at December 31, 2018	22	260,000	74,630	24,070	(57,547)	301,153
Profit		-	-	-	61,109	61,109
Transfer revaluation reserve of property and equipment to retained earnings		-	-	(404)	404	-
Increase in share capital	22	50,000	-	-	(50,000)	-
Transfer to general reserves		-	14,553	-	(14,553)	-
Balance at December 31, 2019	22	310,000	89,183	23,666	(60,587)	362,262
Profit		-	-	-	69,608	69,608
Transfer revaluation reserve of property and equipment to retained earnings		-	-	(315)	315	-
Increase in share capital	22	60,000	-	-	(60,000)	-
Transfer to general reserves		-	5,161	-	(5,161)	-
Balance at December 31, 2020	22	370,000	94,344	23,351	(55,825)	431,870

On behalf of the Management:



Hajyyev M.Ch.
Chairman of the Management Board

November 29, 2021
Ashgabat, Turkmenistan

Hojageldiyev A.
Chief Accountant

November 29, 2021
Ashgabat, Turkmenistan

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STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2020 (in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2020	For the year ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax (benefit)/expenses		136,438	59,603
Adjustments for:			
Net interest income	4	(153,740)	(119,674)
Depreciation of property and equipment	14	9,762	6,145
Amortization of intangible assets	15	205	211
Depreciation of investment property	16	15	67
Loss on disposal of property, equipment and investment property	14	9,888	10,288
Change in allowance for expected credit losses on loans to customers	12	(21,946)	30,751
Gain from investment securities at fair value through other comprehensive income	13	(472)	(630)
Change in allowance for advances paid	17	9,340	7,035
Change in provision for unused vacation	21	65	225
Change in allowance for doubtful debts	18	(2,536)	(1,729)
Forex exchange differences	6	(307)	55
Cash outflow from operating activities before changes in operating assets and liabilities		(13,288)	(7,653)
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Loans to customers		(523,146)	(484,346)
Obligatory reserve in the Central bank of Turkmenistan		(119,839)	(75,120)
Due from banks		24,844	(66,067)
Advances paid		(9,312)	(759)
Other assets		53,806	89,111
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(508)	294
Customer accounts		430,492	951,859
Other liabilities		968	2,935
Cash (outflow)/inflow from operating activities before income tax and interests		(155,983)	410,254
Interest received		59,196	74,664
Interest paid		(81,262)	(96,118)
Income tax paid		-	(1,556)
Net cash (outflow)/inflow from operating activities		(178,049)	387,244


STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2020 (in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2020	For the year ended December 31, 2019
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	-	(12,159)	(4,975)
Purchase of intangible assets	15	(77)	(137)
Proceeds from sale of property and equipment		-	4
Dividends received		472	630
Changes in investment securities at amortized cost		17,500	-
Changes in investment securities at fair value through other comprehensive income		-	929
Net cash inflow/(outflow) from investing activities		5,736	(3,549)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans received from banks and other financial institutions		516,475	636,086
Repayment of loans received from banks and other financial institutions		(188,726)	(376,757)
Net cash inflow from financing activities		327,749	259,329
NET INCREASE IN CASH AND CASH EQUIVALENTS		155,436	643,024
CASH AND CASH EQUIVALENTS, at the beginning of the year	10	1,169,515	526,491
CASH AND CASH EQUIVALENTS, at the end of the year	10	1,324,951	1,169,515

On behalf of the Management:


Hajyyev M.Ch.
Chairman of the Management Board
November 29, 2021
Ashgabat, Turkmenistan


Hojageldiyev A.
Chief Accountant
November 29, 2021
Ashgabat, Turkmenistan

The notes on pages 11-47 form an integral part of the financial statements. The independent auditor's report is on pages 3-5.

STATE COMMERCIAL BANK OF TURKMENISTAN “TURKMENISTAN”

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

(in thousands of Turkmen manat, unless otherwise stated)

1. BACKGROUND

State Commercial Bank of Turkmenistan “Turkmenistan” (the “Bank”) was incorporated in accordance with the Decree of the President of Turkmenistan No.3970 dated December 3, 1998. A new Charter of the Bank was approved by the Decree of the President of Turkmenistan No.14408 dated September 18, 2015 and registered by the Ministry of Economy and Development of Turkmenistan on November 10, 2015 and by the Central bank of Turkmenistan on October 17, 2015. The Bank operates in compliance with legislation of Turkmenistan.

The Bank has two licenses issued by the Central bank of Turkmenistan (the “CBT”) for banking operations:

- for operations in national currency No.90, dated January 9, 2001;
- for operations in foreign currency No.25, dated January 9, 2001.

Registered office of the Bank is located at 79 Gorogly str., Ashgabat, Turkmenistan. As at December 31, 2020 and 2019 the Bank had 23 branches operating in different regions of Turkmenistan. The Headquarter is located in Ashgabat.

The main types of banking operations are: issuing loans, attraction and placing of bank deposits, purchase and sale of foreign currency, money transferring, participation in the national program of construction financing.

As at December 31, 2020 and 2019 the only owner of the Bank was Government of Turkmenistan.

As at December 31, 2020 and 2019 the Bank had 1,148 employees and 1,169 employees, respectively.

Operating environment

Turkmenistan has established a two-tier banking system, which consists of the Central Bank of Turkmenistan and the commercial banking system. The main laws which regulate the activities of banks in Turkmenistan are laws “On the Central Bank of Turkmenistan”, “On credit institutions and banking activity” and “On currency regulation and currency control in foreign economic relations of Turkmenistan”.

The main banking operations in Turkmenistan are:

- attraction of deposits;
- money transfers;
- loans;
- mortgage;
- financing of investment projects;
- issuance of guarantees, warranties and other obligations for third parties;
- attracting and placing funds and securities management;
- providing services as a manager of investments of the clients;
- advisor or financial agent;
- implementation of collateral and other real estate transactions.

Currently, new lending instruments are being developed in Turkmenistan. These instruments include micro-lending of private sector and loans for production.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRS”) issued by the International Accounting Standards Board (the “IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (the “IFRIC”).

Functional and reporting currency

Items included in the Bank's financial statements are estimated using the currency that best reflects the economic substance of the underlying events and circumstances related to the Bank (the "functional currency"). The functional and reporting currency of the accompanying financial statements is Turkmen manat (the "TMT" or "manat").

The financial statements are presented in thousands of Turkmen manats (the "TMT" or "manat"), unless otherwise indicated. The financial statements have been prepared under the historical cost convention, except for the evaluation of certain financial instruments carried at fair value.

Accounting for associate

Investments of the Bank to associate are recognized using equity method.

Associate is an entity in which the Bank has significant influence and that is neither a subsidiary nor a joint venture. In accordance with the equity method, the investments in an associate are recognized initially at cost and then their carrying amount is increased or decreased due to the recognition of the Bank's share in the profit or loss of the associate after the acquisition date. The Bank's share in the profit or loss of the associate is recognized in profit or loss of the Bank.

Funds received as a result of the profit distribution reduce the carrying amount of investments. The carrying amount of investments is also adjusted to reflect changes in the investor's proportionate share in the investee arising from changes in other comprehensive income of associate. The Bank's share of those changes is recognized in other comprehensive income.

Income and loss resulting from transactions between the Bank and the associate are eliminated to the extent in which the Bank has a share in the associate. Reporting dates of the associate coincide with the reporting dates of the Bank and its accounting policy is consistent with the accounting policy of the Bank for similar transactions and events in similar circumstances.

Going concern

These financial statements have been prepared based on the assumption that the Bank will continue operating on going concern basis. According to the National standards of financial reporting accepted in Turkmenistan the Bank is profitable and has a positive balance of retained earnings. During the year the Bank capitalizes part of retained earnings for reaching the required level of share capital according to the Central bank of Turkmenistan requirements. In these financial statements the balance of retained earnings account is negative since there are differences between approaches for certain transactions in accordance with IFRS and National standards of financial reporting accepted in Turkmenistan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

These financial statements are a structured representation of the Bank's financial position and financial performance. The objective of the financial statements is to provide information on the Bank's financial position, financial performance and cash flows.

The financial statements also show the results of the resources, the duties entrusted to the Bank's management. To achieve this goal, the financial statements provide information about:

- Assets
- Liabilities
- Equity
- Income and expenses, including gains and losses
- Allocations to owners and their contributions as owners
- Bank's cash flows

Other financial assets and liabilities, as well as non-financial assets and liabilities are presented at amortized cost, or at fair value through profit and loss or at fair value through other comprehensive income or at historical cost.

Non-current assets available for sale are presented at the lower of net book value and fair value less costs to sell. Fair value is the value that would be received to exchange an asset or settle a liability between knowledgeable parties who wish to conduct the transaction at arm's length.

Recognition and valuation of financial instruments

Financial assets and financial liabilities are recognized on the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. The Bank reflects purchasing and sale of financial assets and liabilities, which have regular nature at the date of settlements.

Financial assets and liabilities are initially recognized at fair value. The acquisition cost of financial assets and liabilities that are not financial assets and liabilities at fair value through profit or loss, is adjusted for transaction costs, directly related to the acquisition of a financial asset or financial liability origination. The principles of subsequent valuation of financial assets and liabilities are disclosed in appropriate accounting policies set out below.

The Bank classifies financial assets in the following main categories:

- Financial asset measured at amortized cost;
- Financial asset measured at fair value through other comprehensive income (FVOCI);
- Financial asset measured at fair value through profit or loss (FVTPL).

Debt instruments

The classification and subsequent accounting of debt instruments depend on:

- a) Business model of the Bank used to manage financial assets;
- b) Characteristics of the financial asset and the contractual cash flows.

Business model

Business model used by the Bank describes the way how the Bank manages its financial assets in order to generate cash flows, i.e. business model of the Bank determines whether the cash flows will result from the receipt of contractual cash flows, selling financial assets or both.

The Bank can apply various financial asset management models in the course of its activities, but it is expected that most financial assets will be held till maturity within the framework of the contractual cash flow model in accordance with the Bank's development strategy and limited market tools in Turkmenistan.

SPPI criteria

In order to assess the compliance of contractual terms of a financial asset with SPPI criteria, the Bank conducts an SPPI test (the "SPPI test") for each debt financial asset. During this assessment the Bank reviews whether the contractual cash flows are consistent with the basic lending arrangement, i.e. interest includes only the time value of money, credit risk, other major credit risks and profits in accordance with the basic lending arrangement. If the contractual terms include any risk or volatility that does not correspond to the basic lending arrangement, the relevant financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Bank classifies its debt instruments into the following three categories:

Financial assets measured at amortized cost:

- a) The objective of the Bank's business model is to hold the financial asset to collect the contractual cash flows.
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The carrying amount of these assets is adjusted by expected credit losses. Interest earned on these financial assets is included in "Interest income" using the effective interest method.

Financial assets measured at fair value through Other comprehensive income (FVOCI):

a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the carrying amount are recognized in other comprehensive income. The recognition of expected credit losses, interest income and changes in foreign currency occurs in profit or loss. When a financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Interest earned on these financial assets is recognized in "Interest income" using the effective interest method.

Financial assets measured at fair value through profit or loss (FVTPL):

The Bank classifies financial assets at fair value through profit or loss if they do not meet the criteria to be measured at amortized cost or at fair value through other comprehensive income. Gains or losses on debt instruments measured at fair value through profit or loss (that are not part of the hedging instruments) are recognized in the statement of profit or loss as part of the "Net Trade Income" in the period in which they arise. Interest earned on these financial assets is recognized in "Interest income" using the effective interest method.

Even if an instrument meets the two requirements to be measured at amortized cost or FVOCI, the Bank has an option to designate, at initial recognition, a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

All other debt instruments that do not fit in any of the categories must be measured at fair value through profit or loss.

Equity instruments

All equity investments of the Bank are to be measured at fair value in the statement of financial position with fair value changes recognized in profit or loss, except for those equity investments for which the Bank has elected to present value changes in other comprehensive income.

Due to the limited market tools available for trading with equity securities in Turkmenistan, the Bank classifies equity instruments as measured at fair value through other comprehensive income when investments are held for purposes other than investment income. In such cases, changes in fair value are recognized in other comprehensive income and cannot subsequently be reclassified to profit or loss. Dividends from such investments continue to be recognized in profit or loss as other income.

Gains and losses on equity instruments measured at fair value through profit or loss are recorded in "Net trade income" in the statement of profit or loss.

Reclassification

The Bank reclassifies financial assets if and only if the business model objective for its financial assets changes so its previous model assessment would no longer apply. If reclassification is performed, it must be done prospectively from the reclassification date which is defined as the first day of the first reporting period following the change in business model. The Bank does not restate any previously recognized gains, losses or interest.

Derecognition of financial assets

The recognition of a financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) ceases when:

- the rights to receive cash flows from the asset have ceased;
- the Bank transferred its rights to receive cash flows from the asset or reserved the right to receive cash flows from the asset, but became obliged to pay these cash flows without significant delay to a third party under the 'transfer' agreement; and
- the Bank either (a) transferred almost all the risks and rewards related to the asset, or (b) did not transfer and did not retain almost all the risks and rewards related to the asset, but transferred a control over the asset.

Modification of contractual cash flows

In circumstances where the Bank reviews or modifies the contractual cash flows for a financial asset, the Bank assesses how significant is a change between the original conditions and the new ones.

If new conditions differ significantly, the Bank derecognizes the original financial asset and recognizes a new financial asset at fair value and recalculates the new effective interest rate for the asset. At the date of modification, the Bank calculates revised expected credit losses and determines whether there is a significant increase in credit risk. However, the Bank also evaluates whether a newly recognized financial asset is considered to be impaired upon initial recognition, especially in cases where the revision was due to the fact that the borrower was unable to make the originally agreed payments. The difference in the carrying value of financial assets is reflected in the statement of profit or loss.

If conditions do not differ significantly, then revision or change does not lead to derecognition. The Bank recalculates the carrying amount using initial effective interest rate according to the changes in cash flows and the effect is recognized as profit or loss on modification within the Statement of profit or loss and other comprehensive income.

If a modification results in increase of significant risks according to the methodology for calculating of expected credit losses, then the contract modification affects the impairment calculation according to the methodology.

Classification and subsequent accounting of financial liabilities

The Bank classifies all financial liabilities as subsequently measured at amortized cost, except for:

- a) financial liabilities measured at fair value through profit or loss. Such liabilities, including liability derivatives, are subsequently measured at fair value;
- b) financial liabilities that arise when the transfer of a financial asset does not meet the requirements for derecognition or when the principle of continuing participation accounting is applied;
- c) financial guarantee contracts and loan commitments at an interest rate lower than the market. After initial recognition, such contracts should be subsequently evaluated on the basis of the largest of the following amounts:
 - i) the amount of the impairment allowance created by the Bank; and
 - ii) the amount initially recognized less the total amount of income, if applicable;
- d) contingent consideration recognized by the acquirer in a business combination. Such contingent consideration is subsequently measured at fair value through profit or loss.

Upon initial recognition of a financial liability, the Bank may, in its own discretion, classify it, without the right of subsequent reclassification, as measured at fair value through profit or loss.

Offset of assets and liabilities

The Bank's financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derecognition of financial liabilities

A financial obligation (or part of it) is considered extinguished when the debtor:

- (a) either fulfils this obligation (or part of it) by paying off the lender, generally in cash, other financial assets, goods or services,
- (b) is either legally relieved of primary liability for that obligation (or part of it), as a result of the performance of the legal procedure or as a result of the creditor's decision.

Derecognition of financial liabilities occurs also in the case of significant changes in cash flows, i.e. if the present value of cash flows in accordance with the new conditions, including the payment of commission after deduction of commission received, discounted at the original effective interest rate, differs by at least 10% of the discounted present value of the remaining cash flows of the original financial liability.

Accounting of financial instruments in the presented comparative period

Financial assets are classified into the following categories: at fair value through profit or loss ("FVTPL"), held to maturity ("HTM"), available for sale ("AFS") and "loans and receivables". Classification of financial assets to a particular category depends on their features and acquisition objectives at the time of their recognition in the financial statements of the Bank.

Held-to-maturity investments. Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank intends and has the ability to hold to maturity are recognized as HTM financial assets. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any allowance for impairment.

If the Bank sells or reclassifies investments held to maturity by more than a small amount before the maturity (except for certain circumstances), the entire category must be reclassified into financial assets available for sale. In addition, the Bank will not be allowed to classify any financial assets as held to maturity during the current financial year and the next two years.

Loans and receivables. Trade receivables, loans and other receivables with fixed or determinable payments that are not traded on an organized market, due from banks, loans to customers, and other financial assets are classified as "loans and receivables". Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, for which interest income is negligible.

Fair value through profit or loss includes financial assets that are:

1. Classified as trading:

- assets acquired or liabilities assumed mainly for sale or repurchase in the near future;
- are part of a portfolio of financial instruments that are jointly managed and, according to available evidence, are used to generate short-term profits;
- are derivative financial instruments (except for effective hedging instruments);

2. Classified by the Bank as measured at fair value through profit or loss at the time of initial recognition.

Available for sale. Available-for-sale financial assets include non-derivative financial assets that were not included in the three previous groups of assets or were initially classified into this group. Subsequent measurement of these assets is carried out at fair value, except for equity-based securities (shares) of third parties that do not have a market quotation in an active market, and which are measured only at cost.

Accounting of *financial liabilities* was basically the same as in accordance with IFRS 9, with the exception for profit and loss arising from the Bank's own credit risk associated with liabilities measured at FVTPL. Such changes are reflected in OCI without subsequent reclassification into the statement of profit or loss and other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short term.

Due from banks

During ordinary activity the Bank allocates funds and deposits in banks on different periods. Due from banks are initially recognized at fair value. Due from banks are subsequently evaluated at amortized cost using the effective interest method. Due from credit institutions are taken into account after deduction of any provision for impairment.

Derivatives

During ordinary activity the Bank concludes agreements on various derivative financial instruments. Derivatives are initially recognized at fair value at the date of the contract for a derivative and are subsequently revaluated to their fair value at each balance sheet date. Fair value is estimated based on quoted market prices or pricing models that take into account current market and contractual prices of the underlying instruments and other factors. Derivatives are taken into account as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the balance sheet. Profits and losses arising from these instruments are included in net profit / losses on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income.

Loans to customers

Loans to customers are financial assets that are not derivative financial instruments with fixed or determinable payments that do not have market quotations, except for assets which are classified in other categories of financial instruments.

Loans issued by the Bank are initially recognized at fair value plus transaction costs directly attributable to the acquisition or establishment of such financial assets. If the fair value of the provided funds is not equal to the fair value of loans, for example, in the case of providing loans at rate below than market rates, difference between the fair value of provided funds and the fair value of loans is recognized as a loss on initial recognition of loans and is represented in the income statement in accordance with the nature of such damages. Subsequently, loans are taken into account at amortized cost using the effective interest rate. Loans to customers are taken into account after deduction of allowance for impairment.

Write-off of loans

In the case of impossibility of recovery of loans, including through repossession of collateral, they are written-off against the allowance for impairment losses. Loans and provided funds are written-off after taking by management of the Bank measures to recover amounts owed to the Bank and after selling by the Bank all available collateral. Subsequent recoveries of previously written-off amounts are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss in the period of recovery.

Allowance for impairment

The Bank records the impairment of financial assets when there is an objective evidence on impairment of financial asset or group of financial assets. Impairment of financial assets represents the difference between the book value and the present value of estimated future cash flows, including amounts which can be received on guarantees and collateral, discounted using the original effective interest rate on financial assets at amortized cost.

Such impairment losses are not recovered, unless in the subsequent period, the amount of the impairment loss decreases, and the decrease can be objectively related to an event occurring after the impairment recognition, such as repayment, and in this case, the previously recognized impairment loss is recovered by adjusting the allowance.

For financial assets recorded at acquisition cost, impairment losses are measured as the difference between the book value of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not recovered.

The impairment is calculated based on the analysis of assets, which are subject to risks, and reflects the amount sufficient, in the opinion of management, to cover relevant losses. Provisions are created as a result of an individual valuation of assets subject to risks in respect of financial assets, which are individually significant, and based on an individual or joint valuation of financial assets, which are not individually significant.

Change in the impairment is included into profit using the allowance account (financial assets recorded at amortized cost), through direct write-off (financial assets recorded at acquisition cost). The assets recorded in the balance sheet are reduced by the amount of the impairment. Factors that the Bank considers in determining whether there is an objective evidence that an impairment loss includes information on liquidity and solvency of the debtor or issuer, business and financial risks, levels and trends in default for similar financial assets, national and local economic trends and conditions, as well as the fair value of collateral and guarantees. Those and other factors individually or collectively, provide a significantly objective evidence for recognizing an impairment loss on a financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. Management of the Bank, believes that the amount of recorded impairment is sufficient to cover losses incurred on assets, which are subject to risks as at the reporting date, although it is possible that in particular periods the Bank can incur losses greater than the recorded impairment.

Property and equipment

Depreciation is charged on the carrying value of property and equipment to write-off assets over their useful lives. Accrual of depreciation and amortization is implemented on straight-line method, based on following estimated depreciation rates:

Buildings and constructions	1-10%
Computers and office equipment	20.0%
Furniture and fixtures	12.5%
Vehicles	20.0%

On each reporting date, the Bank estimates whether the carrying value of fixed and intangible assets does not exceed the replacement cost. Replacement cost is a higher value of fair value less costs to sell and value in use. In case of exceeding the carrying value of fixed and intangible assets over their replacement value the Bank reduces the carrying value of fixed assets to their replacement cost. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the revised carrying value of assets, less its residual value (if any) over the remaining useful life.

The Bank performs revaluation of the property and equipment using indices prescribed by the state authorities. The effect of the revaluation is recognized in equity and is amortized during the useful lives of respected assets.

Investment property

Investment property is property, land or buildings, or part of building, or both, owned by the owner or lessee under a financial or operational lease agreement, to earn rentals or for capital appreciation, or both.

Investment property is recognized as an asset if, and only if it is probable that future economic benefits associated with the investment property will flow to the Bank and the cost of the investment property can be measured reliably.

The Bank does not recognize in the carrying amount of the investment property, the daily maintenance costs of such property. These costs are recognized in profit or loss as incurred.

Investment property is measured initially at cost. Transaction costs are included in the initial measurement. The Bank uses the cost model, for tracking all of its investment property.

Intangible assets

Costs, directly associated with identifiable and unique non-monetary assets, which are controlled by the Bank and not in physical form, and from which the Bank expects to receive future economic benefits are recognized as intangible assets.

After initial recognition, an intangible asset should be recorded at acquisition cost less any accumulated depreciation and any accumulated impairment loss. Capitalized costs include the major costs of improvement and replacement, which are extending the useful life of the assets or increasing their ability to bring economic benefits. The costs of maintaining intangible assets should be recognized as expenses in the period in which they were incurred.

If the software is not an integral part of the equipment to which it belongs, then it is recorded as an intangible asset.

Accrual of amortization is implemented on straight-line method, based on following annual amortization rates:

Intangible assets

10.0%

Amortization should begin from the moment when this asset becomes available for use, i.e. when its location and condition provide the possibility of its use in accordance with the intentions of management. Amortization expenses of intangible assets are recognized as part of operating expenses.

Advances paid and received for construction

The Bank is a participant of the state program on development of Turkmenistan's infrastructure. Under this program the Government of Turkmenistan imposes obligations on construction of apartment buildings and other commercial objects on Banks. Construction of such objects can be financed either fully from a Bank's funds, or there may be a joint funding of construction. In joint funding of construction banks co-funders reimburse part of the construction costs to the bank acting as a main building contractor.

Advances paid for construction represent amounts paid by the Bank to contractors for construction of apartment buildings. These advances will be fully recovered through sale of the apartments to individuals without transfer of ownership to the Bank. The Bank doesn't receive profits but can bear losses at the sale of these apartments, since the sale is exercised at cost or at discount which reflected in profit and loss accounts.

Advances received are represented by funds received from other banks co-investors in construction of residential houses. This account is to be offset after construction completion.

Taxation

Income tax expense represents sum of the current and deferred tax.

Current tax

The amount of income tax expense in the current period is determined by taking into account the amount of taxable profit received for the year. Taxable profit differs from net profit reflected in the statement of profit or loss and other comprehensive income because it does not include items of income or expenses that are taxable or deductible for tax purposes in other years, and also excludes items that are not taxable or not taken into account for tax purposes. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences, when the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized. Deferred tax is reflected in Statement of profit or loss and other comprehensive income, except when they connected with items, which are directly related to equity, and in this case deferred tax is also reflected within equity.

The Bank conducts netting of deferred tax assets and liabilities and reflects summary difference in the financial statement, if:

- The Bank has a legally enforceable right for netting current tax assets against current tax liabilities; and
- Deferred tax assets and deferred tax liabilities relate to corporate taxes levied by the same taxation authority from the same taxable entity.

In addition to income tax there are requirements on accrual and payments of various taxes applicable to the Bank's activities in Turkmenistan, where the Bank performs its activities. These taxes are reflected in the statement of profit or loss and other comprehensive income included in operational expenses.

Loans received

Loans received are initially recognized at fair value. Subsequently received amounts are reflected at amortized cost and difference between the carrying and the redemption value is recognized in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method within interest expense. The Bank receives loans at low interest rates as part of government programs. Such financing terms are also available to other banks in Turkmenistan. In this regard, these rates are market-based, and there is no need to account these financial instruments at amortized cost, taking into account the market interest rate.

Contingent liabilities

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

Share capital

Share capital is recognized at initial cost. Increase in charter capital is made by capitalization of the Bank's retained earnings.

Dividends

Dividend distribution to the Bank's shareholder is recognised in the Bank's financial statements in the year in which they are approved by the Bank's shareholder. Dividends declared after the balance sheet date is treated as an event after the balance sheet date under IAS 10 "Events after the Reporting Period" and information about it is disclosed accordingly

Pension liabilities

In accordance with the laws of Turkmenistan, the Bank withholds the amount of pension contributions from employee's salaries and transfers them to the State pension fund. The existing pension system provides for the calculation of current payments by the employer as a percentage of current gross salary payments. Such expenses are recognized in the period, which includes appropriately payment for employees. At retirement, all pension payments are implemented by above mentioned pension fund. The Bank does not have any pension arrangements separate from the State pension system of the Turkmenistan. In addition, the Bank has no benefits provided to employees upon retirement, or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expenses are recognized on the accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate by which estimated future cash receipts are brought to the net carrying amount on initial recognition of financial assets and liabilities. Discounting is made through the expected life of the financial instrument, or (where appropriate) a shorter period.

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

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

Recognition of commission income and expenses

Commission for loan origination and related direct costs associated with the loans providing are reflected as an adjustment to the effective interest rate on loans.

If there is a possibility that due to the presence of a liability of providing a credit will be signed a contract for a loan, commitment fee on the loan included in deferred revenue (together with related direct costs) and subsequently recognized as adjustment to actual income on the loan. If the probability of that the commitment to extend credit is estimated as low, the commitment fee on the loan is recognized in the income statement over the remaining period of the loan commitment. Upon expiration credit commitments, which are not completed by providing a loan, commitment fee on the loan are recognized in the income statement on the date of its expiration.

The method of foreign currency exchange

Monetary assets and liabilities denominated in foreign currency are translated to Turkmen manat at the market rates prevailing at December 31. Transactions denominated in foreign currencies are reported at the rates of exchange prevailing at the date of the transaction. Any gains or losses arising from a change in exchange rates subsequent to the date of the transaction are included as an exchange gain or loss in the statement of operations.

Exchange rate

The official exchange rates at year-end used by the Bank during preparation of the financial statements were as follows:

	December 31, 2020	December 31, 2019
Turkmen manat / US Dollar	3.5000	3.5000
Turkmen manat / Euro	4.2900	3.9113

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported in the balance net of the amount, if the Bank has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously. In case of transfer of a financial asset that does not qualify as write-off, the Bank does not recognize this operation as a write-off of the asset and associated liability.

Areas of significant use of estimates and assumptions of management

The preparation of financial statements requires from Management to make estimates and assumptions that have an influence on reported amounts of assets and liabilities of the Bank, the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. The Bank's management conducts evaluations and judgments on an ongoing basis, based on previous experience and a number of other factors that are considered reasonable in the current environment. Actual results could differ from those estimates. The following estimates and assumptions are important to present financial position of the Bank.

Allowance for expected credit loss of loans and accounts receivable

The Bank regularly reviews its loans for impairment. Allowance of the Bank for expected credit loss on loans are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to the allowance for expected credit loss of loans and receivables, a key source of uncertainty of estimation due to the fact that (i) they are highly susceptible to change from period to period as the assumptions on future non-compliance indicators and assessment of potential losses related to impaired loans and receivables, based on recent work, and (ii) any significant difference between the estimated losses and actual losses of the Bank requires from the Bank to create reserves, which could have a material impact on its financial statements in future periods.

The Bank uses management judgment to estimate the amount of any impairment loss in cases where the borrower has financial difficulties and there is little historical data relating to similar borrowers. Analogously, the Bank estimates changes in future cash flows based on past experience, the client's behaviour in the past, the available data, indicating an adverse change in the status of repayment by borrowers in the group, as well as national or local economic conditions that correlate with defaults on assets in this group. Management uses estimates based on historical experience of losses on assets with credit risk characteristics and objective evidence of impairment similar to those in this group of loans. The Bank uses an assessment of Management for adjusting the available data on a group of loans to reflect current circumstances not reflected in historical data.

It should be taken into account that the assessment of expected credit losses includes a subjective factor. The Bank's management believes that the amount of the recognized impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, taking into account forecast data, although it is possible that in certain periods the Bank may incur losses greater than the created reserve for expected credit losses.

Application of new and revised international financial reporting standards (IFRSs)

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the "IFRIC") which became effective for the Bank's financial statement for the year ended December 31, 2020:

- The amendments to IFRS 3 "Business Combinations" clarify and distinguish between accounting methods to be used when the investor acquires a business or when the investor acquires just a group of assets;
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity;
- The amendment to IFRS 16 "Leases" Covid-19 - related rent concessions provides lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification.

The adoption of the new or revised standards did not have significant effect on the financial position or performance of the Bank.

New and revised IFRSs in issue but not yet effective

A number of new Standards and Interpretations has been issued and not yet adopted as at December 31, 2020 and had not been applied in preparation of these financial statements. Following Standards and Interpretations are relevant to operations of the Bank. The Bank intends to adopt these Standards and Interpretations from their effective dates. The Bank is in process to analyze the potential effect of adoption of these standards on its financial statements.

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not mandatorily yet effective, and which the Bank has not early adopted:

- Amendments to IAS 16 "Property, plant and equipment" - proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets" onerous contracts - cost of fulfilling a contract. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- The amendment to IFRS 1 "First-time adoption of IFRS" permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

- The amendment to IFRS 16 “Leases” illustrative example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- The amendment to IFRS 9 “Financial instruments” – clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

The Bank intends to adopt these new standards and amendments, if applicable, when they become effective.

4. NET INTEREST INCOME

Interest income and expenses of the Bank for the years ended December 31, 2020 and 2019 are as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Interest income includes:		
Interest income from financial assets measured at amortised cost:		
On loans to customers	222,426	203,791
On Pension fund of Turkmenistan	12,663	11,359
On interbank deposits	104	-
On investment securities	17	875
	<u>235,210</u>	<u>216,025</u>
Interest expenses include:		
Interest expenses on financial liabilities measured at amortized cost:		
On loans received	25,853	23,043
On term deposits	55,617	73,308
	<u>81,470</u>	<u>96,351</u>
	<u>153,740</u>	<u>119,674</u>

5. COMMISSION INCOME AND EXPENSES

Commission income of the Bank for the years ended December 31, 2020 and 2019 is as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Travel cheques and cards	46,348	46,367
Transferring and interbank transactions	7,656	10,219
Cash operations	2,055	1,707
Account settlements commission	483	583
Letters of credit and bank guarantees	333	-
Other	<u>11,383</u>	<u>9,653</u>
	<u>68,258</u>	<u>68,529</u>

Commission expenses of the Bank for the years ended December 31, 2020 and 2019 is as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Transferring and interbank transactions	5,918	4,660
Traveler's checks and bank cards	4,462	231
Interbank currency exchange	35	75
Other	111	14
	<u>10,526</u>	<u>4,980</u>

6. NET GAIN ON FOREIGN CURRENCY TRANSACTIONS

Net gain on foreign currency transactions for the years ended December 31, 2020 and 2019 is as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Dealing operations, net	1,999	3,062
Foreign exchange differences, net	<u>307</u>	<u>(55)</u>
	<u>2,306</u>	<u>3,007</u>

7. OTHER EXPENSES, NET

Other income and expenses of the Bank for the years ended December 31, 2020 and 2019 were presented as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Other income		
Services provided	4,157	4,344
Recovery of allowance for impairment of other assets	2,536	1,729
Proceeds from sale of property and equipment	-	4
Other	<u>15,280</u>	<u>675</u>
	<u>21,973</u>	<u>6,752</u>
Other expenses		
Loss on disposal of property and equipment	9,888	10,288
Accrual of allowance for impairment of advances paid for construction	9,340	7,035
Sponsorship	4,436	1,692
Antivirus drugs	1,750	-
Servicing of households	882	686
Plantation of forests	268	153
Other	<u>872</u>	<u>655</u>
	<u>27,436</u>	<u>20,509</u>
	<u>(5,463)</u>	<u>(13,757)</u>

8. OPERATING EXPENSES

Operating expenses of the Bank for the years ended December 31, 2020 and 2019 were presented as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Salary	32,331	29,442
Taxes, other than income tax	20,501	17,469
Depreciation of property and equipment	9,762	6,145
Social fund	6,213	5,644
Cash collection services	4,742	2,831
Security	4,602	4,095
Repair and maintenance	3,920	3,179
Blanks production	1,466	1,283
Communication	1,386	1,389
Stationery	1,177	1,279
Utility	1,073	1,207
Advertisement	578	2,711
Rent	300	314
Amortization of intangible assets	205	211
Legal and other professional services	118	101
Business trip	116	265
Accrual of provision for unused vacation	65	225
Depreciation of investment property	15	67
Other	5,725	4,892
	<u>94,295</u>	<u>82,749</u>

9. INCOME TAX

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of Turkmenistan, which may differ from IFRS. For the years ended December 31, 2020 and 2019 income tax rate for legal entities was equal to 20% on the territory of Turkmenistan.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2020 and 2019 relate mostly to different methods of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets and liabilities.

	For the year ended December 31, 2020	For the year ended December 31, 2019
Current income tax expenses	6,572	1,497
Changes in deferred income tax	<u>60,258</u>	<u>(3,003)</u>
Income tax expense	<u>66,830</u>	<u>(1,506)</u>

Tax effect from temporary differences as at December 31, 2020 and 2019 is presented below:

	December 31, 2020	December 31, 2019
Deferred income tax assets:		
Allowance for expected credit losses on loans to customers	167,999	189,945
Provision for unused vacation	1,503	1,438
Allowance for impairment on advances paid	16,375	-
Allowance for impairment of doubtful debts	11,483	19,297
	<u>197,360</u>	<u>210,680</u>
Deferred income tax liabilities:		
Interest income	<u>704,187</u>	<u>416,217</u>
	<u>704,187</u>	<u>416,217</u>
Net deferred income tax liabilities	<u>(506,827)</u>	<u>(205,537)</u>
Net deferred income tax liabilities at statutory tax rate (20%)	<u>(101,365)</u>	<u>(41,107)</u>

Temporary differences between tax accounting and current financial statement lead to deferred tax liabilities as at December 31, 2020 and 2019 as a result of the following:

	December 31, 2019	Recognized in the statement of profit and loss	December 31, 2020
Temporary differences:			
Allowance for expected credit losses on loans to customers	37,989	(4,389)	33,600
Provision for unused vacation	288	13	301
Allowance for impairment on advances paid	-	3,275	3,275
Allowance for impairment of doubtful debts	3,859	(1,562)	2,297
Interest income	<u>(83,243)</u>	<u>(57,595)</u>	<u>(140,838)</u>
	<u>(41,107)</u>	<u>(60,258)</u>	<u>(101,365)</u>
	December 31, 2018	Recognized in the statement of profit and loss	December 31, 2019
Temporary differences			
Allowance for expected credit losses on loans to customers	31,838	6,151	37,989
Provision for unused vacation	244	44	288
Allowance for impairment of doubtful debts	3,786	73	3,859
Interest income	<u>(79,978)</u>	<u>(3,265)</u>	<u>(83,243)</u>
	<u>(44,110)</u>	<u>3,003</u>	<u>(41,107)</u>

10. CASH AND CASH EQUIVALENTS

As at December 31, 2020 and 2019 cash and cash equivalents presented in the statement of financial position of the Bank consisted of the following:

	December 31, 2020	December 31, 2019
Current account at the Central bank of Turkmenistan	1,639,328	1,370,234
Cash on hand	<u>60,573</u>	<u>54,125</u>
	<u>1,699,901</u>	<u>1,424,359</u>

Cash and cash equivalents of the Bank presented in the statement of cash flows include following components:

	December 31, 2020	December 31, 2019
Cash on hand and account at the Central bank of Turkmenistan	1,699,901	1,424,359
Correspondent accounts with other banks	<u>155</u>	<u>422</u>
Obligatory reserve in the Central bank of Turkmenistan	<u>(375,105)</u>	<u>(255,266)</u>
	<u>1,324,951</u>	<u>1,169,515</u>

11. DUE FROM BANKS

As at December 31, 2020 and 2019 due from banks of the Bank consisted of the following:

	December 31, 2020	December 31, 2019
Correspondent accounts with foreign banks	57,373	101,467
Interbank deposits	19,250	-
Correspondent accounts with local banks	<u>155</u>	<u>422</u>
	<u>76,778</u>	<u>101,889</u>

12. LOANS TO CUSTOMERS

As at December 31, 2020 and 2019 loans to customers, measured at amortized cost, consisted of the following:

	December 31, 2020	December 31, 2019
Loans to customers	5,507,990	5,107,817
Overdue loans	2,710	2,802
Overdue interest	116,269	405,042
Interest accrued	<u>587,918</u>	<u>11,175</u>
Allowance for expected credit losses	<u>(167,999)</u>	<u>(189,945)</u>
	<u>6,046,888</u>	<u>5,336,891</u>

Breakdown of loans by sectors is presented below:

	December 31, 2020	December 31, 2019
Construction	1,909,967	2,176,753
Debt service	1,563,070	1,082,555
Mortgage	1,181,717	1,018,971
Trade	364,479	394,859
Manufacturing	113,216	104,181
Consumer	76,752	227,416
Agriculture	69,142	81,407
Other	<u>936,544</u>	<u>440,694</u>
Allowance for expected credit losses	<u>(167,999)</u>	<u>(189,945)</u>
	<u>6,046,888</u>	<u>5,336,891</u>

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Bank:

	December 31, 2020	December 31, 2019
Guarantees	4,154,775	3,713,009
Real estate	1,156,009	1,154,893
Movable property	602,716	442,950
Receivables	8,563	1,955
Other	292,824	214,029
Allowance for expected credit losses	(167,999)	(189,945)
	<u>6,046,888</u>	<u>5,336,891</u>

Turnover in the allowance for expected credit losses on loans to customers are presented as follows:

	December 31, 2020	December 31, 2019
as at January 1	189,945	159,194
(Recovery)/accrual	(21,946)	30,751
as at December 31	<u>167,999</u>	<u>189,945</u>

As at December 31, 2020 and 2019 the total loan portfolio of 6,046,888 thousand manats and 5,336,891 thousand manats (including the amount of allowance, accrued and overdue interest), respectively, were issued to clients operating on the territory of Turkmenistan which represent significant geographical concentration and the maximum size of credit risk.

As at December 31, 2020 and 2019 loans to customers included allowance in the amount of 167,999 thousand manat and 189,945 thousand manat, respectively, for loans which had indicators of impairment.

As at December 31, 2020 and 2019, the Bank provided loan to single customer in the amount of 1,288,716 thousand manat and 1,188,326 thousand manat, respectively, which was equal to 300% and 330%, respectively, of regulatory capital of the Bank. The Bank is subject to regular inspections by the Central bank of Turkmenistan, including the compliance with economic ratios, and given the status of the Bank in the financing of state programs, no claims have been recorded by the regulator.

13. INVESTMENT SECURITIES

As at December 31, 2020 and 2019 investment securities of the Bank consisted of the following:

	December 31, 2020		December 31, 2019	
	Share	Amount	Share	Amount
Investment securities at amortized cost				
Government bonds		-		17,500
Interest accrued		-		875
		<u>-</u>		<u>18,375</u>
Investment securities at fair value through other comprehensive income				
Investments in ES "Tolkun"	10.00%	51,623	10.00%	51,623
Investments in ES "Hazar"	10.00%	23,348	10.00%	23,348
Investments in ES "Shapak"	10.00%	8,413	10.00%	8,413
Investments in ES "Hazyna"	14.00%	6,221	14.00%	6,221
Investments in JSCB "Senegat"	8.95%	2,775	8.95%	2,775
Investments in ES "Turkmen Alabay Itleri"	12.50%	10	12.50%	10
		<u>92,390</u>		<u>92,390</u>
		<u>92,390</u>		<u>110,765</u>

The Bank does not have control or significant influence in any of the above mentioned organizations for consolidation or equity method accounting.

14. PROPERTY AND EQUIPMENT

As at December 31, 2020 and 2019 property and equipment of the Bank consisted of the following:

	Buildings and constructions	Computers and office equipment	Furniture and fixtures	Vehicles	Construction in progress and equipment for installation	Total
Cost						
December 31, 2018	<u>58,700</u>	<u>49,881</u>	<u>15,588</u>	<u>4,343</u>	<u>-</u>	<u>128,512</u>
Additions	510	3,961	456	48	-	4,975
Transfer from investment property	8,756	49	69	-	-	8,874
Disposals	<u>(12,335)</u>	<u>(272)</u>	<u>(62)</u>	<u>-</u>	<u>-</u>	<u>(12,669)</u>
December 31, 2019	<u>55,631</u>	<u>53,619</u>	<u>16,051</u>	<u>4,391</u>	<u>-</u>	<u>129,692</u>
Additions	9,779	1,190	5,699	6	10,082	26,756
Transfer from investment property	-	-	57	-	-	57
Transfer to investment property	(4,931)	-	-	-	-	(4,931)
Internal movement	60	61	18	427	(566)	-
Disposals	<u>-</u>	<u>(315)</u>	<u>(5,336)</u>	<u>(1,019)</u>	<u>-</u>	<u>(6,670)</u>
December 31, 2020	<u>60,539</u>	<u>54,555</u>	<u>16,489</u>	<u>3,805</u>	<u>9,516</u>	<u>144,904</u>

	Buildings and constructions	Computers and office equipment	Furniture and fixtures	Vehicles	Construction in progress and equipment for installation	Total
Accumulated depreciation						
December 31, 2018	11,986	19,918	11,382	3,548	-	46,834
Charge	735	3,456	1,698	256	-	6,145
Transfer from investment property	994	(11)	119	-	-	1,102
Disposal	(2,131)	(206)	(44)	-	-	(2,381)
December 31, 2019	11,584	23,157	13,155	3,804	-	51,700
Charge	1,658	3,705	4,067	332	-	9,762
Transfer from investment property	-	-	54	-	-	54
Transfer to investment property	(101)	-	-	-	-	(101)
Disposal	-	(240)	(4,269)	(663)	-	(5,172)
December 31, 2020	13,141	26,622	13,007	3,473	-	56,243
Net book value						
December 31, 2019	44,047	30,462	2,896	587	-	77,992
December 31, 2020	47,398	27,933	3,482	332	9,516	88,661

The Bank has performed revaluation of its property and equipment as at December 31, 2012. The revaluation was carried on using indices of revaluation rules set by the Ministry of finance of Turkmenistan. As at December 31, 2020 and 2019 the amount of property and equipment includes revaluation reserve in the amount of 23,351 thousand manat and 23,666 thousand manat, respectively.

As at December 31, 2020 and 2019 there were no property, equipment that were pledged as collateral for obligations.

As at December 31, 2020 and 2019 fully depreciated property, equipment in use equaled to 20,307 thousand manats and 8,941 thousand manats, respectively.

15. INTANGIBLE ASSETS

As at December 31, 2020 and 2019 intangible assets of the Bank consisted of the following:

Cost	
December 31, 2018	<u>3,929</u>
Additions	137
December 31, 2019	<u>4,066</u>
Additions	77
Disposals	<u>(124)</u>
December 31, 2020	<u>4,019</u>
Accumulated depreciation	
December 31, 2018	<u>1,986</u>
Charge	<u>211</u>
December 31, 2019	<u>2,197</u>
Charge	205
Disposals	<u>(124)</u>
December 31, 2020	<u>2,278</u>
Net book value	
December 31, 2019	<u>1,869</u>
December 31, 2020	<u>1,741</u>

16. INVESTMENT PROPERTY

As at December 31, 2020 and 2019 investment property of the Bank consisted of the following:

Cost	
December 31, 2018	<u>18,827</u>
Transfer to property and equipment	(8,874)
December 31, 2019	<u>9,953</u>
Additions	-
Transfer from property and equipment	4,931
Transfer to property and equipment	(57)
Disposal	<u>(10,454)</u>
December 31, 2020	<u>4,373</u>

Accumulated depreciation

December 31, 2018	<u>2,065</u>
Transfer to property and equipment	(1,102)
Charge	<u>67</u>
December 31, 2019	<u>1,030</u>
Transfer from property and equipment	101
Transfer to property and equipment	(54)
Charge	15
Disposal	<u>(2,064)</u>
December 31, 2020	<u>(972)</u>
Net book value	
December 31, 2019	<u>8,923</u>
December 31, 2020	<u><u>5,345</u></u>

17. ADVANCES PAID FOR CONSTRUCTION

As at December 31, 2020 and 2019 advances paid for construction are presented as follows:

	December 31, 2020	December 31, 2019
Advances paid for construction	<u>16,376</u>	<u>7,064</u>
Allowance for impairment	<u>(16,375)</u>	<u>(7,035)</u>
	<u>1</u>	<u>29</u>

As at December 31, 2020 and 2019 construction projects for which advances were paid are presented as follows:

	December 31, 2020	December 31, 2019
Construction of nursery	10,586	1,872
Construction of fitness center	3,053	2,427
Construction of golf club	2,736	2,736
Other	<u>1</u>	<u>29</u>
Allowance for impairment	<u>(16,375)</u>	<u>(7,035)</u>
	<u>1</u>	<u>29</u>

Movement in the allowance for impairment of advances paid are presented as follows:

	December 31, 2020	December 31, 2019
as at January 1	<u>7,035</u>	<u>-</u>
Accrual	<u>9,340</u>	<u>7,035</u>
as at December 31	<u><u>16,375</u></u>	<u><u>7,035</u></u>

18. OTHER ASSETS

As at December 31, 2020 and 2019 other assets of the Bank consisted of the following:

	December 31, 2020	December 31, 2019
Other financial assets		
Receivables from Pension fund of Turkmenistan	54,542	-
Accounts receivable	16,051	19,446
Interest accrued on Pension fund of Turkmenistan	11,990	6
Accrued commission income	2,097	129,690
	<u>84,680</u>	<u>149,142</u>
Allowance for impairment	<u>(11,483)</u>	<u>(14,019)</u>
	<u>73,197</u>	<u>135,123</u>
Other non-financial assets		
Taxes paid in advance	7,178	6,493
Inventory	5,857	5,118
Prepaid expenses	336	228
Drip irrigation system	-	5,278
Other	-	62
	<u>13,371</u>	<u>17,179</u>
Allowance for impairment	<u>-</u>	<u>(5,278)</u>
	<u>13,371</u>	<u>11,901</u>
	<u>86,568</u>	<u>147,024</u>

Movement in the allowance for impairment of other assets are presented as follows:

	December 31, 2020	December 31, 2019
as at January 1	<u>19,297</u>	<u>21,026</u>
Write-off	(5,278)	-
Recovery	<u>(2,536)</u>	<u>(1,729)</u>
as at December 31	<u>11,483</u>	<u>19,297</u>

19. CUSTOMER ACCOUNTS

As at December 31, 2020 and 2019 customer accounts of the Bank consisted of the following:

	December 31, 2020	December 31, 2019
Demand deposits	3,981,131	3,075,048
Term deposits	509,892	985,790
Accrued interest	<u>1,819</u>	<u>1,611</u>
	<u>4,492,842</u>	<u>4,062,449</u>

20. LOANS RECEIVED FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

As at December 31, 2020 and 2019 loans received from banks and other financial institutions of the Bank consisted of the following:

	December 31, 2020	December 31, 2019
Loans received from Central bank of Turkmenistan	3,058,718	2,731,841
Loans received from other financial institutions	871	-
	<u>3,059,589</u>	<u>2,731,841</u>

Borrowed funds comprise loans from the following financial institutions:

Creditor	Maturity date	Interest rate	Currency	December 31, 2020	December 31, 2019
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	516,051	472,749
Central Bank of Turkmenistan	December 31, 2021	1.50%	Turkmen manat	351,415	335,816
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	267,445	275,045
Central Bank of Turkmenistan	December 31, 2021	1.50%	Turkmen manat	249,603	242,941
Central Bank of Turkmenistan	March 01, 2022	0.50%	Turkmen manat	217,087	-
Central Bank of Turkmenistan	June 29, 2026	0.50%	Turkmen manat	200,000	200,000
Central Bank of Turkmenistan	January 01, 2022	1.00%	Turkmen manat	175,998	175,997
Central Bank of Turkmenistan	December 31, 2020	2.00%	Turkmen manat	164,510	89,390
Central Bank of Turkmenistan	January 01, 2022	1.00%	Turkmen manat	155,596	155,596
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	129,889	132,244
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	128,656	121,499
Central Bank of Turkmenistan	December 29, 2026	0.50%	Turkmen manat	96,019	100,000
Central Bank of Turkmenistan	November 14, 2046	0.50%	Turkmen manat	75,364	79,731
Central Bank of Turkmenistan	March 01, 2022	0.50%	Turkmen manat	67,394	6,557
Central Bank of Turkmenistan	December 31, 2021	2.00%	Turkmen manat	55,981	60,517
Central Bank of Turkmenistan	December 01, 2028	0.50%	Turkmen manat	52,000	52,000
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	50,352	50,422
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	37,670	23,007
Central Bank of Turkmenistan	December 31, 2021	2.00%	Turkmen manat	21,476	64,377
Central Bank of Turkmenistan	December 05, 2024	0.00%	Turkmen manat	17,603	17,603
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	15,211	19,398
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	7,692	5,724
Central Bank of Turkmenistan	December 31, 2021	0.50%	Turkmen manat	4,322	4,322
Central Bank of Turkmenistan	December 31, 2021	0.00%	Turkmen manat	1,384	10,249
The State Bank for Foreign Economic Affairs of Turkmenistan	July 02, 2023	2.60%	US dollars	871	-
Central Bank of Turkmenistan	April 06, 2027	2.00%	Turkmen manat	-	28,201
Central Bank of Turkmenistan	May 24, 2026	2.00%	Turkmen manat	-	6,653
Central Bank of Turkmenistan	December 31, 2020	2.00%	Turkmen manat	-	1,803
				<u>3,059,589</u>	<u>2,731,841</u>

21. OTHER LIABILITIES

As at December 31, 2020 and 2019 other liabilities of the Bank are presented as follows:

	December 31, 2020	December 31, 2019
Other financial liabilities		
Accounts payable	5,208	4,252
Provision for unused vacation	1,503	1,438
Other	17	22
	<u>6,728</u>	<u>5,712</u>
Other non-financial liabilities		
Taxes payable	3,928	3,911
	<u>3,928</u>	<u>3,911</u>
	<u>10,656</u>	<u>9,623</u>

22. SHARE CAPITAL

As at December 31, 2020 and 2019 the Government of Turkmenistan was the sole owner of the Bank. As at December 31, 2020 and 2019 the amount of registered and paid capital equaled to 370,000 thousand manat and 310,000 thousand manat, respectively. Increase in share capital was made by capitalization of the Bank's retained earnings.

23. CONTINGENT FINANCIAL LIABILITIES

Capital expenditure commitments

As at December 31, 2020 and 2019 the Bank had no capital expenditure commitments, except for those described in Note 17.

Operating lease commitments

As at December 31, 2020 and 2019, the Bank did not have active operating lease agreements.

Loan related commitments

In the normal course of business, the Bank provides its customers with a loans which are may be disbursed during agreed period of time. Unused balances on such credit lines are recorded on off-balance sheet accounts and their balances as at December 31, 2020 and 2019 presented as follows:

	December 31, 2020	December 31, 2019
Credit lines	1,054,900	795,758
Guarantee	43,555	44,428
	<u>1,098,455</u>	<u>840,186</u>

24. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As the Bank is Government-related entity the transactions and balances with other entities controlled by the Government of Turkmenistan are not disclosed. The list of related parties of the Bank includes members of the Board of Directors and members of the Management Board of the Bank, as well as their close relatives.

In the statement of financial position as at December 31, 2020 and 2019 the following amounts were represented which arose due to transactions with related parties:

	December 31, 2020		December 31, 2019	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Investment securities	92,390	92,390	92,390	110,765

In the statement of profit or loss and other comprehensive income for the years ended December 31, 2020 and 2019 the following amounts were represented which arose due to transactions with related parties:

	For the year ended December 31, 2020		For the year ended December 31, 2019	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Net gain from investing operations	472	472	630	630
Operating expenses:				
compensation to key management personnel	152	32,331	137	29,442
Social fund expenses	30	6,213	25	5,644

25. PRUDENTIAL REQUIREMENTS

In order to ensure capital adequacy in accordance with established quantitative measures the Bank is required to maintain minimum amounts and ratios of total capital (12%) to total assets weighted in view of risk.

The ratio was calculated in accordance with the rules set by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment.

The actual amounts and the Bank's capital ratios are as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Movement in capital		
At the beginning of the year	362,262	301,153
Total comprehensive income	69,608	61,109
At the end of the year	431,870	362,262
	December 31, 2020	December 31, 2019
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	314,175	249,413
Net book value of intangible assets	(1,741)	(1,869)
	312,434	247,544

	December 31, 2020	December 31, 2019
Tier 2 capital:		
General reserves	94,344	89,183
Revaluation reserve of property and equipment	23,351	23,666
	<u>117,695</u>	<u>112,849</u>
Total regulatory capital	<u>430,129</u>	<u>360,393</u>
Risk-weighted assets (RWA)	<u>6,336,949</u>	<u>5,703,871</u>

Capital amounts and ratios	Actual amount	For capital adequacy purposes	Ratio for capital adequacy purposes	Minimum required ratio
As at December 31, 2020				
Total capital	431,870	430,129	6.79%	12.00%
Tier 1 capital	314,175	312,434	4.93%	6.00%
Tier 2 capital	117,695	117,695		
As at December 31, 2019				
Total capital	362,262	360,393	6.32%	12.00%
Tier 1 capital	249,413	247,544	4.34%	6.00%
Tier 2 capital	112,849	112,849		

As at December 31, 2020 and 2019, the total capital of the Bank calculated for capital adequacy purposes consisted of Tier 1 capital and Tier 2 capital.

26. CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that the Bank will be able to continue on a going concern while maximizing the return to owner through the optimization of the debt and equity balance.

The capital structure of the Bank consists of debt and equity of shareholder, which includes issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Management Board reviews the capital structure on a regular basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through capitalization of retained earnings, attraction of additional debts or the redemption of existing debt.

As at December 31, 2020 the Bank does not comply with some prudential requirements prescribed by the Central Bank of Turkmenistan. The Bank is undergoing the regular inspections from the Central Bank of Turkmenistan, the last one being performed in 2020. Also, the Bank sends reports to the Central Bank on a monthly basis, which include information on compliance with prudential requirements and did not receive any warning reports on this regard.

27. RISK MANAGEMENT POLICIES

Management of risk is fundamental in Bank's business. The main risks inherent to the Bank's operations are those related to:

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its planned objectives. These principles are used by the Bank to manage the following risks:

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Management. Daily risk management is performed by Credit administration department.

The Bank has developed policies and procedures to manage credit risk, which includes limiting portfolio concentration and the creation of the Credit Committee, which monitors the credit risk. The Bank's credit policy is reviewed and approved by Board of Directors. The Bank structures the levels of credit risk by setting limits to the size of the risk taken in relation to one borrower or group of borrowers, as well as by sector of economy. Monitoring of the actual risks in relation to the established limits is conducted on daily basis.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet obligations related to payment of interest and principal amount, and by changing these lending limits when such necessity is arisen. Exposure to credit risk is also regulated by obtaining collateral and guarantees. Such risks are monitored on a permanent basis and subject to review at least once a year.

Operational risk

The Bank is exposed to operational risk, which is a risk of loss arising from any system failures or interruptions of internal processes, systems, mechanical error of personnel or the influence of external negative factors.

The Bank's risk management policy is designed to identify and analyze risks and set appropriate risk limits and controls.

Net exposure after offset and collateral

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk off-balance sheet and off-balance sheet financial assets. For financial assets in the statement of financial statements, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off-balance sheet assets, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

Collateral pledged is determined based on its estimated fair value on the reporting date and limited to the outstanding balance of each loan as at reporting date.

	Gross value	Collateral pledged	December 31, 2020 Net exposure after offset and collateral
FINANCIAL ASSETS:			
Cash and cash equivalents	1,699,901	-	1,699,901
Due from banks	76,778	-	76,778
Loans to customers	6,046,888	5,754,064	292,824
Investment securities	92,390	-	92,390
Other assets	73,197	-	73,197

	Gross value	Collateral pledged	December 31, 2019 Net exposure after offset and collateral
FINANCIAL ASSETS:			
Cash and cash equivalents	1,424,359	-	1,424,359
Due from banks	101,889	-	101,889
Loans to customers	5,336,891	5,122,862	214,029
Investment securities	110,765	-	110,765
Other assets	135,123	-	135,123

In instances where one party to a financial instrument fails to fully or partially discharge a credit obligation, the Bank has the right to ensure fulfilment of these obligations through the:

1. joint sale of the pledged assets;
2. transfer of ownership rights on pledged assets in accordance with the established law;
3. exercising of the charge on pledged assets through judicial procedures.

Where there is a joint sale of the pledged assets, the Bank normally uses a tripartite agreement with the borrower and acquirer of the pledged assets. Under this agreement the acquirer of the pledged assets has an obligation to repay the full amount of the outstanding debt; the borrower has an obligation to transfer the right of ownership of the assets to the acquirer, and the Bank releases the obligation from the borrower and removes the pledge over the assets.

The Bank exercises the charge on pledged assets through judicial procedures if it is impossible or inefficient to use alternative methods or where the seizure of assets pledged is required in order to protect the rights on the Bank.

Financial assets are graded according to the current credit rating they have been issued by internationally regarded agencies, such as Standard and Poor's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following tables provide classification of financial assets of the Bank by credit ratings:

	AAA	AA	A	BBB	<BBB	Credit rating not assigned	December 31, 2020
Cash and cash equivalents	-	-	-	-	-	1,699,901	1,699,901
Due from banks	-	-	57,373	-	-	19,405	76,778
Loans to customers	-	-	-	-	-	6,046,888	6,046,888
Investment securities	-	-	-	-	-	92,390	92,390
Other assets	-	-	-	-	-	73,197	73,197

	AAA	AA	A	BBB	<BBB	Credit rating not assigned	December 31, 2019
Cash and cash equivalents	-	-	-	-	-	1,424,359	1,424,359
Due from banks	-	-	101,467	-	-	422	101,889
Loans to customers	-	-	-	-	-	5,336,891	5,336,891
Investment securities	-	-	-	-	-	110,765	110,765
Other assets	-	-	-	-	-	135,123	135,123

Since not all counterparties of the Bank are rated by international rating agencies, the Bank uses an internal rating and scoring models to determine the rating of the counterparty, comparable to ratings of international rating agencies. Such tools include a rating model for corporate clients, and scoring models for retail and small business customers.

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. Main credit risk exposure of the Bank is concentrated within Turkmenistan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

	Current not impaired assets	Financial assets past due but not impaired				Impaired financial assets	December 31, 2020
		Less than 3 months	3 - 6 months	6 months - 1 year	More than 1 year		
Cash and cash equivalents	1,699,901	-	-	-	-	-	1,699,901
Due from banks	76,778	-	-	-	-	-	76,778
Loans to customers	5,878,889	-	-	-	-	167,999	6,046,888
Investment securities	92,390	-	-	-	-	-	92,390
Other assets	73,197	-	-	-	-	-	73,197

	Current not impaired assets	Financial assets past due but not impaired				Impaired financial assets	December 31, 2019
		Less than 3 months	3 - 6 months	6 months - 1 year	More than 1 year		
Cash and cash equivalents	1,424,359	-	-	-	-	-	1,424,359
Due from banks	101,889	-	-	-	-	-	101,889
Loans to customers	5,146,946	-	-	-	-	189,945	5,336,891
Investment securities	110,765	-	-	-	-	-	110,765
Other assets	135,123	-	-	-	-	-	135,123

Geographical concentration

Financial department exercise control over the risk associated with changes in the norms of the legislation and assesses its impact on the Bank. This approach allows the Bank to minimize potential losses from the investment climate in Turkmenistan.

The geographical concentration of financial assets and liabilities is located in Turkmenistan.

	Turkmenistan	OECD countries	December 31, 2020
FINANCIAL ASSETS:			
Cash and cash equivalents	1,699,901	-	1,699,901
Due from banks	19,405	57,373	76,778
Loans to customers	6,046,888	-	6,046,888
Investment securities	92,390	-	92,390
Other assets	73,197	-	73,197
	<u>7,931,781</u>	<u>57,373</u>	<u>7,989,154</u>
FINANCIAL LIABILITIES:			
Due to banks and other financial institutions	1,951	-	1,951
Customer accounts	4,492,842	-	4,492,842
Loans received from banks and other financial institutions	3,059,589	-	3,059,589
Other liabilities	3,654	3,074	6,728
	<u>7,558,036</u>	<u>3,074</u>	<u>7,561,110</u>
NET POSITION	<u>373,745</u>	<u>54,299</u>	

	Turkmenistan	OECD countries	December 31, 2019
FINANCIAL ASSETS:			
Cash and cash equivalents	1,424,359	-	1,424,359
Due from banks	422	101,467	101,889
Loans to customers	5,336,891	-	5,336,891
Investment securities	110,765	-	110,765
Other assets	135,123	-	135,123
	<u>7,007,560</u>	<u>101,467</u>	<u>7,109,027</u>
FINANCIAL LIABILITIES:			
Due to banks and other financial institutions	2,459	-	2,459
Customer accounts	4,062,449	-	4,062,449
Loans received from banks and other financial institutions	2,731,841	-	2,731,841
Other liabilities	2,638	3,074	5,712
	<u>6,799,387</u>	<u>3,074</u>	<u>6,802,461</u>
NET POSITION	<u>208,173</u>	<u>98,393</u>	

Liquidity risk

Liquidity risk is the risk of difficulties in obtaining funds for the payment of obligations upon the occurrence of the actual date of payment and to meet cash requirements in the process of lending to clients.

Management controls this risk by maturity analysis, determining the Bank's strategy for the next fiscal period. Current liquidity is managed by the finance department, which supports the current level of liquidity sufficient to minimize liquidity risk.

The following table presents an analysis of balance sheet interest rate risk and liquidity risk:

	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	December 31, 2020 Total
FINANCIAL ASSETS:							
Due from banks	2.00%	-	-	-	19,250	-	19,250
Loans to customers	4.14%	555,160	171,730	1,191,894	1,726,997	2,401,107	6,046,888
Total financial assets, interest bearing		<u>555,160</u>	<u>171,730</u>	<u>1,191,894</u>	<u>1,746,247</u>	<u>2,401,107</u>	<u>6,066,138</u>
Cash and cash equivalents		1,699,901	-	-	-	-	1,699,901
Due from banks		57,528	-	-	-	-	57,528
Investment securities		-	-	-	-	92,390	92,390
Other assets		<u>73,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,197</u>
		<u>2,385,786</u>	<u>171,730</u>	<u>1,191,894</u>	<u>1,746,247</u>	<u>2,493,497</u>	<u>7,989,154</u>
FINANCIAL LIABILITIES:							
Customer accounts	7.59%	4,452,463	26,686	2,463	11,230	-	4,492,842
Loans received from banks and other financial institutions	0.87%	<u>164,509</u>	<u>-</u>	<u>1,837,148</u>	<u>634,549</u>	<u>423,383</u>	<u>3,059,589</u>
Total financial liabilities, interest bearing		<u>4,616,972</u>	<u>26,686</u>	<u>1,839,611</u>	<u>645,779</u>	<u>423,383</u>	<u>7,552,431</u>
Due to banks and other financial institutions		1,951	-	-	-	-	1,951
Other liabilities		<u>4,902</u>	<u>-</u>	<u>1,680</u>	<u>146</u>	<u>-</u>	<u>6,728</u>
		<u>4,623,825</u>	<u>26,686</u>	<u>1,841,291</u>	<u>645,925</u>	<u>423,383</u>	<u>7,561,110</u>

	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	December 31, 2020 Total
Difference between financial assets and liabilities		<u>(2,238,039)</u>	<u>145,044</u>	<u>(649,397)</u>	<u>1,100,322</u>	<u>2,070,114</u>	<u>428,044</u>
Difference between interest bearing financial assets and liabilities		<u>(4,061,812)</u>	<u>145,044</u>	<u>(647,717)</u>	<u>1,100,468</u>	<u>1,977,724</u>	
	Weighted average rate	Less than 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	December 31, 2019 Total
FINANCIAL ASSETS:							
Loans to customers	4.24%	1,026,394	363,600	467,215	1,137,362	2,342,320	5,336,891
Investment securities	5.00%	875	-	-	17,500	92,390	110,765
Total financial assets, interest bearing		<u>1,027,269</u>	<u>363,600</u>	<u>467,215</u>	<u>1,154,862</u>	<u>2,434,710</u>	<u>5,447,656</u>
Cash and cash equivalents		1,424,359	-	-	-	-	1,424,359
Due from banks		101,889	-	-	-	-	101,889
Other assets		135,123	-	-	-	-	135,123
		<u>2,688,640</u>	<u>363,600</u>	<u>467,215</u>	<u>1,154,862</u>	<u>2,434,710</u>	<u>7,109,027</u>
FINANCIAL LIABILITIES:							
Customer accounts	9.46%	3,937,189	4,006	119,398	1,856	-	4,062,449
Loans received from banks and other financial institutions	0.31%	-	155,596	1,348,350	761,310	466,585	2,731,841
Total financial liabilities, interest bearing		<u>3,937,189</u>	<u>159,602</u>	<u>1,467,748</u>	<u>763,166</u>	<u>466,585</u>	<u>6,794,290</u>
Due to banks and other financial institutions		2,459	-	-	-	-	2,459
Other liabilities		4,274	-	1,438	-	-	5,712
		<u>3,943,922</u>	<u>159,602</u>	<u>1,469,186</u>	<u>763,166</u>	<u>466,585</u>	<u>6,802,461</u>
Difference between financial assets and liabilities		<u>(1,255,282)</u>	<u>203,998</u>	<u>(1,001,971)</u>	<u>391,696</u>	<u>1,968,125</u>	<u>306,566</u>
Difference between interest bearing financial assets and liabilities		<u>(2,909,920)</u>	<u>203,998</u>	<u>(1,000,533)</u>	<u>391,696</u>	<u>1,968,125</u>	

Amounts of future interest are not included in the table above. Almost all assets and liabilities for which interest is accrued are charged at fixed interest rates.

Periods of maturity of assets and liabilities and the ability to replace interest liabilities in acceptable costs (at the time of redemption) are the most important conditions in determining the liquidity of the Bank and its sensitivity to fluctuations in interest rates and exchange rates.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

Undiscounted liabilities analysis

The table below presents distribution of Bank's liabilities as at December 31, 2020 and 2019 for contractual undiscounted cash outflows:

	Weighted average rate	less than 1 month	1 - 3 months	3 months - 1 year	1 year - 5 years	more than 5 years	December 31, 2020
FINANCIAL LIABILITIES:							
Due to banks and other financial institutions		1,951	-	-	-	-	1,951
Customer accounts	7.59%	4,452,463	26,830	2,658	11,583	-	4,493,534
Loans received from banks and other financial institutions	0.87%	166,476	3,745	1,854,556	643,262	432,951	3,100,990
Other liabilities		4,902	-	1,680	146	-	6,728
		<u>4,625,792</u>	<u>30,575</u>	<u>1,858,894</u>	<u>654,991</u>	<u>432,951</u>	<u>7,603,203</u>
	Weighted average rate	less than 1 month	1 - 3 months	3 months - 1 year	1 year - 5 years	more than 5 years	December 31, 2019
FINANCIAL LIABILITIES:							
Due to banks and other financial institutions		2,459	-	-	-	-	2,459
Customer accounts	9.46%	3,937,806	5,133	121,518	2,030	-	4,066,487
Loans received from banks and other financial institutions	0.31%	2,100	159,529	1,365,783	776,552	480,273	2,784,237
Other liabilities		4,274	-	1,438	-	-	5,712
		<u>3,946,639</u>	<u>164,662</u>	<u>1,488,739</u>	<u>778,582</u>	<u>480,273</u>	<u>6,858,895</u>

Market risk

Market risk includes risk of changes in interest rates, currency risk and other price risks faced by the Bank. In 2020 there was no change in the composition of these risks and methods for assessing and managing risks in the Bank.

In case of attracting funds with a floating interest rate, the risks will be managed by the Bank by maintaining the necessary ratio between loans at a fixed and floating rate.

Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Controlling Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

As at the reporting dates, the Bank was not exposed to interest rate risk as loans were attracted at a fixed interest rate. The annual interest rates for funds attracted varies between 0% and 12%, for loans to customers are between 0% and 15%.

Accounting classification and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2020:

	Measured at amortized cost	Measured at fair value through other comprehensive income (FVTOCI)	Total carrying amount	Fair value
Cash and cash equivalents	1,699,901	-	1,699,901	1,699,901
Due from banks	76,778	-	76,778	76,778
Loans to customers	6,046,888	-	6,046,888	6,046,888
Investment securities	-	92,390	92,390	92,390
Other assets	73,197	-	73,197	73,197
	<u>7,896,764</u>	<u>92,390</u>	<u>7,989,154</u>	<u>7,989,154</u>
Due to banks and other financial institutions	1,951	-	1,951	1,951
Customer accounts	4,492,842	-	4,492,842	4,492,842
Loans received from banks and other financial institutions	3,059,589	-	3,059,589	3,059,589
Other liabilities	6,728	-	6,728	6,728
	<u>7,561,110</u>	<u>-</u>	<u>7,561,110</u>	<u>7,561,110</u>

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2019:

	Measured at amortized cost	Measured at fair value through other comprehensive income (FVTOCI)	Total carrying amount	Fair value
Cash and cash equivalents	1,424,359	-	1,424,359	1,424,359
Due from banks	101,889	-	101,889	101,889
Loans to customers	5,336,891	-	5,336,891	5,336,891
Investment securities	18,375	92,390	110,765	110,765
Other assets	135,123	-	135,123	135,123
	<u>7,016,637</u>	<u>92,390</u>	<u>7,109,027</u>	<u>7,109,027</u>
Due to banks and other financial institutions	2,459	-	2,459	2,459
Customer accounts	4,062,449	-	4,062,449	4,062,449
Loans received from banks and other financial institutions	2,731,841	-	2,731,841	2,731,841
Other liabilities	5,712	-	5,712	5,712
	<u>6,802,461</u>	<u>-</u>	<u>6,802,461</u>	<u>6,802,461</u>

Due to specific of the Bank related with the participation in different state programs the purpose of which is improving and increasing the efficiency of public investment policy, implementation of investment projects for structural change in the economy the average interest rate on loans to customers and customer accounts of the Bank equals to average market rates according to Central bank of Turkmenistan. Consequently, the fair value of loans to customers and customer accounts of the Bank is equal to its carrying values.

Hierarchy of fair value of financial instruments

Fair value is defined as the value at which a financial instrument can be acquired in a transaction between well-informed, willing to make such a transaction parties, independent from each other, except in cases of forced or liquidation sale. The presented estimates may not reflect the amounts that the Bank could receive if the actual sale of a set of certain financial instruments held by it.

The carrying amount of cash is approximately equal to the fair value due to the short-term nature of such financial instruments.

IFRS 13 defines fair value as the amount that would be received after selling an asset or paid after transferring a liability in an orderly transaction on the main (or most advantageous) market at the measurement date under current market conditions. Since there are no markets for most of the Bank's financial instruments, under the current economic conditions and specific risks that characterize the tool, judgment should be applied to determine the fair value.

As at December 31, 2020 and 2019, the following methods and assumptions were used by the Bank to assess the fair value of financial instruments for which it was practical to determine the value:

Cash and cash equivalents - current value of cash and cash equivalents corresponds to fair value.

Accounts receivable and other accounts receivable - current value approximates the fair value of these financial instruments, as the provision for doubtful debts is valid estimation of the required discount to reflect the credit risk.

Accounts payable and other liabilities - current value approximates the fair value of these financial instruments due to the short-term nature of the instrument.

Long-term liabilities - current value approximates fair value as the interest rate of long-term debt approximates market rate, with reference to loans with similar credit risk and maturity at the balance sheet date.

Fair values are primarily determined using quoted market prices or standard pricing models using observable market inputs where available and are presented to reflect the expected gross future cash in/outflows. The Bank classifies the fair values of its financial instruments into a three level hierarchy based on the degree of the source and observability of the inputs that are used to derive the fair value of the financial asset or liability as follows:

- | | |
|---------|--|
| Level 1 | Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can assess at the measurement date; or |
| Level 2 | Inputs other than quoted inputs included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; or |
| Level 3 | Unobservable inputs for the assets or liabilities, requiring the Bank to make market based assumptions. |

Level 1 classifications primarily include financial assets and financial liabilities that are exchange traded, whereas Level 2 classifications primarily include financial assets and financial liabilities which derive their fair value primarily from exchange quotes and readily observable quotes. Level 3 classifications primarily include financial assets and financial liabilities which derive their fair value predominately from models that use applicable market based estimates surrounding location, quality and credit differentials. In circumstances where the Bank cannot verify fair value with observable market inputs (Level 3 fair values), it is possible that a different valuation model could produce a materially different estimate of fair value.

It is the Bank's policy that transactions and activities in trade related financial instruments be concluded under master netting agreements or long form confirmations to enable balances due to/from a common counterparty to be offset in the event of default, insolvency or bankruptcy by the counterparty.

The following tables show the fair values of financial assets and financial liabilities as at December 31, 2020 and 2019. Other assets and liabilities which are measured at fair value on a recurring basis are cash and cash equivalents. There are no nonrecurring fair value measurements.

	Level 1	Level 2	Level 3	December 31, 2020
FINANCIAL ASSETS:				
Cash and cash equivalents	1,699,901	-	-	1,699,901
Due from banks	76,778	-	-	76,778
Loans to customers	-	6,046,888	-	6,046,888
Investment securities	-	-	92,390	92,390
Other assets	-	-	73,197	73,197
	<u>1,776,679</u>	<u>6,046,888</u>	<u>165,587</u>	<u>7,989,154</u>
FINANCIAL LIABILITIES:				
Due to banks and other financial institutions	1,951	-	-	1,951
Customer accounts	-	4,492,842	-	4,492,842
Loans received from banks and other financial institutions	-	3,059,589	-	3,059,589
Other liabilities	-	-	6,728	6,728
	<u>1,951</u>	<u>7,552,431</u>	<u>6,728</u>	<u>7,561,110</u>
	Level 1	Level 2	Level 3	December 31, 2019
FINANCIAL ASSETS:				
Cash and cash equivalents	1,424,359	-	-	1,424,359
Due from banks	101,889	-	-	101,889
Loans to customers	-	5,336,891	-	5,336,891
Investment securities	18,375	-	92,390	110,765
Other assets	-	-	135,123	135,123
	<u>1,544,623</u>	<u>5,336,891</u>	<u>227,513</u>	<u>7,109,027</u>
FINANCIAL LIABILITIES:				
Due to banks and other financial institutions	2,459	-	-	2,459
Customer accounts	-	4,062,449	-	4,062,449
Loans received from banks and other financial institutions	-	2,731,841	-	2,731,841
Other liabilities	-	-	5,712	5,712
	<u>2,459</u>	<u>6,794,290</u>	<u>5,712</u>	<u>6,802,461</u>

Currency risk

Currency risk is the risk that the value of a financial instrument due to changes in exchange rates. Financial position and cash flows of the Bank are exposed to impact of fluctuations in foreign currency exchange rates. Management exercises currency risk management by determining open currency position on the basis of the alleged impairment of Turkmen manat, and other macroeconomic indicators, which enables the Bank to minimize losses from significant fluctuations in national and foreign currency.

The Bank is not exposed to significant currency risk, as most of the financial assets and liabilities are represented in Turkmen manats and US dollars, the rate of which is fixed by the Central bank of Turkmenistan.

Information about the level of foreign currency exchange rate risk of the Bank is set out below:

	Manat	US Dollars	Euro	Other	December 31, 2020
FINANCIAL ASSETS:					
Cash and cash equivalents	1,652,918	45,197	1,751	35	1,699,901
Due from banks	-	70,400	6,369	9	76,778
Loans to customers	6,046,097	791	-	-	6,046,888
Investment securities	92,390	-	-	-	92,390
Other assets	73,196	1	-	-	73,197
	<u>7,864,601</u>	<u>116,389</u>	<u>8,120</u>	<u>44</u>	<u>7,989,154</u>
FINANCIAL LIABILITIES:					
Due to banks and other financial institutions	1,951	-	-	-	1,951
Customer accounts	4,411,836	74,661	6,326	19	4,492,842
Loans received from banks and other financial institutions	3,058,718	871	-	-	3,059,589
Other liabilities	3,654	3,074	-	-	6,728
	<u>7,476,159</u>	<u>78,606</u>	<u>6,326</u>	<u>19</u>	<u>7,561,110</u>
NET POSITION	388,442	37,783	1,794	25	
	Manat	US Dollars	Euro	Other	December 31, 2019
FINANCIAL ASSETS:					
Cash and cash equivalents	1,368,916	49,790	5,617	36	1,424,359
Due from banks	-	100,601	1,278	10	101,889
Loans to customers	5,336,891	-	-	-	5,336,891
Investment securities	110,765	-	-	-	110,765
Other assets	134,589	534	-	-	135,123
	<u>6,951,161</u>	<u>150,925</u>	<u>6,895</u>	<u>46</u>	<u>7,109,027</u>
FINANCIAL LIABILITIES:					
Due to banks and other financial institutions	2,459	-	-	-	2,459
Customer accounts	3,917,839	138,005	6,586	19	4,062,449
Loans received from banks and other financial institutions	2,731,841	-	-	-	2,731,841
Other liabilities	2,549	3,163	-	-	5,712
	<u>6,654,688</u>	<u>141,168</u>	<u>6,586</u>	<u>19</u>	<u>6,802,461</u>
NET POSITION	296,473	9,757	309	27	

28. SEGMENT REPORTING

The Bank's activities apply only to banking activities and are concentrated in Turkmenistan.

29. EVENTS AFTER THE REPORTING DATE

As at the date of issue of these financial statements no other significant events or transactions happened, which should be disclosed in accordance with IAS 10 "Events after the reporting period".

Baker Tilly Klitou And Partners SRL trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

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