STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

Financial Statements
for the year ended December 31, 2019

and independent auditors' report

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STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

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STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, 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 State Bank for Foreign Economic Affairs of 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, 2019, the results of its operations, cash flows and changes in shareholders' capital for the year then ended, 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.

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 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, 2019 were approved and authorized for issue on October 22, 2020 by the Management of the Bank.

On behalf of the Management:

Jepbarov R.J.
Chairman of the Board

October 22, 2020
Ashgabat, Turkmenistan

Myradova E.
Chief Accountant

October 22, 2020
Ashgabat, Turkmenistan

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INDEPENDENT AUDITORS' REPORT

To the Management of State Bank for Foreign Economic Affairs of Turkmenistan:

Opinion

We have audited the accompanying financial statements of State Bank for Foreign Economic Affairs of Turkmenistan (the "Bank"), which comprise the statement of financial position as at December 31, 2019, 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

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.

Key audit matters	How we addressed the matter
Adjustments for expected losses on loans	
Management's assessment of the indicators of impairment and determining expected losses on loans to customers is a complex process that involves the use of estimates and judgment. In order to determine the expected loss provisioning requirements for loans, the Bank applies a statistical model that uses parameters determined both internal and external parameters. In accordance with IFRS 9 Financial Instruments, the Bank distinguishes between three stages of depreciation, based on classification criteria that take into account both objective characteristics of the loans and the borrowers, and subjective estimates of the Bank.	Our audit procedures included among others to obtain a detailed understanding of the methodology for calculating the depreciation of the loan portfolio, we assessed the adequacy of the Bank's methodology for identifying depreciation loan portfolio and establish expected credit loss. Thus, we analyzed the macroeconomic scenarios and related indexes, criteria for staging receivables and assessed models for determining credit risk parameters and quality of data used. For this purpose, we used specialist experts in the field. We also reviewed the quality of the historical data used in the calculation of credit risk parameters.

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Classification credits stages of impairment is the result of the interplay of several factors: - The comparison between the probability of default to the date of grant and the date of the financial statements; - Limits established by law, for example the 90 days delay; - Other factors that are relevant to the Bank, for example threshold for individual analysis. Expected losses are calculated based on historical data and macroeconomic forecasting elements. The statistical model used to determine the expected loss on loans to customers is based on the probability of default and the estimated value According to Note 11 "Loans to customers" and Note 21 "Risk management policies" in the financial statements, the Bank recorded provisions for impairment in value of 345,736 thousand manat for consumer and corporate loans granted on the gross amount of 17,503,684 thousand manat. Because of the importance of these judgments and the volume of loans to customers, impairment of loans to customers is a key aspect of the audit.	In addition, we evaluated the design and operating effectiveness of internal controls implemented by management in the computation of provisions, including: Checks for timely identification of indications of impairment, if any Checks on regular reviews by management, the calculation results for the impairment of loans and related provisions. We performed substantive procedures on a sample of loans to check their classification and to identify any indications of impairment and if necessary additional provisions for impairment. We applied professional judgment to evaluate the factors to be taken into account in determining the loss of value and compared the results with those of the Bank. We evaluated the impact of economic conditions, the collaterals, and other factors that may affect the recoverability of loans. We assessed the completeness and adequacy of the Bank's financial statements disclosures on loans to customers.
Loans received from banks and other financial institutions	
As at December 31, 2019 and 2018 the amount of loans received from banks and other financial institutions was equal to 15,139,976 thousand manat and 16,754,522 thousand manat, respectively. The Bank is obliged to comply with a number of financial covenants related to its lending activity, some of which are not met (please see Note 15). During the assessment of applicability of going concern basis to its activity, Bank's management takes into account the financial position of the Bank and compliance with various covenants. The Bank's management believes that the Bank has sufficient resources for continuing its economic activities in the foreseeable future, and will be able to pay off its obligations within its regular activities. Therefore, preparation of financial statements based on going concern basis is appropriate. We believe this matter is a key audit matter due to the importance of these judgments and the volume of loans received.	In our assessment of using going concern basis assumption we focused our attention on the Bank's ability to meet its obligations on time, as well as on the Bank's compliance with the terms of the loan agreements. Our procedures included the following: - Analysis of the general financial position of the Bank and its ability to timely repay obligations; - Checking the terms of agreements on loans received; - Verification of the Bank's compliance with all covenants under the terms of loan agreements; - Analysis of the exemptions received from compliance with a number of covenants. As a result of our procedures, we are comfortable of the relevancy of the Management's judgments and the correctness of the presentation of financial statements and its disclosures.

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

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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 scepticism 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.

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Other aspects

The financial statements of the Bank for the year ended December 31, 2018 were audited by another auditor who expressed a modified opinion on those statements on June 29, 2019.

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.

Baker Tilly Klitou SRL

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

Autoritatea pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)
Auditor Financiar: BAKER TILLY KLITOU AND PARTNERS S.R.L.
Registrul Public Electronic: FA 384

October 22, 2020

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2019	For the year ended December 31, 2018 (restated)
Interest income	5	1,278,626	1,237,898
Interest expenses	5	(912,084)	(903,382)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS		366,542	334,516
Accrual of allowance for expected credit losses on interest bearing assets	6	(71,249)	(131,765)
NET INTEREST INCOME		295,293	202,751
Commission income	7	95,841	120,644
Commission expenses	7	(78,168)	(91,408)
Income from investments	12	4,673	1,496
Accrual of allowance for impairment losses on assets	6	(4,885)	-
Net gain on foreign exchange operations		9,337	5,133
Other income		(27,598)	(11,380)
NET NON-INTEREST INCOME		(800)	24,485
Operating expenses		(39,280)	(31,530)
PROFIT BEFORE INCOME TAX		255,213	195,706
Income tax	8	(75,579)	(65,375)
NET PROFIT FOR THE YEAR		179,634	130,331
Change in revaluation reserve		625	628
TOTAL COMPREHENSIVE INCOME		180,259	130,959

On behalf of the Management:

Jepbarov R.J.
Chairman of the Board

October 22, 2020
Ashgabat, Turkmenistan

Myradova E.
Chief Accountant

October 22, 2020
Ashgabat, Turkmenistan

The notes on pages 12-58 form an integral part of the financial statements. The Independent Auditors' Report is on pages 3-6.

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
(in thousands of Turkmen manat)

	Notes	December 31, 2019	December 31, 2018 (restated)
ASSETS:			
Cash and cash equivalents	9	6,150,984	5,999,833
Due from banks	10	10,851,581	10,599,340
Loans to customers	11	16,581,178	18,059,250
Investments	12	144,293	139,095
Property, plant and equipment		62,532	76,878
Intangible assets		10,903	11,448
Investment property		1,644	1,679
Non-current assets held for sale		27,696	27,696
Premises built under a state program		56,270	53,036
Deferred tax asset	8	10,454	1,352
Other assets		52,028	54,057
TOTAL ASSETS		33,949,563	35,023,664
SHAREHOLDERS' EQUITY AND LIABILITIES:			
LIABILITIES:			
Due to banks	13	639,727	494,347
Customer accounts	14	16,972,360	16,757,409
Loans received from banks and other financial institutions	15	15,139,976	16,754,522
Current tax liabilities		51,121	41,236
Other liabilities		21,991	34,311
		32,825,175	34,081,825
SHAREHOLDERS' EQUITY:			
Share capital	16	690,062	592,508
Revaluation reserve		19,581	20,206
Retained earnings		414,745	329,125
		1,124,388	941,839
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		33,949,563	35,023,664

On behalf of the Management:

Jepbarov R.J.
Chairman of the Board

October 22, 2020
Ashgabat, Turkmenistan

Myradova E.
Chief Accountant

October 22, 2020
Ashgabat, Turkmenistan

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STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Turkmen manat)

	Notes	Share capital	Revaluation reserve	Retained earnings	Total equity
Balance at December 31, 2017 (restated)		529,390	20,834	261,284	811,508
Comprehensive income					
Profit for the year		-	-	130,331	130,331
Change in revaluation reserve		-	(628)	628	-
Total comprehensive income		-	(628)	130,959	130,331
Transactions with owners					
Increase in share capital		63,118	-	(63,118)	-
Total transactions with owners		63,118	-	(63,118)	-
Balance at December 31, 2018 (restated)	16	592,508	20,206	329,125	941,839
Effect from application of IFRS 9		-	-	2,915	2,915
January 1, 2019 (restated)		592,508	20,206	332,040	944,754
Comprehensive income					
Profit for the year		-	-	179,634	179,634
Change in revaluation reserve		-	(625)	625	-
Total comprehensive income		-	(625)	180,259	179,634
Transactions with owners					
Increase in share capital		97,554	-	(97,554)	-
Total transactions with owners		97,554	-	(97,554)	-
Balance at December 31, 2019	16	690,062	19,581	414,745	1,124,388

On behalf of the Management

Jepbarov R.J.
Chairman of the Board

October 22, 2020
Ashgabat, Turkmenistan

Myradova E.
Chief Accountant

October 22, 2020
Ashgabat, Turkmenistan

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STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2019	For the year ended December 31, 2018 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax expenses		255,213	195,706
Adjustments for:			
Net interest income	5	(366,542)	(334,516)
Accrual of allowance for expected credit losses	6	71,249	131,765
Depreciation of property, plant and equipment and intangible assets		5,914	5,321
Income from investments	12	(4,673)	(1,496)
Depreciation of investment property		35	33
Foreigh exchange differences		(440)	4,483
Cash flows before changes in working capital		(39,244)	1,296
Changes in operating assets and liabilities:			
Increase in due from banks		(1,033,479)	(974,187)
Decrease/(increase) in loans to customers		1,399,471	(943,904)
Increase in obligatory reserve in CBT		(32,690)	(17,521)
Decrease in other assets		7,113	828,576
Increase/(decrease) in customer accounts		214,608	(599,063)
Increase in due to banks		139,606	134,839
Decrease in other liabilities		(12,718)	(804,215)
Cash inflow/(outflow) from operating activities before taxation and interest		642,667	(2,374,179)
Interest received		1,259,189	1,217,945
Interest paid		(937,752)	(839,803)
Income tax paid		(76,965)	(52,510)
Net cash inflow/(outflow) from operating activities		887,139	(2,048,547)

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)
(in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2019	For the year ended December 31, 2018 (restated)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale/(purchase) of property, plant and equipment and intangible assets		8,977	(11,745)
Proceeds from premises built under a state program		4,531	68,460
Purchase of premises built under a state program		(7,766)	(62,845)
Repayment /(purchase) of government bonds		639	(20,095)
Net cash inflow/(outflow) from investing activities		6,381	(26,225)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of loans received from banks and other financial institutions		(3,997,271)	(3,637,698)
Proceeds from loans received from banks and other financial institutions		2,443,907	5,221,297
Net cash (outflow)/inflow from financing activities		(1,553,364)	1,583,599
NET DECREASE IN CASH AND CASH EQUIVALENTS		(659,844)	(491,173)
Effect of changes in exchange rates on cash and cash equivalents		(1,206)	(2,105)
CASH AND CASH EQUIVALENTS, at the beginning of the year	9	12,625,264	13,118,542
CASH AND CASH EQUIVALENTS, at the end of the year	9	11,964,214	12,625,264

On behalf of the Management:

Jepbarov R.J.
Chairman of the Board

October 22, 2020
Ashgabat, Turkmenistan

Myradova E.
Chief Accountant

October 22, 2020
Ashgabat, Turkmenistan

The notes on pages 12-58 form an integral part of the financial statements. The Independent Auditors' Report is on pages 3-6.

1. GENERAL INFORMATION

Organization and operations

The State Bank for Foreign Economic Affairs of Turkmenistan (“the Bank”) was established on 27 January 1992 in Turkmenistan as a state commercial bank by the Decree of the President of Turkmenistan. The Bank operates as the Agent of the Government of Turkmenistan in international financial markets under Decree of the President of Turkmenistan. The principal activities of the Bank include operations on deposit taking and the maintenance of customer accounts, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange, and other commercial banking activities. The activities of the Bank are regulated by the Central Bank of Turkmenistan (“the CBT”).

The registered office of the Bank is located at 32, Garashsyzlyk Street, Ashgabat, Turkmenistan, 744000.

As at 31 December 2019 and 2018, the Bank had three branches.

The Bank is entirely owned by the Government of Turkmenistan.

These financial statements were authorized for issue on October 22, 2020 by the Management Board of the Bank.

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 (hereinafter – the “functional currency”). The functional and reporting currency of the accompanying financial statements is Turkmen manat (the “TMT” or “manat”).

These financial statements are presented in thousands of Turkmen manats, unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the evaluation of certain financial instruments carried at fair value.

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, 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 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 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.

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.

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 and advances

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 expected credit loss

The Bank recognizes an estimated allowance for expected credit losses ("ECL") on loans issued. The Bank recognizes such losses at each reporting date by assessing the existence of impairment evidences. The impairment assessment model of financial assets provides for the assessment of expected credit losses within 12 months and throughout the lifetime of the financial asset.

The Bank's expected losses model is based on the following principles:

Stage 1: 12-month expected credit losses - expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date;

Stage 2: full lifetime expected credit losses - expected credit losses that result from all possible default events over the life of the financial instrument;

Stage 3: expected credit losses that result from all possible default events over the life of the financial instrument, but interest income is calculated based on the gross carrying amount of the financial asset (using effective interest rate) less impairment allowance.

Expected credit losses reflect an objective calculation of the probability-weighted value, which is determined by assessing a number of possible outcomes.

The Bank estimates expected credit losses on a financial instrument using a model that reflects:

a) unbiased and probability-weighted amount determined by assessing the range of possible outcomes;

b) time value of money; and
c) reasonable and verifiable information on past events, current conditions and projected future economic conditions available at the reporting date without excessive cost or effort.

The Bank calculates an allowance for losses for the entire period of expected credit losses, except for the following instruments, for which such losses are estimated as expected credit losses within 12 months:

- debt investment securities, which are defined as having low credit risk at the reporting date; and
- other financial instruments (other than receivables) for which credit risk has not increased significantly after their initial recognition in the financial statements.

The Bank believes that a debt security has a low credit risk if its credit rating corresponds to the internationally accepted definition of the term “investment class”.

Expected credit losses in a period of 12 months are part of the expected credit losses that arise as a result of defaults on the financial instrument, expected within 12 months after the reporting date.

Expected credit losses are calculated taking into account the probability-weighted credit losses. They are evaluated as follows:

- *for financial assets that are not credit-impaired at the reporting date:* the present value of all cash flows that has not been received (the difference between the cash flows under the contractual terms and expected cash flows to be received by the Bank);
- *for financial assets that are credit-impaired at the reporting date:* the difference between the gross carrying amount and the present value of the estimated future cash flows;
- *for loan commitments:* the present value of the difference between the contractual cash flows if the commitment is used and expected cash flows to be received by the Bank; and
- *for financial guarantee contracts:* expected payments to the holders of the contracts, less any amounts that the Bank expects to collect as a penalty.

Changes in expected credit losses are recognized in the profit or loss using an allowance account. The assets reflected in the statement of financial position are reduced by the amount of expected credit losses. The following indicators are considered by the Bank when determining the existence of impairment evidence: the debtor’s or issuer's liquidity, their solvency, business and financial risks, levels and trends of defaults on similar financial assets, national and local forecasts on economic trends and conditions, and the fair value of collateral and guarantees.
These and other factors, individually or collectively, provide an objective evidence for recognizing expected credit losses of a financial asset or group of financial assets.

More detailed information on calculation of expected credit losses is provided in Note 21.

Property, equipment and intangible assets

Depreciation is charged on the carrying value of fixed assets 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	2-5%
Furniture and equipment	5-50%
Vehicles	10-20%
Other	10-50%

Amortization of leasehold improvements is calculated over the useful life of the related leased assets. The cost of repair and overhaul are reflected in the income statement within operating expenses as incurred unless they meet the requirements for capitalization.

On each balance sheet 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 revalued fixed assets using indices established by state authorities. The effect of revaluation is recognized in equity and amortized over the estimated useful life of fixed assets.

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 depreciation and amortization is implemented on straight-line method, based on following annual depreciation rates:

Intangible assets	10-50%

Depreciation 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. Depreciation expenses of intangible assets are recognized as part of operating expenses.

Leases

The bank leases the premises of the main office. Rental contracts are typically made for fixed periods of 12 months but may have extension options. Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases in the Bank's financial statement. Effective from January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Bank under residual value guarantees
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the Bank as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of Lease liabilities
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the Lease liabilities until they take effect. When adjustments to lease payments based on an index or rate take effect, the Lease liabilities is reassessed and adjusted against the right-of-use asset.

Payments associated with short-term leases of offices, premises and equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less and probability to extend the lease contract is very low.

Income from operating leases where the Bank is a lessor is recognised in income on a straight-line basis over the lease term. Initial significant direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The Bank did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Non-current assets held for sale

The Bank recognizes non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. At the same time, these assets must be ready for immediate sale in their present condition and probability of their sale during the year since classification must be high. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. In case of excess of carrying amount over fair value less costs to sell, the Bank recognizes impairment loss in statement of profit and loss. Any subsequent increase in fair value less costs to sell is recognized in amount not exceed the amount of accumulated impairment losses previously recognized.

Premises built under a state program

Premises built under a state program are properties held to earn rentals and/or to be transferred to the Government (including property under construction for such purposes). Premises built under a state program are measured initially at cost, including transaction costs. Subsequent to initial recognition, premises built under a state program are carried at historical cost net of accumulated depreciation and recognized impairment loss. Depreciation is calculated on a straight line basis over the useful life of the assets, which varies from 20 to 50 years.

The carrying amounts of premises built under a state program are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount; impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for premises built under state program is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Premises built under a state program are derecognized upon disposal or when the premises built under state program are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

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.

Loans received from banks and other financial institutions

Loans received from banks and other financial institutions 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.

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 expenses

Recognition of interest income and expense

Interest income on financial assets is recognized when there is a high probability that the Bank will receive an economic benefit and the amount of income can be reliably determined. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate by which future cash receipts are estimated to the net carrying amount on initial recognition of financial assets and liabilities. Discounting is made through the expected life of the debt instrument, or (where appropriate) a shorter period.

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

Recognition of commission income and expenses

Loan arrangement commission 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.

Foreign currency exchange

Monetary assets and liabilities denominated in foreign currencies are exchanged to Turkmen manats 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 in net profit on foreign currency transactions in the statement of profit or loss and other comprehensive income.

Exchange rate

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

	December 31, 2019	December 31, 2018
Turkmen manat / US Dollar	3.5000	3.5000
Turkmen manat / Euro	4.0075	4.1930
Turkmen manat / Japan Yen	0.0317	0.0311
Turkmen manat / Chinese Yuan	0.5096	0.5379

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 balance sheet 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. Reserves of the Bank's expected credit losses 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 losses 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, 2019:

- IFRS 16 "Leases" provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

- IFRIC 23 "Uncertainty over Income Tax Treatments" addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 "Income taxes".

- Amendments to IAS 28 "Investments in Associates and Joint Ventures" clarifies that an entity applies IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

- Amendments to IFRS 9 "Financial Instruments" change the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

- Amendments to IAS 19 "Employee benefits" clarify the following: if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement; in addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

- The amendments to IFRS 3 "Business Combinations" clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

- The amendments to IFRS 11 "Joint Arrangements" clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- The amendments to IAS 23 "Borrowing costs" clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The adoption of the new or revised standards did not have significant effect on the financial position or performance of the Bank, except for effect of IFRS 9.

The Bank applies IFRS 9 "Financial Instruments", which was issued by the International Financial Reporting Standards Committee and the International Financial Reporting Interpretations Committee (the "IFRIC") in July 2014. IFRS 9 is effective in respect of the Bank's annual financial statements for the year ended December 31, 2018. This standard caused significant changes in accounting policies. The Bank did not apply early adoption of this standard.

The Bank does not recalculate comparative information using the exemption from the full retrospective recalculation stipulated by IFRS 9. Thus, the comparative information for 2018 is presented in accordance with IAS 39 and is not comparable with the information provided for 2019. Any adjustments to the carrying amount of a financial asset or liability resulting from the application of the standard for the comparative period are recognized in retained earnings as at January 1, 2019.

The adoption of IFRS 9 has led to changes in accounting policies regarding recognition, classification and measurement of financial assets and financial liabilities and calculation of expected credit losses. IFRS 9 brings significant changes to other standards related to financial instruments such as IFRS 7 "Financial Instruments: Disclosures". Disclosures related to the impact of the adoption of IFRS 9 on the presentation of the financial statements of the Bank are provided below. Further details of changes in accounting policies based on IFRS 9 applied to the current period (as well as previous accounting policies based on IAS 39 applied to the comparative period) are presented below.

(a) Classification and measurement of financial instruments

The difference in the measurement categories and the carrying value of financial assets and liabilities in accordance with IAS 39 and IFRS 9 as at January 1, 2019 is as follows:

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying Amount**	**Measurement category**	**Carrying amount**
		In '000 TMT		In '000 TMT
Cash and cash equivalents	Loans and receivables (at amortized cost)	5,999,833	At amortized cost	5,989,485
Due from banks	Loans and receivables (at amortized cost)	10,599,340	At amortized cost	10,593,362
Loans to customers	Loans and receivables (at amortized cost)	18,059,250	At amortized cost	18,078,491
Debt securities	Financial assets held to maturity (at amortized cost)	109,045	At amortized cost	109,045
Equity securities	Financial assets available for sale	19,032	At fair value through profit and loss	19,032

There have been no changes in the measurement and classification of financial liabilities as a result of applying IFRS 9.

(b) Opening balance reconciliation between IAS 39 and IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets, as well as cash flow analysis.

The following table compares the difference in the carrying value of financial assets before and after the transition from IAS 39 to IFRS 9 as at January 1, 2019 in thousands of Turkmen manat:

Category	Note	IAS 39, carrying amount as at December 31, 2018	Reclassification	Revaluation	IFRS 9, carrying amount as at January 1, 2019
Cash and cash equivalents	9	5,999,833	-	(10,348)	5,989,485
Due from banks	10	10,599,340	-	(5,978)	10,593,362
Loans to customers	11	18,059,250	-	19,241	18,078,491
Held to maturity investments		109,045	(109,045)	-	-
Investments available-for-sale		2,207	(2,207)	-	-
Investments in associates		16,825	(16,825)	-	-
Financial assets at amortised cost		-	109,045	-	109,045
Financial assets at fair value through profit and loss		-	19,032	-	19,032
Total effect of transition from IFRS 9 on financial instruments				2,915	

As a result of application of IFRS 9, the Bank recognized additional allowance for impairment of cash and cash equivalents, due from banks, and loans to customers.

As a result of applying IFRS 9, the estimated category of the Bank's financial assets remained unchanged.

The reasons for significant changes in the value of financial instruments resulting from the application of IFRS 9 are provided below:

- Cash equivalents
- Due from banks
- Loans to customers

Effect of IFRS 9 transition as at January 1, 2019:

Retained earnings

Opening balance in accordance with IAS 39 (December 31, 2018)	329,125
(Recognition)/recovery of expected credit losses in accordance with IFRS 9 including:	2,915
On cash equivalents	(10,348)
On due from banks	(5,978)
On loans to customers	19,241
Opening balance in accordance with IFRS 9 (January 1, 2018)	332,040

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, 2019 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 has not analyzed 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 IFRS 3 “Business Combinations” provide a new definition of “business” and clarify the accounting method to be used by an investor when acquiring a business and when only a group of assets is acquired.
- Amendments to IFRS 17 “Insurance contracts**”** establish the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2021.
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in associates and joint ventures” deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture.
- 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 omission, misstatement or obscurity may reasonably be expected to influence decisions made by major users of financial statements based on those financial statements that provide financial information about a particular reporting entity.

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

4. RESTATEMENT AND RECLASSIFICATION

In 2019 the Bank made changes in the financial statements for the year ended December 31, 2018:

- Commission expenses on loans received are an integral part of the effective interest rate and should be accounted on initial recognition of a financial liability. As at December 31, 2108 the Bank accounted unamortised part of commission expenses in the amount of 607,832 thousand manat as other assets which is not correct.
- Commission income on loans to customers is an integral part of the effective interest rate and should be accounted on initial recognition of a financial asset. As at December 31, 2108 the Bank accounted unamortised part of commission income in the amount of 606,730 thousand manat as other liailities which is not correct.
- In 2020 the Bank it is a full member of the international payment association VISA Inc. since 1994 and owns 5,965 class C shares which are equal to 4 class A shares. As at December 31, 2018, the value of this share was equal to 11,018 thousand manat, the increase in the value of shares in 2018 amounted to 1,496 thousand manat.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" due to adjustments of misstatements. Comparative amounts were restated and the corrections were made to the earliest prior periods presented.

The effect of the adjustments made to the financial statements for the year ended December 31, 2018 is as follows:

	December 31, 2018 As previously reported	**Adjusted**	**Reclassed**	**December 31, 2018 Restated**
Statement of financial position				
Loans to customers	18,665,980	-	(606,730)	18,059,250
Other assets	661,889	-	(607,832)	54,057
Loans received from banks and other financial institutions	17,362,354	-	(607,832)	16,754,522
Other liabilities	641,041	-	(606,730)	34,311
Investments	128,077	11,018	-	139,095

Statement of profit or loss and other comprehensive income

	December 31, 2018 As previously reported	**Adjusted**	**Reclassed**	**December 31, 2018 Restated**
Income from investments	-	1,496	-	1,496

5. NET INTEREST INCOME

Interest income and expenses of the Bank for the years ended December 31, 2019 and 2018 are as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018 (restated)
Interest income		
On financial assets valued at amortized cost:		
On loans to customers	1,001,991	1,014,459
On due from banks	271,426	218,423
On investments	5,209	5,016
	1,278,626	1,237,898
Interest expenses		
On financial liabilities valued at amortized cost:		
On loans received from banks and other financial institutions	895,329	884,063
On term deposits	6,908	10,312
On due to banks	9,847	9,007
	912,084	903,382
Net interest income	366,542	334,516

6. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The movements in allowance for expected credit losses on loans to customers and other operations were as follows:

	ECL on loans to customers	ECL on cash equivalents	ECL on due from banks
as at December 31, 2017 (restated)	161,963	-	-
Accrual	131,765	-	-
as at December 31, 2018 (restated)	293,728	-	-
Effect of application of IFRS 9	(19,241)	10,348	5,978
as at January 1, 2019 (restated)	274,487	10,348	5,978
Accrual	71,249	127	4,758
as at December 31, 2019	345,736	10,475	10,736

7. COMMISSION INCOME AND EXPENSES

Commission income and expenses of the Bank for the years ended December 31, 2019 and 2018 are as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018 (restated)
Commission income		
Commission income from travel cheques and cards	65,759	89,820
Commission income from unused credit lines	12,193	15,447
Commission income from international payments	9,142	8,414
Commission income from cash operations	6,326	5,182
Commission income from letters of credit and bank guarantees	1,735	1,232
Commission income from customer accounts maintenance	686	549
	95,841	120,644

	For the year ended December 31, 2019	For the year ended December 31, 2018 (restated)
Commission expenses		
Commission expenses for travel cheques and cards	62,594	76,656
Commission expenses for money transfers and interbank	2,628	2,445
Commission expenses for unused credit lines	11,534	11,314
Other commission expenses	1,412	993
	78,168	91,408

8. 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 year ended December 31, 2019 income tax rate for the Bank 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, 2019 and 2018 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, 2019	For the year ended December 31, 2018 (restated)
Current income tax expense	84,681	64,622
Changes in deferred income tax	(9,102)	753
Income tax expenses	75,579	65,375

Reconciliation of tax and accounting profits for the years ended December 31, 2019 and 2018 is as follows:

	For the year ended December 31, 2019	Effective rate (%)	For the year ended December 31, 2018 (restated)	Effective rate (%)
Profit before income tax	255,213		195,706	
Tax at the statutory tax rate (24.6%)	62,782	24.6%	48,144	24.6%
Tax effect of permanent differences	12,797	5%	17,231	9%
Income tax expense	75,579	29.61%	65,375	33.40%

Tax effect from temporary differences as at December 31, 2019 and 2018 is presented below:

	For the year ended December 31, 2019	For the year ended December 31, 2018 (restated)
Deferred income tax assets:		
Loans to customers	87,438	16,045
Loans receivedfrom banks and other financial institutions	-	53,217
Total deferred income tax assets	87,438	69,262
Deferred income tax liabilities:		
Other assets	1,246	62,500
Loans received from banks and other financial institutions	33,921	-
Total deferred income tax liabilities	35,167	62,500
Net deferred income tax assets	52,271	6,762
Net deferred income tax assets at statutory tax rate (20%)	10,454	1,352

Temporary differences between tax accounting and current financial statement as well as tax losses lead to deferred tax assets as at December 31, 2019 and 2018 as a result of the following:

	December 31, 2018	Recognized in the statement of profit and loss	Recognized in equity	December 31, 2019
Temporary differences:				
Loans to customers	3,209	14,279	-	17,488
Other assets	(12,500)	12,251	-	(249)
Loans received from banks and other financial institutions	10,643	(17,428)	-	(6,785)
Total	1,352	9,102	-	10,454

	December 31, 2017 (restated)	Recognized in the statement of profit and loss	Recognized in equity	December 31, 2018 (restated)
Temporary differences:				
Loans to customers	(36,236)	39,445	-	3,209
Other assets	12,500	(25,000)	-	(12,500)
Loans received from banks and other financial institutions	25,841	(15,198)	-	10,643
Total	2,105	(753)	-	1,352

9. CASH AND CASH EQUIVALENTS

As at December 31, 2019 and 2018 cash and cash equivalents presented in the statement of financial position of the Bank consisted of the following:

	December 31, 2019	December 31, 2018 (restated)
Accounts at Central bank of Turkmenistan	6,077,437	5,973,140
Cash on hand	84,022	26,693
Less allowance for expected credit losses	(10,475)	-
	6,150,984	5,999,833

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

	December 31, 2019	December 31, 2018 (restated)
Cash on hand and account with the Central bank of Turkmenistan	6,150,984	5,999,833
Unrestricted due from banks with original maturity of up to three months	6,012,551	6,792,062
Less obligatory reserves at Central bank of Turkmenistan	(199,321)	(166,631)
	11,964,214	12,625,264

10. DUE FROM BANKS

As at December 31, 2019 and 2018 due from banks balances of the Bank consisted of the following:

	December 31, 2019	December 31, 2018 (restated)
Deposits	9,802,366	8,264,778
Loans to banks and other financial institutions	752,400	495,000
Correspondent accounts with other banks	307,551	1,839,562
Less allowance for expected credit losses	(10,736)	-
	10,851,581	10,599,340

11. LOANS TO CUSTOMERS

As at December 31, 2019 and 2018 loans to customers, measured at amortized cost, consisted of the following:

	December 31, 2019	December 31, 2018 (restated)
Loans to corporate customers	17,481,830	18,955,237
Small business loans	19,087	21,290
Loans for urgent needs	2,767	2,289
Unamortized portion of front-end commission on loans to customers	(576,770)	(625,838)
Less: allowance for expected credit losses	(345,736)	(293,728)
	16,581,178	18,059,250

Breakdown of loans by sector is presented below:

Analysis by sector	December 31, 2019	December 31, 2018 (restated)
Oil and gas	10,001,856	11,702,641
Chemicals	4,062,892	4,533,578
Agriculture and water	1,853,025	1,311,377
Transport	917,080	747,227
Communication	187,835	204,782
Textiles	14,509	18,346
Individuals	10,197	6,965
Other	456,290	453,900
Unamortized portion of front-end commission on loans to customers	(576,770)	(625,838)
Less: allowance for expected credit losses	(345,736)	(293,728)
	16,581,178	18,059,250

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

Analysis by collateral type	December 31, 2019	December 31, 2018 (restated)
Loans collaterised by government guarantees	17,481,827	18,952,647
Loans collaterised by real estate	19,149	21,266
Unsecured loans	-	203
Other	2,708	4,700
Unamortized portion of front-end commission on loans to customers	(576,770)	(625,838)
Less: allowance for expected credit losses	(345,736)	(293,728)
	16,581,178	18,059,250

Information on the quality of loans to customers measured at amortized cost as at December 31, 2019 is provided in the table below. The presented amounts reflect the gross carrying amount of financial assets divided by measurement stages used to calculate impairment.

	12-month ECL	**ECL during the whole period - unimpaired loans**	**ECL during the whole period – impaired loans**	**Total**
Loans to corporate customers and small business loans				
January 1, 2019	17,542,832	580,199	853,496	18,976,527
Assets recognized during the period	193,682	-	-	193,682
Transfer to Stage 1	113,723	-	(113,723)	-
Transfer to Stage 2	(239,541)	574,181	(334,640)	-
Transfer to Stage 3	(529,024)	-	529,024	-
Assets repaid (except write-offs)	(267,824)	(1,154,380)	(247,088)	(1,669,292)
Total loans to corporate customers and small business loans	16,813,848	-	687,069	17,500,917
Consumer loans				
January 1, 2019	2,271	15	3	2,289
Assets recognized during the period	1,755	-	-	1,755
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(9)	9	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid (except write-offs)	(1,250)	(24)	(3)	(1,277)
Total consumer loans	2,767	-	-	2,767
Total loans to customers	16,816,615	-	687,069	17,503,684

The table below presents analysis of changes in allowance for expected credit losses on loans to customers in terms of ECL for 2019:

	12-month ECL	ECL during the whole period - unimpaired loans	ECL during the whole period – impaired loans	Total
Loans to corporate customers and small business loans				
January 1, 2019	81,653	6,616	186,062	274,331
Transfer to Stage 1	473	-	(473)	-
Transfer to Stage 2	(4,169)	6,606	(2,437)	-
Transfer to Stage 3	(115,327)	-	115,327	-
Accrual/(recovery)	233,124	(13,222)	(148,697)	71,205
Total loans to corporate customers and small business loans	195,754	-	149,782	345,536
Consumer loans	152	1	3	156
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	-	-	-	-
Accrual/(recovery)	49	(2)	(3)	44
Total consumer loans	200	-	-	200
Total loans to customers	**195,954**	**-**	**149,782**	**345,736**

12. INVESTMENTS

As at December 31, 2019 and 2018 investments of the Bank consisted of the following:

	December 31, 2019	December 31, 2018 (restated)
Financial assets at amortised cost	110,209	-
Financial assets at fair value through profit and loss	34,084	-
	144,293	-

	December 31, 2019	December 31, 2018 (restated)
Held to maturity investments	-	109,045
Investments available-for-sale	-	13,224
Investments in associates	-	16,826
	-	139,095

Investments of the Bank were represented by the following:

	December 31, 2019		December 31, 2018 (restated)	
	Share/interest rate	Amount	Share/interest rate	Amount
Government bonds	5%	110,209	5%	109,045
SE Shapak	20%	16,826	20%	16,826
Shares of Visa Inc.		15,691		11,018
Senagat JSCB	5%	1,550	7%	2,193
Other		17		13
		144,293		139,095

13. DUE TO BANKS

As at December 31, 2019 and 2018 due to banks accounts of the Bank consisted of the following:

	December 31, 2019	December 31, 2018 (restated)
Loans from banks and other financial institutions	602,544	422,922
Correspondent accounts of other banks	37,183	71,425
	639,727	494,347

14. CUSTOMER ACCOUNTS

As at December 31, 2019 and 2018 customer accounts of the Bank consisted of the following:

	December 31, 2019	December 31, 2018 (restated)
Current accounts and demand deposits	16,659,639	16,489,806
Term deposits	312,721	267,603
	16,972,360	16,757,409

As at December 31, 2019 and 2018 accrued interest included in customer accounts amounted to 5,227 thousand manat and TMT 3,117 thousand manat, respectively.

As at December 31, 2019 and 2018 customer accounts amounting to 45,312 thousand manat and 7,440 thousand manat, respectively, were held as security against letters of credit issued and other transactions related to contingent obligations.

As at December 31, 2019 and 2018 the Bank had 3 customers whose balances individually exceed 10% of equity. These balances as at December 31, 2019 and 2018 were equal to 13,929,300 thousand manat and 14,058,903 thousand manat, respectively.

15. LOANS RECEIVED FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

As at December 31, 2019 and 2018 loans received from banks and other financial institutions by the Bank are presented as follows:

	Currency	Interest rate	Maturity	December 31, 2019	December 31, 2018 (restated)
Japan Bank for International Cooperation (JBIC)	USD	5,68%	17.10.2014-15.06.2028	2,243,938	2,154,060
Japan Bank for International Cooperation (JBIC)	USD	4,69%	29.05.2014-15.03.2024	1,457,553	1,456,319
Japan Bank for International Cooperation (JBIC)	USD	5,68%	24.10.2014-15.06.2028	1,263,319	1,114,870
Japan Bank for International Cooperation (JBIC)	JPY	2,91%	24.10.2014-15.06.2028	963,651	1,044,451
Japan Bank for International Cooperation (JBIC)	USD	6M LIBOR +1,7%	17.10.2014-15.06.2022	863,017	1,220,262
Japan Bank for International Cooperation (JBIC)	USD	6M LIBOR +1,7%	24.10.2014-15.06.2022	486,514	623,075
Japan Bank for International Cooperation (JBIC)	EUR	4,06%	24.10.2014-15.06.2028	385,170	393,255
Japan Bank for International Cooperation (JBIC)	JPY	3,91%	19.03.2010-15.05.2022	361,937	502,261
Japan Bank for International Cooperation (JBIC)	USD	6M LIBOR +1,65%	29.05.2014-15.09.2020	323,080	754,067
Japan Bank for International Cooperation (JBIC)	JPY	3,31%	12.09.2013-15.06.2026	310,140	332,733
Japan Bank for International Cooperation (JBIC)	EUR	6M LIBOR +1,55%	24.10.2014-15.06.2022	152,392	224,036
Japan Bank for International Cooperation (JBIC)	USD	6,45%	12.07.2018-15.08.2029	11,249	-
Japan Bank for International Cooperation (JBIC)	USD	6 M LIBOR +1,7%	12.07.2018-15.08.2024	7,438	-
Japan International Cooperation Agency (JICA)	JPY	2,7%	24.12.1997-20.12.2027	51,626	57,569
Japan International Cooperation Agency (JICA)	JPY	2,3%	24.12.1997-20.12.2027	4,317	4,814
Exim Bank, Korea	USD	6M LIBOR +2,6%	29.05.2014-15.03.2024	2,698,209	3,337,471
Exim Bank, Korea	USD	6M LIBOR +4,5%	29.05.2014-15.03.2024	1,213,151	1,500,520
Exim Bank, Korea	USD	6M LIBOR +2,6%	29.05.2014-15.03.2024	526,915	651,771
Commerzbank, Frankfurt	EUR	6M EURIBOR +1,6%	11.08.2019-30.09.2027	425,753	-
Commerzbank, Frankfurt	EUR	6M EURIBOR +1,6%	23.02.2018-30.06.2026	385,206	448,014
Commerzbank, Frankfurt	EUR	6M EURIBOR +1,6%	08.05.2017-06.10.2025	290,222	346,920
Deree Credit LPC, USA	USD	6M LIBOR +2,1%	17.03.2017-05.06.2023	367,764	491,445
Deree Credit LPC, USA	USD	6M LIBOR +2,1%	11.09.2019-15.10.2025	283,368	-
Asian Development Bank	USD	6M LIBOR + 0,6%	15.11.2018-15.05.2043	2,551	-
Exim Bank, China	CNY	3%	13.12.2009-21.09.2029	126,080	141,289

Exim Bank, China	CNY	3%	23.12.2009-21.09.2029	118,681	132,998
Exim Bank, China	CNY	3%	23.12.2009-21.03.2030	102,332	114,180
Exim Bank, China	CNY	3%	23.11.2011-21.03.2032	73,759	81,141
Exim Bank, China	CNY	3%	01.03.2007-21.03.2027	66,749	77,067
Exim Bank, China	CNY	3%	01.03.2007-21.03.2027	44,508	51,389
Exim Bank, China	CNY	3%	13.12.2006-21.03.2027	44,228	51,103
Exim Bank, China	CNY	3%	18.05.2006-21.03.2026	41,531	48,819
China Development Bank	CNY	0.00%	16.07.2005-31.12.2024	12,508	15,288
China Development Bank	CNY	0.00%	03.11.2003-31.12.2022	4,503	6,115
China Development Bank	CNY	0.00%	02.07.2002-31.12.2021	2,001	3,058
Unamortized portion of front-end commission on loans received from banks and other financial institutions				(575,384)	(625,838)
				15,139,976	16,754,522

As at December 31, 2019 and 2018 accrued interest included in loans received from banks and other financial institutions amounted to 265,693 thousand manat and 303,320 thousand manat, respectively.

As at December 31, 2019 and 2018, the Bank, acting as an agent with the guarantee of the Government, had to comply with financial and non-financial covenants set by JBIC, Exim Bank, Korea; Exim Bank, China; JICA Deree Credit LPC, USA; Commerzbank Frankfurt and China Development Bank. The Bank is obliged to comply with the following financial covenants:

- Maintain a ratio of Capital to Risk Weighted Assets of not less than 12%;
- At all times maintain a ratio of liquid assets (cash and marketable securities) to total assets of not less than 15%;
- Maintain a ratio of non-performing loans with over 90 days overdue to the aggregate of all loans in the Bank's loan portfolio (NPL ratio) of not greater than 6%;
- Maintain a ratio of total off-balance sheet commitments not exceeding 60% of Total Assets;
- Not maintain open positions under interest rate, currency or commodity hedges or other similar derivative transaction which in aggregate exceed 20% of Tier 1 capital.
- Maintain the ratio of total Operating Expenses to total Operating Income not exceeding 50%;
- Maintain the maximum exposure to a single borrower or group of borrowers not exceeding 20% of Tier 1 capital with a provision that such ratio at all time is not in breach of prudential regulations; and
- At all times maintain full compliance with all mandatory financial ratios established by the Central bank of Turkmenistan.

The Bank regularly reports to foreign investors with a description of the reasons for non-compliance with the exposure to a single borrower or group of borrowers. As of December 31, 2019 and 2018 there were no claims from investors.

The Bank obligated by Central bank of Turkmenistan to maintain the following ratios:

- Capital adequacy Tier 1 (H1.1) not less than 7%;
- Capital adequacy Tier 2 (H1.2) not less than 10%;
- Current liquidity (H2) not less than 60%;

- Instant liquidity (H3) not less than 35%;
- Common liquidity (H4) not less than 25%;
- Maximum risk exposure on one borrower (H5) maximum 20%;
- Ratio of big loans to capital (H6) not more than 8 times; and
- Usage own funds for buying shares of other legal entities (H8) maximum 25%.

Since the Bank is involved in financing of state programs the Bank has the permission of the regulator to exceed the Maximum risk exposure on one borrower and Ratio of big loans to capital.

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 received from the regulator.

16. SHARE CAPITAL

As at December 31, 2019 and 2018, the Bank is wholly owned by the Government of Turkmenistan. Each year the Bank's share capital is increased by a distribution of profit for the current year based on the decisions of the Management Board of the Bank. As at December 31, 2019 and 2018, share capital amounts to 690,062 thousand manat and 592,508 thousand manat, respectively, and the distribution of profit to equity is 97,554 and 63,118 thousand manat, respectively.

17. CONTINGENT FINANCIAL LIABILITIES

Capital expenditure commitments

As at December 31, 2019 and 2018 the Bank had no capital expenditure commitments.

Loan related commitments, guarantees and other financial contracts

In the normal course of business, the Bank provides its customers a variety of financial instruments that are accounted on off-balance sheet accounts and have different degrees of risk. Nominal or contract value of such obligations as at December 31, 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018 (restated)
Unused part of credit lines	6,260,948	3,623,761
Letters of credit	2,536,681	2,533,968
	8,797,629	6,157,729

Operating lease commitments

In the normal course of business, the Bank leases office facilities and equipment for head office and branches. As at December 31, 2019 and 2018 the Bank had no significant indissoluble operating lease liabilities.

Legal proceedings

As at the reporting date the Bank was not involved in legal proceedings brought against it.

Taxation

The tax legislation of Turkmenistan is subject to varying interpretations and changes.

Management of the Bank believes that the relevant provisions of the legislation have been correctly interpreted by them as of the reporting dates, and the position of the Bank, in terms of tax legislation, will remain stable.

Economic environment

The Bank's principal business activities are within Turkmenistan, as a result of which the Bank's exposure to traditional financial and economic risks is inherent and characteristic of emerging markets. Legal, tax and regulatory legislation continues to improve in terms of clarifications and additions in connection with the development of the country's economy and taking into account the emerging realities.

Recoverability of financial assets

As at December 31, 2019 the Bank's financial assets amounted to 33,744,838 thousand manats (34,821,642 thousand manats as at December 31, 2018). Recoverability of these assets is highly dependent on the effectiveness of fiscal and other measures taken in various countries to achieve economic stability and factors beyond the control of the Bank. Recoverability of financial assets is determined by the Bank on the basis of conditions existing at the reporting date. The Bank's management believes that there is no need at present for additional allowance on financial assets, based on the prevailing circumstances and available information.

Operating environment

In contrast to more developed markets, emerging markets characterized by different risks, including economic, legal and regulatory risks. The future economic direction of Turkmenistan is largely dependent on economic, fiscal and monetary measures, together with legal, regulatory developments.

These financial statements do not include any adjustments that would have been required due resolution of the uncertainty in the future. Possible adjustments may be made to the statements in that period in which necessity of their reflection will become evident, and it will be possible to estimate their numerical values.

18. 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 a Government-related entity, the transactions and balances with other entities controlled by the Government of Turkmenistan are not to be disclosed. The list of related parties of the Bank includes members of the Management Board of the Bank, as well as their close relatives.

In the statement of financial position as at December 31, 2019 and 2018, the following amounts were represented which arose due to transactions with related parties:

	December 31, 2019			December 31, 2018		
	Related party transactions	Average interest rate, %	Total category as per the financial statements caption	Related party transactions	Average interest rate, %	Total category as per the financial statements caption
Assets:						
Loans to customers	6	6.9%	16,581,178	3	7.1%	18,059,250
Liabilities:						
Customer accounts	35	0.0%	16,972,360	38	0.0%	16,757,409

In the statement of profit or loss and other comprehensive income for the years ended December 31, 2019 and 2018 the following amounts were represented which arose due to transactions with related parties:

	For the year ended December 31, 2019		For the year ended December 31, 2018	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Operating expenses: compensation to key management personnel	855	13,439	705	11,178

19. REGULATORY MATTERS

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 to total assets weighted in view of risk.

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

Description of position	Estimate
Cash and balances with the CBT	0%
State debt securities and debt securities of OECD countries	0%
Loans collateralized by government guarantees or gold	0%
Due from banks-members of OECD countries and assets collateralized by guarantees of banks-members of OECD countries	20%
Due from banks for up to 1 year	20%
Debt securities of local entities and local authorities	20%
Loans collateralized by debt securities of local entities	20%
Loans prolonged by the decision of government	20%
Mortgage loans	50%
Loans to customers	100%
Other assets	100%

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

	For the year ended December 31, 2019	For the year ended December 31, 2018 (restated)
Movement in capital		
At the beginning of the year	941,839	811,508
Effect of application of IFRS 9	2,915	-
Total comprehensive income	179,634	130,331
At the end of the year	1,124,388	941,839

	December 31, 2019	December 31, 2018 (restated)
Composition of regulatory capital:		
Tier 1 capital:		
Bank's shareholders' equity	1,104,807	921,633
Less: Investments in banks and associates	(18,376)	(19,019)
	1,086,431	902,614
Tier 2 capital:		
Revaluation reserve	19,581	20,206
	19,581	20,206
Total regulatory capital	1,106,012	922,820
Risk-weighted assets (RWA)	2,194,472	4,136,627

	Actual amount	For Capital Adequacy purposes	Ratio for Capital Adequacy purposes	Minimum Required Ratio
As at December 31, 2019				
Total regulatory capital	1,124,388	1,106,012	50.4%	10%
Tier 1 capital	1,104,807	1,086,431	49.5%	7%
Tier 2 capital	19,581	19,581		
As at December 31, 2018 (restated)				
Total regulatory capital	941,839	922,820	22.3%	10%
Tier 1 capital	921,633	902,614	21.8%	7%
Tier 2 capital	20,206	20,206		

20. 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 shareholders through the optimization of the debt and equity balance.

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

The Management 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.

21. 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 exposures;
- 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 processed 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 Management Board. 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 quarterly or more frequent reviews.

Bank has elaborated ECL estimation models consisting of three main exposure segments that are different depending on type of counterparty as well as risk profile of the exposure. This on the other hand implies approaches used to estimate risk parameters, while keeping overall ECL calculation concept unchanged for all three segments. Those segments are:

1. Exposures to banks including debt securities issued by banks ("Banks");

2. Exposures to corporates including loans issued the Bank, long-term receivables from corporate clients and state-owned entities ("Corporates");

3. Loans to retail clients.

Staging

According to IFRS 9, the portfolio is divided into the following buckets:

Stage 1: performing exposures for which there is no significant deterioration in credit quality.

Stage 2: performing exposures for which credit risk has increased significantly since initial recognition.

Stage 3: exposures in default.

Staging criteria

At every reporting date, stage allocation is performed in the order presented below. Bank takes a multifactor and holistic approach in the credit risk analysis so potential deterioration can be captured relatively early. This means the assessment is made using all available information, both qualitative and quantitative (SICR):

1. Default definition

Assets meeting default definition (see below) are classified to Stage 3. Default definition covers both delinquency criteria as well as unlikeliness to pay:

a. Delinquency for corporates: more than 90 days past due of a loan.

b. Delinquency for retail clients: more than 90 days past due of a loan with delinquency higher than 400 TMT.

c. Unlikeliness to pay resulting from financial difficulties experienced by the counterparty, like for example:

i. interest accrual suspension/interest rate reduction on a financial asset,

ii. principal write-down,

iii. sale of a financial asset with significant discount to face value,

iv. restructuring that leads to a decrease/write-off/forgiveness of the loan value,

v. increase in the maturity of the financial asset,

vi. transfer of the principal/interest payment on a later period,

vii. lawsuit filing on declaration of the counterparty's bankruptcy in accordance with the legislation of Turkmenistan,

viii. lawsuit filing performed by the counterparty on bankruptcy declaration.

For corporates as well as retail portfolio default definition is based on loan level. However market practice is

that for corporate portfolios, default definition is on client level, because when one loan is past due, it usually means that customer has liquidity problems and another loan will be past due soon. Another market practice is that for "Specialized lending" portfolios, default definition on loan level might be applied, because delays are caused mainly due to problems with the investment not with the whole customer. Because of the structure of the Bank's portfolio and the fact that if one loan is past due, the probability that another loan of the same customer will be delinquent soon is low.

2. Significant increase in credit risk

a. Banks: assets delinquent by more than 7 days due to credit risk related reasons and no more than 90 days or with external rating of CCC+ are classified to Stage 2.

b. Corporates: assets delinquent by more than 30 days and no more than 90 days or marked by Bank as are non-standard classified to Stage 2.

c. Corporates: loans with one of the classification statuses:

- Doubtful,
- Not standard,
- Problematic.

d. Prolonged or restructured loans are kept during the 12 months in probation period and assigned to stage 2.

e. Retail clients: overdue payment no more than 400 TMT or marked by Bank classified to Stage 2.

Stage transfer rules

Apart from POCI which cannot change its stage during life of the instrument, all other exposure can migrate freely between Stages. So exposure can deteriorate, i.e. migrate from Stage 1 to Stage 2 or Stage 1 to Stage 3 directly (though such situations should be rare), but also can cure, i.e. migrate from Stage 3 upwards. In curing process the following probation periods are used:

1. Exposure defaulted and not-restructured: exposure is kept in Stage 3 until all default criteria are lifted.

Exposure can cure and migrate to Stage 2 if no default criteria are observed within a period of consecutive 3 months.

If no other Stage 2 criteria are triggered within further period of consecutive 3 months exposure is reallocated to Stage 1.

2. Exposure defaulted and restructured: exposure is kept in Stage 3 until all default criteria are lifted, but for a minimum period of 12 months after restructuring date. Exposure can cure and migrate to Stage 2 if no default criteria are observed within this 12 month period.

If no other Stage 2 criteria are triggered within further period of consecutive 3 months exposure is reallocated to Stage 1.

Decision on stage allocation

Given unique character of each exposure of the Bank in corporate portfolio, final decision on stage allocation is made by Authorized body involving structural divisions overseeing the financial instruments, risk management specialists and other interested parties. Based on the above listed criteria authorized body prepares analysis of each past due and non-performing financial instrument along with recommendation on final stage allocation and relevant justification. Once approved, same stage allocation is used consistently within given quarter and can be changed through Authorized body decision in subsequent period.

Probability of default

There are three requirements to be addressed when estimating PD for IFRS 9 purposes:

1. Lifetime perspective: PD needs to take into account life of a given facility and its stage.

2. Forward-looking view through inclusion of macro impact and other external factors: IFRS 9 provisions should be forward-looking. Thus, when it comes to risk parameters, they should reflect expectations of future outlook not just replicate historical experience (unless expectation for future are in line with historically observed behaviors).

3. Transfer from TTC (through the cycle) to PIT (point in time) character: though, not explicitly set out in IFRS 9 standard, it is commonly required for parameters to reflect the latest risk experience to be connected with macroeconomic impact (as point 2).

Generally, there are two main approaches used for lifetime PD calculation:

1. Based on external migration matrices used for Sovereigns, Banks as well as subsidiaries of the Bank and corporate clients having external rating assessment.

2. Based on internal rating: for corporate clients not having external rating information.

Both assume that current rating is the key driver for lifetime risk profile of a given instrument. Remaining approaches are addressing specific portfolios that are unique in terms of risk profile and availability of historical information.

PD – Banks
Migration matrices are today one of the most popular tools in credit risk measurement and, after some modifications, may be applied for IFRS 9 purposes. Based on the migration matrices, one can construct PD curve conditional on current rating covering the lifetime horizon. The approach may be based on either internal or external migration matrices. If more than one rating assessment is available then "second best" approach is being used.
One year transition matrix (describing probability of migrations of an obligor among different rating grades) is multiplied by itself to derive a multi-year time horizon. The number of times the matrix is multiplied with itself reflects the number of years of the time horizon. The default probability is then derived from the last column of the transition matrix.

$$\begin{bmatrix} P(A \to A) & \cdots & P(A \to Z) | P(D^A) \\ \vdots & \ddots & \vdots \\ P(Z \to A) & \cdots & P(Z \to Z) | P(D^Z) \end{bmatrix}^n = \begin{bmatrix} P(A \to A)_n & \cdots & CPD_n^A \\ \vdots & \ddots & \vdots \\ P(Z \to A)_n & \cdots & CPD_n^Z \end{bmatrix}$$

where:
$(A \to Z)$ – probability of migrating from rating A to rating Z over given period (e.g. year);
$(A \to Z)n$ – probability of migrating from rating A to rating Z over n periods (e.g. n years);
P(D^A) – probability of migrating from rating A to default over given period;
CPDn^A – cumulative probability of default from A to default over n periods.

The algorithm of the lifetime PD calculation based on migration matrix is as follows:

1. Remove the effect of rating withdrawals during the one-year period by proportionally allocating the "not rated" (NR) category migration probability to rated categories. Consequently, one-year migration probability values to all rating grades aside from NR category have to constitute 100%.
2. Raise the above matrix to the n-th power, where n refers to the length of the time horizon (lifetime).
3. Determine the cumulative, one – year default rate according to the external migration matrix.
4. Convert CPDn^X (cumulative probability of default from X rating over n periods) to MPDn^X (marginal probability of default from X rating over n periods).

One-year migration matrix is an estimate of one-year probability of migration of the Banks from one rating grade to the other one within one-year period.

Empirical cumulative PD is transformed to marginal PD using the following equation:

$$MPD_t = \begin{cases} CPD_t & t = 1 \\ 1 - \dfrac{1 - CPD_t}{1 - CPD_{t-1}} & t > 1 \end{cases}$$

Lifetime PD calculation for banks is prepared using external migration matrix data; second best approach to rating selection.

However:
1) Migration matrices as for financial institutions are used;
2) For those banks that do not have external rating, BBB+ rating was mapped.

Default data on financial institutions is very limited and available only on global level (split into developed/emerging markets or geographical regions is usually not publicly available). Therefore, long term global information is used to derive lifetime PD curves as:

1. There are no valid benchmarks for Turkmenistan (e.g. Eurasian region) that would be publicly available. Therefore, using global long term benchmarks is still more reliable solution than relying on the most default data that could be impacted by defaults observed in particularly affected countries (e.g. mostly US) or type of entities (most of default are non-bank-related).
2. 2008-2010 financial crisis questioned reliability of external ratings as a valid market indicator. As a consequence, agencies pay a lot of attention so current ratings reflect the most recent situation of a particular obligor, which is visible in change of rating structure over time in the last years.

To make sure that IFRS9 provisions reflect the most recent economic conditions of the obligor, the Bank does monitoring of banks being Bank's counterparties. In case of potential difficulties the Bank can manually downgrade given obligor to any level below its current rating, subject to prior approval by by Authorized body.
As a result, obligor is assigned "worse" lifetime PD curve which translates into higher level of provisions and potential allocation from Stage 1 to Stage 2

.

PD – Corporates

First considered PD estimation method for Corporates was migration matrix on Bank data. However due to low number of observations and low number of defaults, the estimations derived from migration matrix would be unreliable. Therefore PD estimation method for low default portfolio is the final estimation method. The method proposed by Katja Pluto and Dirk Tasche1 might be applied for portfolios with none or very few defaults. To differentiate risk in the portfolio, it is worth to divide the loans into few buckets (e.g. by rating class or DPD bucket). However in this case, where the number of loans is also low, the number of loans for each bucket was too low for modelling purposes. It was finally decided to calculate one parameter for whole portfolio.
To this end, binomial distribution is being used. One is looking for such probability of a given event (default) that with confidence level of 50% would produce observed amount of historical defaults from all historically observed cases. Formally it can be written as:

$$1 - 50\% = \sum_{k=0}^{n} \binom{N}{k} p^k (1-p)^{N-k}$$

where:
n – number of defaults;
N – number of all issued instruments multiplied by the period length (in years) of how long they were performing until the calculation date (so "loan-years");
k – index of summation;
p – probability of being defaulted.

As we are looking for 1 year PD in this portfolio, every observation is weighted by the amount of years it exists in the portfolio in performing status. Therefore correlation over time is not considered. The number of years is the number of started years. The loan is taken into calculation if existed at least two times in the data.

Such PD is assumed to be constant over life of the instrument and is being applied consistently to all cases in Corporate portfolio (so MPD is fixed over lifetime). Because ECL calculation for consecutive months, the annual
MPD is transformed into monthly MPD:

$$MPD_t^{1M} = 1 - (1 - MPD_t^{12M})^{\frac{1}{12}}$$

PD – Retail

The historical data for retail portfolio are not available without undue cost and effort. Therefore taking into account the materiality of the portfolio which is low (0.01% of the whole portfolio), the PD estimation is derived based on the most recent data.

Additionally in the most recent data, only one loan was delinquent above 400 TMT. Because the information about days past due is not available without undue cost and effort, it is assumed that the loan is past due from 90 days and loan is classified as stage 3.

The Bank has informed development team that the number of past due loans is very low. Therefore the same as for Corporates, the PD estimation method is Pluto-Tasche approach. Due to problem with the data availability, simplified approach is made and the full payments during the last 12 months are omitted (i.e. the loans only from the most recent snapshot are taken). The assumption should be immaterial.

Loss Given Default

LGD – Banks
LGD rate for banks is identified on the level of 71.9% which represents LGD rate on subordinated bonds issued by financial institutions according to the research conducted by Moody's2.
This is conservative assumption based on the fact that low priority of the TFEB's placements in Banks as better reflected by subordinated instruments than regular senior unsecured lines.

LGD – Corporates
As mentioned in the PD – Corporates section, the Corporates portfolio has low number of default. Therefore LGD estimation on such data would be unreliable and external data might be used. Benchmark of LGD comes from Moody's research performed for project finance loans in Asia3. LGD is identified on the level of 21.8%.

LGD – Retail
Similar to the above, the retail portfolio is considered as low default portfolio. Only one loan is defaulted in the available dataset. Therefore reliable LGD could not be derived from the data. During the discussions with the business experts, it was verified that retail loans have strong security and in case of any specific situation, the loan is paid by the warrantors. Therefore LGD is set at the minimum level of 2%. The assumption should be verified if more defaults will exist in the future.

Exposure at Default
The final risk parameter essential for ECL calculation is exposure value. Under IFRS 9 this needs to be calculated for every future period until contractual maturity date. It means that until that date for each individual exposure expected EAD is calculated using:
1. Contractual maturity;
2. Contractual repayment scheme.

Then, for every month end between current reporting date and exposure maturity expected EAD is calculated using contractual repayment scheme.

Then, EAD for Corporates and Retail is calculated for each exposure according to the formula below:

$$EAD_{t,e} = \begin{cases} GBV_{t,e} - \sum_{t=1}^{t} installment\ amount_t + CCF \cdot OffBalance & if\ date_{t,e} < (\max(date_e)\ in\ repayment\ schedule) \\ 0 & if\ date_{t,e} > (\max(date_e)\ in\ repayment\ schedule) \end{cases}$$

If maturity date or repayment schedule is not available, fixed remaining maturity of 12 months is used.

$$EAD_{t,e} = \begin{cases} \sum_{t=1}^{t} \frac{\left(\sum GBV_{t,e}\right)}{12} + CCF \cdot OffBalance & if\ date_{t,e} < (\max(date_e)\ in\ repayment\ schedule) \\ 0 & if\ date_{t,e} > (\max(date_e)\ in\ repayment\ schedule) \end{cases}$$

$GBVt$, - is the gross book value under IFRS 9 standard
$installment\ amountt$ – installment amount in month t
CCF – credit conversion factor, 100% for open credit lines and 0% for the rest.
$OffBalance$ - undrawn amount (off balance amount)

In other words, between current reporting date and next principal repayment in contractual repayment scheme EAD does not change and equals current gross book value. Then, EAD is decreased to contractual principal payments to reach either on maturity date or when contractual principal payments are finished (if happens before contractual maturity).
Such approach uses reasonable assumption that amount of interest accrued as at each month end will decrease proportionally to outstanding principal.

At the end of this step, EAD value is available for each exposure, starting from current reporting date up to their contractual maturity.

EAD for Banks is constant over time and equal to gross book value.

Forward looking approach

One of key requirement of IFRS 9 is inclusion of forward-looking components in calculation of ECL. Usually, this is interpreted as necessity to adjust the estimates of credit risk levels to the expected macroeconomic conditions. Due to limited amount of defaults, the macroeconomic function is not calculated.

Expected Credit Loss calculation

Final ECL part simply consumes risk parameter and staging criteria described above. The formula is based on binomial-tree assuming that in each reporting period exposures can either go into default or non-default state.

This classification impact only calculation horizon (ECL is calculated always as lifetime) but does not change the parameters. In other words, exposure is treated as if it was allocated to Stage 2 or Stage 3 (depending on default flag), however all parameters are calculated as described in previous section.

Formally, ECL is calculated for every exposure as:

$$ECL_e(stage) = \sum_{t=0}^{T_e(stage)} MPD_{t,e} \cdot \left(1 - CPD_{t-1,e}\right) \cdot LGD_{t,e} \cdot EAD_{t,e} \cdot DF_{t,e}$$

Where:
$DFt,$ – discount factor calculated as:

$$DF_{t,e} = \frac{1}{(1 + NIR_{annual})^{t/12}}$$

MPD are already scaled from annual to monthly horizon using the following transformation:

$$monthly\ MPD = 1 - (1 - annual\ MPD)^{\frac{1}{12}}$$

Based on such MPD, CPD curve is calculated and expressed also on a monthly basis.
Expression:

$$MPD_{t,e} \cdot \left(1 - CPD_{t-1,e}\right)$$

accounts for conditionality of default event.

Namely, Bank calculates total ECL as a sum of partial ECLs for each month-long period over selected horizon (12 months of lifetime depending on stage). Partial ECL reflects risk of default in this period, however also conditional on survival up to this moment. For example, ECL for exposure in 2 months from now is a product of:

- Probability of default of a given exposure in 2nd month (MPD_(2,e))
- Provided the exposure did not default (survived) first month (1-CPD_(1,e)).

If exposure is allocated to Stage 1, the sum above is executed for minimum of 12 months (1 year or 12 months) and months to maturity of a given exposure. In other words, ECL is calculated up to 1 year or maturity, whichever is shorter.
For exposures allocated to Stage 2, this sum always covers period (number of months) from current reporting date up to maturity.

For Stage 3 exposures, amount of provisions is calculated on individual basis. This is driven by unique character of each exposure (counterparty, usually substantial amount, purpose of the loan and loan conditions).

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.

Maximum Exposure

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.

	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral**	**2019 Net exposure after offset and collateral**
Cash and cash equivalents	6,150,984	-	6,150,984	-	6,150,984
Due from banks	10,851,581	-	10,851,581	-	10,851,581
Loans to customers	16,581,178	-	16,581,178	(16,581,178)	-
Investments	127,467	-	127,467	-	127,467
Other assets	33,628	-	33,628	-	33,628

	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral**	**2018 Net exposure after offset and collateral (restated)**
Cash and cash equivalents	5,999,833	-	5,999,833	-	5,999,833
Due from banks	10,599,340	-	10,599,340	-	10,599,340
Loans to customers	18,059,250	-	18,059,250	(18,059,046)	204
Investments	122,269	-	122,269	-	122,269
Other assets	40,950	-	40,950	-	40,950

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. 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**	**2019 Total**
Cash and cash equivalents	-	-	-	-	-	6,150,984	6,150,984
Due from banks	-	-	8,696,252	1,245,234	-	910,095	10,851,581
Loans to customers	-	-	-	-	-	16,581,178	16,581,178
Investments	-	15,692	-	-	-	111,775	127,467
Other assets	-	-	-	-	-	33,628	33,628

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Credit rating not assigned**	**2018 Total (restated)**
Cash and cash equivalents	-	-	-	-	-	5,999,833	5,999,833
Due from banks	-	-	9,925,800	-	673,499	41	10,599,340
Loans to customers						18,059,250	18,059,250
Investments	-	11,018	-	-	-	111,251	122,269
Other assets	-	-	-	-	-	40,950	40,950

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:

		Financial assets past due but not impaired					
	Current not impaired assets	**Less than 3 months**	**3 - 6 months**	**6 months - 1 year**	**More than 1 year**	**Impaired financial assets**	**December 31, 2019 Total**
ASSETS:							
Cash and cash equivalents	6,140,509	-	-	-	-	10,475	6,150,984
Due from banks	10,840,845	-	-	-	-	10,736	10,851,581
Loans to customers	16,235,442	-	-	-	-	345,736	16,581,178
Investments	127,467	-	-	-	-	-	127,467
Other assets	33,628	-	-	-	-	-	33,628

	Current not impaired assets	Financial assets past due but not impaired: Less than 3 months	3 - 6 months	6 months - 1 year	More than 1 year	Impaired financial assets	December 31, 2018 Total (restated)
ASSETS:							
Cash and cash equivalents	5,999,833	-	-	-	-	-	5,999,833
Due from banks	10,599,340	-	-	-	-	-	10,599,340
Loans to customers	17,765,522	-	-	-	-	293,728	18,059,250
Investments	122,269	-	-	-	-	-	122,269
Other assets	40,950	-	-	-	-	-	40,950

Geographical concentration

Risk management 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 assets and liabilities is set out below:

	Turkmenistan	OECD countries	Other	December 31, 2019 Total:
FINANCIAL ASSETS:				
Cash and cash equivalents	6,150,984	-	-	6,150,984
Due from banks	909,504	9,939,934	2,143	10,851,581
Loans to customers	16,581,178	-	-	16,581,178
Investments	111,775	15,692	-	127,467
Other assets	33,628	-	-	33,628
TOTAL FINANCIAL ASSETS	23,787,069	9,955,626	2,143	33,744,838
FINANCIAL LIABILITIES:				
Due to banks	628,510	-	11,217	639,727
Customer accounts	16,972,360	-	-	16,972,360
Loans received from banks and other financial institutions	-	14,500,882	639,094	15,139,976
Other liabilities	19,647	-	-	19,647
TOTAL FINANCIAL LIABILITIES:	17,620,517	14,500,882	650,311	32,771,710
Net position	6,166,552	(4,545,256)	(648,168)	973,127

	Turkmenistan	OECD countries	Other	December 31, 2018 Total: (restated)
FINANCIAL ASSETS:				
Cash and cash equivalents	5,999,833	-	-	5,999,833
Due from banks	671,684	9,924,750	2,906	10,599,340
Loans to customers	18,059,250	-	-	18,059,250
Investments	111,251	11,018	-	122,269
Other assets	40,950	-	-	40,950
TOTAL FINANCIAL ASSETS	24,882,968	9,935,768	2,906	34,821,642

FINANCIAL LIABILITIES:				
Due to banks	459,275	-	35,072	494,347
Customer accounts	16,757,409	-	-	16,757,409
Loans received from banks and other financial institutions	-	16,032,100	722,422	16,754,522
Other liabilities	31,971	-	-	31,971
TOTAL FINANCIAL LIABILITIES:	17,248,655	16,032,100	757,494	34,038,249
Net position	7,634,313	(6,096,332)	(754,588)	783,393

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	Maturity undefined	December 31, 2019 Total
FINANCIAL ASSETS:								
Due from banks	2.37%	308,069	6,012,551	3,556,267	260,000	407,400	-	10,544,287
Loans to customers	4.36%	629,472	1,469,799	1,461,021	9,664,814	3,356,072	-	16,581,178
Investments	5.00%	5,209	-	105,000	-	-	-	110,209
Total financial assets, interest bearing		942,750	7,482,350	5,122,288	9,924,814	3,763,472	-	27,235,674
Cash and cash equivalents		6,150,984	-	-	-	-	-	6,150,984
Due from banks		307,294	-	-	-	-	-	307,294
Investments		-	-	-	-	-	17,258	17,258
Other assets		-	245	16,329	17,054	-	-	33,628
TOTAL FINANCIAL ASSETS		7,401,028	7,482,595	5,138,617	9,941,868	3,763,472	17,258	33,744,838
FINANCIAL LIABILITIES:								
Due to banks	2.46%	27,513	68,376	265,678	247,402	575	-	609,544
Customer accounts	1.93%	167,249	316	63,527	32,882	451	-	264,425
Loans received from banks and other financial institutions	3.69%	270,321	1,292,548	1,292,548	9,244,977	3,039,582		15,139,976
Total financial liabilities, interest bearing		465,083	1,361,240	1,621,753	9,525,261	3,040,608	-	16,013,945
Due to banks		30,183	-	-	-	-	-	30,183
Customer accounts		16,707,935	-	-	-	-	-	16,707,935
Other liabilities		2,008	1,115	16,524	-	-	-	19,647
TOTAL FINANCIAL LIABILITIES:		17,205,209	1,362,355	1,638,277	9,525,261	3,040,608	-	32,771,710
Difference between financial assets and liabilities		(9,804,181)	6,120,240	3,500,340	416,607	722,864	17,258	
Difference between interest bearing financial assets and liabilities		477,667	6,121,110	3,500,535	399,553	722,864	-	

	Weighted average rate	Less than 1 month	1-3 months	3 months - 1 year	1 year - 5 years	More than 5 years	Maturity undefined	December 31, 2018 Total (restated)
FINANCIAL ASSETS:								
Due from banks	3.59%	8,152,266	52,500	150,000	345,000	-	-	8,699,766
Loans to customers	4.64%	431,855	1,045,357	2,342,377	10,992,205	3,247,456	-	18,059,250
Investments	5.00%	4,044	-	95,000	10,000	-	-	109,044
Total financial assets, interest bearing		8,588,166	1,097,857	2,587,377	11,347,205	3,247,456	-	26,868,061
Cash and cash equivalents		5,999,833	-	-	-	-	-	5,999,833
Due from banks		1,899,574	-	-	-	-	-	1,899,574
Investments		-	-	-	-	-	13,225	13,225
Other assets		-	39,848	-	-	-	1,102	40,950
					-			
TOTAL FINANCIAL ASSETS		16,487,573	1,137,705	2,587,377	11,347,205	3,247,456	14,327	34,821,642
FINANCIAL LIABILITIES:								
Due to banks	2.43%	-	-	-	262,519	167,352	64,476	494,347
Customer accounts	1.71%	106,391	-	-	158,201	-	-	264,592
Loans received from banks and other financial institutions	4.59%	1,529	1,040,283	1,951,530	9,889,666	3,871,514	-	16,754,522
Total financial liabilities, interest bearing		107,920	1,040,283	1,951,530	10,310,386	4,038,866	64,476	17,513,461
Due to banks		-	-	-	-	-	-	-
Customer accounts		16,492,817	-	-	-	-	-	16,492,817
Other liabilities		-	30,867	-	-	-	1,104	31,971
TOTAL FINANCIAL LIABILITIES:		16,600,737	1,071,150	1,951,530	10,310,386	4,038,866	65,580	34,038,249
Difference between financial assets and liabilities		(113,164)	66,555	635,847	1,036,819	(791,410)	(51,253)	
Difference between interest bearing financial assets and liabilities		8,480,246	57,574	635,847	1,036,819	(791,410)	(64,476)	

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, 2019 and 2018 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, 2019 Total
FINANCIAL LIABILITIES:							
Due to banks	2.46%	28,787	70,740	275,228	261,534	575	636,864
Customer accounts	1.93%	16,875,347	632	64,316	33,433	572	16,974,300
Loans received from banks and other financial institutions	3.69%	333,980	1,392,582	1,709,782	11,027,989	3,421,231	17,885,564
Other liabilities		2,008	1,115	16,524	-	-	19,647
TOTAL FINANCIAL LIABILITIES:		17,240,122	1,465,069	2,065,850	11,322,956	3,422,378	35,516,375

	Weighted average rate	Less than 1 month	1 - 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	December 31, 2018 Total (restated)
FINANCIAL LIABILITIES:							
Due to banks	2.43%	3,876	5,947	19,388	323,683	207,537	560,431
Customer accounts	1.71%	16,600,056	1,112	3,058	163,610	-	16,767,836
Loans received from banks and other financial institutions	4.59%	-	1,378,089	3,321,224	3,783,798	14,572,048	23,055,159
Other liabilities		-	31,971	-	-	-	31,971
TOTAL FINANCIAL LIABILITIES:		16,603,932	1,417,119	3,343,670	4,271,091	14,779,585	40,415,397

Market risk

Market risk includes risk of changes in interest rates, currency risk and other price risks faced by the Bank. In 2019 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.

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.

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

	Manat	USD	EUR	Japan Yen	Chinese Yuan	Other	December 31, 2019 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	2,265,845	3,875,281	9,091	-	-	767	6,150,984
Due from banks	752,400	10,094,678	1,131	1,062	-	2,310	10,851,581
Loans to customers	691,981	11,835,765	1,798,550	1,626,955	627,927	-	16,581,178
Investments	111,775	15,692	-	-	-	-	127,467
Other assets	16,547	16,798	-	-	283	-	33,628
TOTAL FINANCIAL ASSETS	3,838,548	25,838,214	1,808,772	1,628,017	628,210	3,077	33,744,838
FINANCIAL LIABILITIES:							
Due to banks	472,777	19,500	146,533	-	-	917	639,727
Customer accounts	2,506,492	14,459,871	3,913	-	-	2,084	16,972,360
Loans received from banks and other financial institutions	-	11,419,565	1,521,711	1,562,132	636,568	-	15,139,976
Other liabilities	3,110	13	-	16,524	-	-	19,647
TOTAL FINANCIAL LIABILITIES:	2,982,379	25,898,949	1,672,157	1,578,656	636,568	3,001	32,771,710
	856,169	(60,735)	136,615	49,361	(8,358)	76	

	Manat	USD	EUR	Japan Yen	Chinese Yuan	Other	December 31, 2018 Total (restated)
FINANCIAL ASSETS:							
Cash and cash equivalents	2,341,202	3,623,198	31,891	4	8	3,530	5,999,833
Due from banks	494,390	10,090,531	10,674	712	-	3,033	10,599,340
Loans to customers	492,483	13,337,407	1,530,992	2,127,543	570,825	-	18,059,250
Investments	111,251	11,018	-	-	-	-	122,269
Other assets	883	40,067	-	-	-	-	40,950
TOTAL FINANCIAL ASSETS	3,440,209	27,102,221	1,573,557	2,128,259	570,833	6,563	34,821,642
FINANCIAL LIABILITIES:							
Due to banks	326,594	7,000	160,753	-	-	-	494,347
Customer accounts	2,389,765	14,315,429	50,589	-	-	1,626	16,757,409
Loans received from banks and other financial institutions	-	12,837,369	1,362,862	1,857,067	697,224	-	16,754,522
Other liabilities	30,735	1,236	-	-	-	-	31,971
TOTAL FINANCIAL LIABILITIES:	2,747,094	27,161,034	1,574,204	1,857,067	697,224	1,626	34,038,249
	693,115	(58,813)	(647)	271,192	(126,391)	4,937	

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, 2019:

	Valued at amortized cost	Valued at fair value through profit and loss	Valued at fair value through OCI	Total carrying amount	Fair value
FINANCIAL ASSETS:					
Cash and cash equivalents	6,150,984	-	-	6,150,984	6,150,984
Due from banks	10,851,581	-	-	10,851,581	10,851,581
Loans to customers	16,581,178	-	-	16,581,178	16,581,178
Investments	110,209	17,258	-	127,467	127,467
Other assets	33,628	-	-	33,628	33,628
TOTAL FINANCIAL ASSETS	33,727,580	17,258	-	33,744,838	33,744,838
FINANCIAL LIABILITIES:					
Due to banks	639,727	-	-	639,727	639,727
Customer accounts	16,972,360	-	-	16,972,360	16,972,360
Loans received from banks and other financial institutions	15,139,976	-	-	15,139,976	15,139,976
Other liabilities	19,647	-	-	19,647	19,647
TOTAL FINANCIAL LIABILITIES:	32,771,710	-	-	32,771,710	32,771,710

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2018:

	Valued at amortized cost	Valued at fair value through profit and loss	Valued at fair value through OCI	Total carrying amount	Fair value
FINANCIAL ASSETS:					
Cash and cash equivalents	5,999,833	-	-	5,999,833	5,999,833
Due from banks	10,599,340	-	-	10,599,340	10,599,340
Loans to customers	18,059,250	-	-	18,059,250	18,059,250
Investments	109,045	13,224	-	122,269	122,269
Other assets	40,950	-	-	40,950	40,950
TOTAL FINANCIAL ASSETS	34,808,418	13,224	-	34,821,642	34,821,642
FINANCIAL LIABILITIES:					
Due to banks	494,347	-	-	494,347	494,347
Customer accounts	16,757,409	-	-	16,757,409	16,757,409
Loans received from banks and other financial institutions	16,754,522	-	-	16,754,522	16,754,522
Other liabilities	31,971	-	-	31,971	31,971
TOTAL FINANCIAL LIABILITIES:	34,038,249	-	34,038,249	34,038,249	34,038,249

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, 2019 and 2018, 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, 2019 and 2018. 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, 2019 Total carrying amount
FINANCIAL ASSETS:				
Cash and cash equivalents	6,150,984	-	-	6,150,984
Due from banks	-	10,851,581	-	10,851,581
Loans to customers	-	16,581,178	-	16,581,178
Investments	15,692	111,775	-	127,467
Other assets	-	-	33,628	33,628
TOTAL FINANCIAL ASSETS	6,166,676	27,544,534	33,628	33,744,838
FINANCIAL LIABILITIES:				
Due to banks	-	639,727	-	639,727
Customer accounts	-	16,972,360	-	16,972,360
Loans received from banks and other financial institutions	-	15,139,976	-	15,139,976
Lease liabilities	-	-	19,647	19,647
TOTAL FINANCIAL LIABILITIES:	-	32,752,063	19,647	32,771,710

	Level 1	Level 2	Level 3	December 31, 2018 Total carrying amount (restated)
FINANCIAL ASSETS:				
Cash and cash equivalents	5,999,833	-	-	5,999,833
Due from banks	-	10,599,340	-	10,599,340
Loans to customers	-	18,059,250	-	18,059,250
Investments	11,018	111,251	-	122,269
Other assets	-	-	40,950	40,950
TOTAL FINANCIAL ASSETS	6,010,851	28,769,841	40,950	34,821,642
FINANCIAL LIABILITIES:				
Due to banks	-	494,347	-	494,347
Customer accounts	-	16,757,409	-	16,757,409
Loans received from banks and other financial institutions	-	16,754,522	-	16,754,522
Other liabilities	-	-	31,971	31,971
TOTAL FINANCIAL LIABILITIES:	-	34,006,278	31,971	34,038,249

Currency rate sensitivity

The following table presents a sensitivity analysis of the Bank to 25% increase and decrease of exchange rate in respect to manat in 2019 and 2018. Based on the current economic environment in Turkmenistan, management of the Bank believes that 25% increase and decrease in exchange rate is a realistic change. 25% - a level of sensitivity, which is used internally by banks when reporting foreign currency risk internally to key management personnel of the Bank and is an estimate by management of the Bank. The sensitivity analysis includes only amounts in foreign currency available at the end of the reporting period, where the exchange rate of the ending period is changed by 25% compared to the original exchange rate.

The impact on net income based on the nominal value of a financial asset as at December 31, 2019 and 2018 is presented below:

	December 31, 2019		December 31, 2018 (restated)	
	Official exchange rate, +25%	Official exchange rate, -25%	Official exchange rate, +25%	Official exchange rate, -25%
Effect on profit or loss	26,551	(26,551)	85,598	(85,598)

Limitations of sensitivity analysis

The above tables demonstrate the effect of changes based on the main clause while other assumptions remain unchanged. In fact, there is a connection between the assumptions and other factors. It should also be noted that the sensitivity has nonlinear character so should not be interpolated or extrapolated from these results.

Sensitivity analysis does not take into account that the Bank actively manages the assets and liabilities. In addition, the Bank's financial position may be subject to change depending on changes in the market. For example, the strategy of the Bank's financial risk management aims to manage exposure to market fluctuations. In the case of sudden adverse price fluctuations in the securities market leadership can refer to such methods as selling investments, changing investment portfolio, as well as other methods of protection. Consequently, changes in assumptions may not have influence on the commitment and significant impact on the assets recorded on the balance sheet at market price. In this situation, different methods of valuation of assets and liabilities may lead to volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements with a view to the disclosure of potential risks, which represent only the Bank's forecast of the upcoming changes in the market that cannot be predicted with any certainty.

22. SEGMENT REPORTING

The Bank`s activity applies only to commercial lending and are concentrated in Turkmenistan

23. EVENTS AFTER THE REPORTING DATE

At the beginning of 2020, a new coronavirus began to spread very rapidly in the world, which led to the fact that the World Health Organization (WHO) announced the beginning of a pandemic in March 2020. The measures taken by many countries to contain the spread of the coronavirus pose significant operational difficulties for many companies and have a significant impact on global financial markets. The World Health Organization has officially confirmed the absence of coronavirus in Turkmenistan. From the beginning of the spread of the virus in the world, the state took all the necessary steps to prevent infection. Despite this negative impact of COVID-19 on the global economy and major financial markets, it could affect the financial position and results of the Bank's operations for the year ending December 31, 2020.

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”.

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