STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

Financial Statements
for the year ended December 31, 2023

and independent auditors' report

bakertilly

THE 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, 2023

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, is made with a view to distinguish the respective responsibilities of management and those of the independent auditor in relation to the financial statements of the 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, 2023, the results of its operations, cash flows and changes in shareholders' capital for the year then ended, in accordance with International Financial Reporting Standards (the "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; 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, 2023 were approved and authorized for issue on July 29, 2024 by the Management of the Bank.

On behalf of the Management of the Bank:

Rahymberdi Jepbarov
Chairman of the Management Board

July 29, 2024
Ashgabat, Turkmenistan

Enejan Myradova
Chief Accountant

July 29, 2024
Ashgabat, Turkmenistan

Kyrgyz Republic Office
103, Ibraimov street, BC
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of the State Bank for Foreign Economic Affairs of Turkmenistan (the "Bank"), which comprise the statement of financial position as at December 31, 2023, 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, 2023, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (the "IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (the "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 (the "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**
Allowance for expected credit losses (ECL) on loans issued	
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 impairment, 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 impairment 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 loans issued and assessed models for determining credit risk parameters and quality of data used. For this purpose, we used specialist in the field. We also reviewed the quality of the historical data used in the calculation of credit risk parameters.
Classification credits stages of impairment is the result of the interplay of several factors: - The comparison between the probability of default to	In addition, we evaluated the design and operating effectiveness of internal controls implemented by management in the calculation

the date of issue and the date of the financial statements;
- Limits established by law, for example the 90 days overdue;
- 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 allowance for expected credit losses in value of 271,355 thousand manat for consumer and corporate loans granted on the gross amount of 11,938,258 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.

of allowance for expected credit losses, 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, 2023 and 2022 the amount of loans received from banks and other financial institutions was equal to 8,967,130 thousand manat and 11,155,760 thousand manat, respectively.

The Bank is obliged to comply with a number of financial covenants related to its lending activity. 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.

We have as well assessed the relevancy of the Management's judgments and the correctness of the presentation of financial statements and its disclosures.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the fact that as at December 31, 2023 and 2022, the Bank had on its balance investment property in form of precious coins with a total value of 22,511 thousand manat, estimated at fair value through the statement of profit or loss and other comprehensive income. In 2022, based on the letter from the Central Bank of Turkmenistan and Foundation of Precious Metals and Stones of Turkmenistan, the Bank revalued these coins for a total amount of 14,487 thousand manats.

Management of the Bank confirms that due to the lack of an active market for similar assets in Turkmenistan, the fair value of these coins is determined on the basis of prices provided by authorized government organizations.

Other matters

The financial statements of the Bank for the year ended December 31, 2022 were audited by another auditor, who expressed an unmodified opinion on the financial statements issued on June 6, 2023.

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.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.

Kubat Alymkulov

Certified accountant, FCCA
Certificate of auditor of the Kyrgyz Republic
No. A 0069 dated October 19, 2009
Audit Partner,
Director

Baker Tilly Bishkek LLC is registered in the "Register of audit organizations admitted for audit of public Interest entities and large entrepreneurship entities" of the Unified state register of auditors, audit organizations, professional audit associations. Individual registration number 2101510 dated August 9, 2023

July 29, 2024
Bishkek, Kyrgyz Republic

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023
(In thousands of Turkmen manat)

	Notes	For the year ended December 31, 2023	For the year ended December 31, 2022
Interest income	5	1,489,969	1,013,055
Interest expenses	5	(729,043)	(671,228)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS		760,926	341,827
Accrual of allowance for expected credit losses on interest bearing assets	6	(62,818)	407
NET INTEREST INCOME		698,108	342,234
Commission income	7	86,090	65,839
Commission expenses	7	(18,993)	(17,658)
Net gain/(loss) from investments		4,410	(747)
Accrual of allowance for expected credit losses on other assets	6	(5,850)	1,275
Net gain/(loss) on foreign exchange operations		104	(356)
Other expenses, net		(19,364)	(1,991)
NET NON-INTEREST INCOME		46,397	46,362
Operating expenses		(43,435)	(40,061)
PROFIT BEFORE INCOME TAX		701,070	348,535
Income tax	8	(461,816)	(139,796)
NET PROFIT FOR THE YEAR		239,254	208,739
Other comprehensive income		855	705
TOTAL COMPREHENSIVE INCOME		240,109	209,444

On behalf of the Management of the Bank:

Rahymberdi Jepbarov
Chairman of the Management Board

July 29, 2024
Ashgabat, Turkmenistan

Enejan Myradova
Chief Accountant

July 29, 2024
Ashgabat, Turkmenistan

The notes on pages 12-52 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, 2023
(In thousands of Turkmen manat)

	Notes	December 31, 2023	December 31, 2022
ASSETS			
Cash and cash equivalents	9	3,383,566	4,146,257
Due from banks	10	16,176,662	10,152,479
Loans to customers	11	11,666,903	13,832,947
Investments	12	193,765	177,310
Property, plant and equipment		53,395	53,456
Intangible assets		9,218	7,414
Investment property		23,984	24,038
Advances paid for capital construction		61,889	61,706
Deferred tax asset	8	172,310	139,311
Other assets		181,806	130,095
TOTAL ASSETS		31,923,498	28,725,013
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Due to banks	13	488,567	376,587
Customer accounts	14	20,228,582	15,298,287
Loans received from banks and other financial institutions	15	8,967,130	11,155,760
Current tax liabilities		237,808	121,438
Other liabilities		5,545	16,329
		29,927,632	26,968,401
SHAREHOLDERS' EQUITY:			
Share capital	16	1,134,956	1,014,457
Revaluation reserve		16,785	17,640
Retained earnings		844,125	724,515
		1,995,866	1,756,612
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		31,923,498	28,725,013

On behalf of the Management of the Bank:

Rahymberdi Jepbarov
Chairman of the Management Board

July 29, 2024
Ashgabat, Turkmenistan

Enejan Myradova
Chief Accountant

July 29, 2024
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, 2023
(In thousands of Turkmen manat)

	Note	Share capital	Revaluation reserve	Retained earnings	Total equity
Balance at January 1, 2022	16	899,167	18,345	630,361	1,547,873
Profit for the year		-	-	208,739	208,739
Change in revaluation reserve		-	(705)	705	-
Total comprehensive income		-	(705)	209,444	208,739
Transactions with owners					
Share capital increase	16	115,290	-	(115,290)	-
Total transactions with owners		115,290	-	(115,290)	-
Balance at December 31, 2022	16	1,014,457	17,640	724,515	1,756,612
Profit for the year		-	-	239,254	239,254
Change in revaluation reserve			(855)	855	-
Total comprehensive income		-	(855)	240,109	239,254
Transactions with owners					
Share capital increase	16	120,499	-	(120,499)	-
Total transactions with owners		120,499	-	(120,499)	-
Balance at December 31, 2023	16	1,134,956	16,785	844,125	1,995,866

On behalf of the Management of the Bank:

Rahymberdi Jepbarov
Chairman of the Management Board

July 29, 2024
Ashgabat, Turkmenistan

Enejan Myradova
Chief Accountant

July 29, 2024
Ashgabat, Turkmenistan

The notes on pages 12-52 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 CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(In thousands of Turkmen manat)

	Notes	For the year ended December 31, 2023	For the year ended December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax expenses		701,070	348,535
Adjustments for:			
Net interest income	5	(760,926)	(341,827)
Accrual of allowance for expected credit losses	6	68,668	(1,682)
Depreciation of property, plant and equipment and intangible assets		6,844	7,388
Gain on revaluation of precious metals		-	(14,487)
Net gain from investments		(4,486)	747
Depreciation of investment property		54	27
Foreign exchange differences		(104)	356
Cash flows from operating activities before changes in operating assets and liabilities		11,120	(943)
Changes in operating assets and liabilities			
(Increase)/decrease in due from banks		(38,370)	(183,633)
Decrease in loans to customers		2,084,717	2,015,808
(Increase)/decrease in obligatory reserve in CBT		(371,708)	51,874
(Increase)/decrease in other assets		(22,741)	6,055
Increase in due to banks		117,405	191,427
Increase in customer accounts		4,942,020	705,795
Decrease in other liabilities		(16,229)	(12,452)
Cash inflow from operating activities before taxation and interest		6,706,214	2,773,931
Interest received		1,576,927	1,036,901
Interest paid		(750,952)	(591,740)
Income tax paid		(415,215)	(184,437)
Net cash inflow from operating activities		7,116,974	3,034,655

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023
(In thousands of Turkmen manat)

	Notes	For the year ended December 31, 2023	For the year ended December 31, 2022
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangible assets		(5,279)	(2,476)
Proceeds from premises built under state program		(3,308)	8,145
Purchase of premises built under state program		(183)	(2,611)
Investments in equity	12	(11,969)	(28,000)
Return/(purchase) of government bonds		-	110,208
Net cash (outflow)/inflow from investing activities		(20,739)	85,266
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of loans received	15	(3,089,288)	(3,081,850)
Proceeds from loans received	15	882,935	1,549,291
Net cash outflow from financing activities		(2,206,353)	(1,532,559)
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,889,882	1,587,362
Effect of exchange rate changes on the balance of cash held in foreign currencies		(3,648)	(6,284)
CASH AND CASH EQUIVALENTS, at the beginning of the year	9	12,962,017	11,380,939
CASH AND CASH EQUIVALENTS, at the end of the year	9	17,848,251	12,962,017

On behalf of the Management of the Bank:

Rahymberdi Jepbarov
Chairman of the Management Board

July 29, 2024
Ashgabat, Turkmenistan

Enejan Myradova
Chief Accountant

July 29, 2024
Ashgabat, Turkmenistan

The notes on pages 12-52 form an integral part of the financial statements. The Independent Auditors' Report is on pages 3-6.

1. BACKGROUND

Organization and operations

The State Bank for Foreign Economic Affairs of Turkmenistan ("the Bank") was established on January 27, 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, 744036.

As at December 31, 2023 and 2022 the Bank had three branches.

As at December 31, 2023 and 2022 the Bank had 365 and 355 employees, respectively.

The Bank is entirely owned by the Government of Turkmenistan.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

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

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 (the "TMT" or "manat"), 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

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.

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

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

Financial assets measured at amortized cost:

a) The objective of the Bank's business model is to hold the financial asset to collect the contractual cash flows.

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

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

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

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

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

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

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

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

Even if an instrument meets the two requirements to be measured at amortized cost or FVOCI, the Bank has an option to designate, at initial recognition, a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising 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

The Bank owns shares in some companies, but does not have significant influence or control over these organizations, regardless of its share in the capital. Cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. The Bank believes that recording investments at historical cost best reflects the fair value of the investment if the equity interest is disposed of.

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. 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 cashflows 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 expected credit losses 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 allowance expected credit losses 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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from the Central Bank of Turkmenistan, 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 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 expected credit losses.

Derivatives

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

Loans to customers

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

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

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 expected credit 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 expected credit losses of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Allowance for expected credit losses (ECL)

The Bank recognizes on loans issued an estimated allowance for expected credit losses (hereinafter “ECL”). The Bank recognizes such losses at each reporting date by assessing whether there is objective evidence of impairment. The model for assessing impairment of financial assets provides the assessment of expected credit losses by dividing them into those that are expected within 12 months and those that are expected throughout the life of the financial asset.

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

Stage 1: The expected credit loss that would arise in case of a possible default within 12 months from the reporting date;

Stage 2: The expected credit loss that would arise in case of a possible default during the maximum contractual period during which the lender is exposed to the credit risk;

Stage 3: The expected credit loss that would arise in the event of a possible default during the maximum contractual period, while interest income calculated at the effective rate to the book value less any provision created.

Estimates of expected credit losses reflect an objective calculation of a probability-weighted value that is determined by evaluating a range of possible outcomes.

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

(a) an unbiased and probability-weighted amount determined by evaluating the range of possible outcomes;
(b) time value of money; and
(c) reasonable and supportable information about past events, current and forecasted future economic conditions available at the reporting date without undue cost or effort.

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

- debt investment securities that are defined as having low credit risk at the reporting date; and
- other financial instruments (other than accounts receivable) for which the credit risk has not significantly increased since their initial recognition.

The Bank considers a debt security to be of low credit risk if its credit rating meets the internationally recognized definition of “investment grade”.

Expected credit losses during the 12-month period represent part of the expected credit losses on a financial instrument as a result of the defaults expected within 12 months after the reporting date.

Expected credit losses are a probability-weighted estimate of credit losses. They are evaluated as follows:

- for financial assets that are not impaired credit assets at the reporting date: as the present value of all lost cash on them (i.e. the difference between the cash flows that the entity is contractually expected to receive and that are due to the entity and the cash flows that the bank expects to receive);
- or financial assets that are impaired credit assets at the reporting date: as the difference between the gross book value and the present value of estimated future cash flows;
- for commitments to provide loans: as the present value of the difference between the contractual cash flows that are due to the Bank in the case of the issuance a loan and the cash flows that the Bank expects to receive; and
- for financial guarantee contracts: as expected payments that will reimburse the holder for losses, less any amounts that the Bank expects to receive in the recovery procedure.

The change in expected credit losses is charged to profit using an allowance account. The assets shown in the balance sheet are reduced by the amount of expected credit losses. The factors that the Bank evaluates when determining whether there is objective evidence that an impairment loss has occurred, includes information on the liquidity of the debtor or issuer, their solvency, business and financial risks, levels and trends of defaults on similar financial assets, national and local forecast economic trends and conditions and the fair value of collateral and guarantees. These and other factors, individually or in combination, represent significant objective evidence for the recognition of an expected credit loss of a financial asset or group of financial assets.

Refer to Note 21 for more details on how expected credit losses on loans are estimated.

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 office equipment	5-25%
Vehicles	10-20%
Other	4-15%

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

Intangible assets

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

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

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

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

Intangible assets	10-50%

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

Investment property

The Bank's investment property is represented in the form of precious coins, including gold coins. The IFRS does not provide clear guidance on accounting of gold and silver coins. In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, the Management decided to apply approach proposed by US GAAP to treat the recognition and measurement as Investment property in accordance with IAS 40 “Investment property”. Revaluation of value occurs on the basis of a letter from the Central Bank of Turkmenistan. Due to the lack of an active market for similar assets in Turkmenistan, it is difficult to reliably estimate the fair value of investment property.

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 expenses in the current period is determined taking into account the amount of taxable profit received for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it does not include items of income or expenses that were taxable or deductible for tax purposes in other years, and also excludes non-taxable items. The accrual of the Bank's income tax expenses in the current year is carried out using the tax rates introduced during 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

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

Contingent liabilities

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

Share capital

Share capital is recognized at initial cost.

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 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

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 interest rate that discounts estimated future cash payments or receipts over the expected life of a financial asset or financial liability exactly to the gross carrying amount of the financial asset or to the amortized cost of the financial liability.

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

Recognition of commission income and expenses

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

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

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 the statement of profit or loss and other comprehensive income as a net loss or gain on foreign exchange transactions.

Exchange rate

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

	December 31, 2023	December 31, 2022
US Dollar / Turkmen manat	3.5000	3.5000
Euro / Turkmen manat	3.8675	3.7300
Russian Ruble / Turkmen manat	0.0247	0.0266
	0.4922	0.5041

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 losses on loans and accounts receivable

The Bank regularly reviews its loans for impairment. The Bank's allowances for expected credit losses of loans are created to recognize incurred and expected impairment losses in its portfolio of loans, receivables and other financial instruments. The Bank considers accounting estimates related to the allowance for expected credit loss of loans and receivables, a key source of uncertainty of estimation due to the fact that (i) they are highly susceptible to changes from period to period, since assumptions on future indicators of non-fulfillment of obligations and the assessment of potential losses related to impaired loans and receivables are based on recent performance results, 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. Similarly, the Bank evaluates changes in future cash flows based on past work experience, customer behavior in the past, available data indicating a negative change in the status of debt repayment by borrowers in the group, as well as national or local forecast economic conditions that correlate with non-fulfillment of obligations on assets in this group. Management uses estimates based on historical experience of losses on assets with credit risk characteristics and objective impairment data similar to those in this group of loans. The Bank uses Management's assessment to adjust the available data on a group of loans to reflect current circumstances that are 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 expected credit losses are 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 allowance for expected credit losses.

Application of new and revised international financial reporting standards

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, 2023:

- Amendments to IAS 1 Presentation of Financial Statements, which issued non-mandatory practical recommendations for making judgments about materiality required in making decisions about disclosures in financial statements.
- Amendments to IAS 12 Income Taxes, which addresses the accounting for deferred tax in certain transactions.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which clarify the relationship between accounting policies and accounting estimates by specifying that the

Bank develops accounting estimates to achieve the objective set out in the accounting policies.
- The new standard IFRS 17 Insurance Contracts is effective for annual periods beginning on or after January 1, 2023. The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

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

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, 2023 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 IAS 7 “Statement of cash flows” and IFRS 7 “Financial instruments: Disclosures” which will introduce targeted disclosure requirements that will enhance transparency of supplier finance arrangements and their effects on Bank’s liabilities and cash flows.
- Amendments to IAS 1 “Presentation of Financial Statements” requires to classify liabilities as current or noncurrent based on Bank’s rights to defer settlement for at least 12 months which must exist and have a substance as at the reporting date. Only covenants with which a company must comply on or before the reporting date may affect this right.
- Amendments to IFRS 16 “Leases” which introduce a new model for accounting of variable payments and will require seller-lessees to reassess and possibly restate sale-leaseback transactions.
- Introduction of IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information” and IFRS S2 “Climate-related Disclosures” which provide a framework for Banks to report on all sustainability-related topics across the areas of governance, strategy and risk management. These standards are also designed to disclose information that is expected to affect the assessments that investors make about Bank’s future cash flows.

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

4. RECLASSIFICATION

The financial statements for the year ended December 31, 2022 have been reclassified to conform them to the presentation of the financial statements for the year ended December 31, 2023. The presentation of these financial statements provides a better understanding of the financial position of the Bank. These changes did not result in changes to financial results in the financial statements for the year ended December 31, 2022.

The effect of the classification changes on the financial statements for the year ended December 31, 2022 is as follows:

	Initially recognized in financial statements as at December 31, 2022	**Reclassification**	**December 31, 2022 (reclassified)**
Items of statement of financial position			
Other assets	152,606	(22,511)	130,095
Investment property	1,527	22,511	24,038

5. NET INTEREST INCOME

Interest income and expenses of the Bank for the years ended December 31, 2023 and 2022 are as follows:

	For the year ended December 31, 2023	For the year ended December 31, 2022
Interest income includes:		
Interest income from financial assets measured at amortised cost:		
On loans to customers	872,034	824,641
On due from banks	617,856	188,322
On investments	79	92
	1,489,969	1,013,055
Interest expenses include:		
Interest expenses on financial liabilities measured at amortised cost:		
On loans received from banks and other financial institutions	710,294	656,175
On term deposits	13,159	10,776
On due to banks	5,590	4,277
	729,043	671,228
Net interest income before accrual of allowance for expected credit losses on interest bearing assets	760,926	341,827

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 and cash equivalents	ECL on due from banks
as at December 31, 2021	208,944	7,191	13,640
Recovery	(407)	(752)	(523)
as at December 31, 2022	208,537	6,439	13,117
Accrual/(recovery)	62,818	7,569	(1,719)
as at December 31, 2023	271,355	14,008	11,398

7. COMMISSION INCOME AND EXPENSES

Commission income and expenses of the Bank for the years ended December 31, 2023 and 2022 are as follows:

	For the year ended December 31, 2023	For the year ended December 31, 2022
Commission income		
Commission income from dealing operations	26,707	19,040
Commission income from international payments	16,746	10,819
Commission income from letters of credit and bank guarantees	14,989	6,933
Commission income from cash operations	13,827	11,905
Commission income from travel cheques and cards	9,006	10,012
Commission income from unused credit lines	3,536	6,017
Commission income from customer accounts maintenance	1,279	1,113
	86,090	65,839

	For the year ended December 31, 2023	For the year ended December 31, 2022
Commission expenses		
Commission expenses for travel cheques and cards	8,605	6,467
Commission expenses for money transfers and interbank operations	6,661	5,293
Other commission expenses	3,727	5,898
	18,993	17,658

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, 2023 income tax rate for government owned legal entities was equal to 52.1% 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, 2023 and 2022 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, 2023	For the year ended December 31, 2022
Current income tax expenses	494,815	252,387
Deferred income tax economy	(32,999)	(112,591)
Income tax expense	461,816	139,796

Reconciliation of tax and accounting profits for the years ended December 31, 2023 and 2022 is as follows:

	For the year ended December 31, 2023	Effective rate (%)	For the year ended December 31, 2022	Effective rate (%)
Profit before taxes	701,070		348,535	
Tax at statutory rate	365,257	52.1%	181,587	52.1%
Tax effect on permanent differences	96,559	14%	(41,791)	-12.0%
Income tax expense	461,816		139,796	

Tax effect from temporary differences as at December 31, 2023 and 2022 is presented below:

	December 31, 2023	December 31, 2022
Deferred income tax assets:		
Allowance for expected credit losses on loans to customers and other assets	296,760	228,093
Interest income	116,652	96,641
Total deferred income tax asset	413,412	324,734
Deferred income tax liabilities:		
Interest income	-	-
Total deferred income tax liabilities	-	-
Net deferred income tax assets	413,412	324,734
Net deferred income tax assets at statutory tax rate	215,388	169,186
	(43,078)	(29,875)
	172,310	139,311

Temporary differences between tax accounting and current financial statement as well as tax losses lead to deferred tax assets as at December 31, 2023 and 2022 as a result of the following:

	December 31, 2022	Recognized in the statement of profit and loss	Recognized in capital	December 31, 2023
Temporary differences:				
Allowance for expected credit losses on loans to customers	118,836	35,776	-	154,612
Interest income	50,350	10,426	-	60,776
Allowance for deferred tax impairment	(29,875)	(13,203)	-	(43,078)
Total deferred income tax assets	139,311	32,999	-	172,310

	December 31, 2021	Recognized in the statement of profit and loss	Recognized in capital	December 31, 2022
Temporary differences:				
Allowance for expected credit losses on loans to customers	44,192	74,644	-	118,836
Interest income	(17,472)	67,822	-	50,350
Allowance for deferred tax impairment	-	(29,875)	-	(29,875)
Total deferred income tax assets	26,720	112,591	-	139,311

9. CASH AND CASH EQUIVALENTS

As at December 31, 2023 and 2022 cash and cash equivalents of the Bank consisted of the following:

	December 31, 2023	December 31, 2022
Current account with the Central Bank of Turkmenistan	3,343,989	3,906,755
Cash and cash equivalents	53,585	245,941
Less allowance for expected credit losses	(14,008)	(6,439)
	3,383,566	4,146,257

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

	December 31, 2023	December 31, 2022
Cash and cash equivalents and account with the Central Bank of Turkmenistan	3,383,566	4,146,257
Correspondent accounts with other banks (Note 10)	15,130,057	9,109,424
Less obligatory reserves at Central Bank of Turkmenistan	(665,372)	(293,664)
	17,848,251	12,962,017

10. DUE FROM BANKS

As at December 31, 2023 and 2022 due from banks consisted of the following:

	December 31, 2023	December 31, 2022
Deposits	10,164,874	7,903,936
Correspondent accounts with other banks	5,539,901	1,835,253
Loans to banks and other financial institutions	483,285	426,407
Less allowance for expected credit losses	(11,398)	(13,117)
	16,176,662	10,152,479

11. LOANS TO CUSTOMERS

As at December 31, 2023 and 2022 loans to customers consisted of the following:

	December 31, 2023	December 31, 2022
Loans to corporate customers	11,383,840	13,461,503
Small business loans	234,026	219,165
Consumer loans	465,677	590,459
Unamortized portion of front-end commission on loans to customers	(145,286)	(229,643)
Less allowance for expected credit losses	(271,355)	(208,537)
	11,666,903	13,832,947

Breakdown of loans by sectors is presented below:

	December 31, 2023	December 31, 2022
Oil and gas	2,660,965	4,750,578
Energy	2,825,018	2,554,435
Transport	2,241,777	1,881,570
Chemicals	1,972,447	2,492,501
Agriculture and water	898,919	1,071,341
Individuals	465,677	590,459
Communication	250,151	114,606
Textiles	43,519	5,886
Other	725,071	809,751
Unamortized portion of front-end commission on loans to customers	(145,286)	(229,643)
Less: allowance for expected credit losses	(271,355)	(208,537)
	11,666,903	13,832,947

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

	December 31, 2023	December 31, 2022
Loans collaterised by government guarantees	11,264,645	13,163,649
Loans collaterised by real estate	219,759	12,415
Other	599,140	1,095,063
Unamortized portion of front-end commission on loans to customers	(145,286)	(229,643)
Less: allowance for expected credit losses	(271,355)	(208,537)
	11,666,903	13,832,947

Information on the quality of loans to customers measured at amortized cost as at December 31, 2023 and 2022 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				
Assets recognized during the period	3,297,633	-	-	3,297,633
Transfer to Stage 1	80,509	(80,509)	-	-
Transfer to Stage 2	(147,119)	147,119	-	-
Transfer to Stage 3	(3,165)	-	3,165	-
Assets repaid (except write-offs)	(5,510,749)	(462)	(58,715)	(5,569,926)
December 31, 2022	13,096,424	565,567	18,677	13,680,668
Assets recognized during the period	459,992	-	-	459,992
Transfer to Stage 1	171,819	(171,819)	-	-
Transfer to Stage 2	(1,316,579)	1,366,579	-	50,000
Transfer to Stage 3	(71,379)	(315,860)	387,239	-
Assets repaid (except write-offs)	(2,619,215)	(6,907)	(2,749)	(2,628,871)
December 31, 2023	9,721,062	1,437,560	403,167	11,561,789
Consumer loans				
January 1, 2022	153,576	-	-	153,576
Assets recognized during the period	491,988	-	-	491,988
				-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid (except write-offs)	(55,105)	-	-	(55,105)
December 31, 2022	590,459	-	-	590,459
Assets recognized during the period	147,990	-	-	147,990
				-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Assets repaid (except write-offs)	(216,694)	-	-	(216,694)
December 31, 2023	521,755	-	-	521,755
Total loans to customers	10,242,817	1,437,560	403,167	12,083,544

12. INVESTMENTS

As at December 31, 2023 and 2022 investments of the Bank are presented as follows:

	December 31, 2023		December 31, 2022	
	Share/interest rate	**Amount**	**Share/interest rate**	**Amount**
Investment securities at fair value through other comprehensive income:				
SE Tolkun	20%	63,612	20%	51,643
SE Yelken	12%	33,400	12%	33,400
CJSC "Turkmen Investment Company"	50%	28,000	50%	28,000
SE Hazar	9.50%	21,475	9.50%	21,475
SE Shapak	20%	16,826	20%	16,826
SE Hazyna	11.70%	6,221	11.70%	6,221
Senagat JSCB	1.30%	1,814	1.30%	1,814
Investment securities at fair value through profit or losses:				
Shares of Visa Inc.		22,359		17,873
Investment securities at amortized cost:				
Government bonds		45		45
Other		13		13
		193,765		177,310

Although the Bank owns significant interests in certain companies, the financial statements of these companies are not consolidated and the equity method is not used. This is due to the fact that the Bank has neither significant influence nor control in these organizations. Because there is no active market and transactions for these and similar assets in Turkmenistan market, recording investments at historical cost is the most appropriate accounting method.

13. DUE TO BANKS

As at December 31, 2023 and 2022 due to banks of the Bank consisted of the following:

	December 31, 2023	December 31, 2022
Loans from banks and other financial institutions	341,229	328,728
Correspondent accounts of other banks	147,338	47,859
	488,567	376,587

14. CUSTOMER ACCOUNTS

As at December 31, 2023 and 2022 customer accounts of the Bank consisted of the following:

	December 31, 2023	December 31, 2022
Repayable on demand	18,927,064	14,299,045
Term deposits	1,301,518	999,242
	20,228,582	15,298,287

As at December 31, 2023 and 2022 accrued interest included in customer accounts amounted to 13,745 thousand manat and 11,643 thousand manat, respectively.

As at December 31, 2023 and 2022 customer accounts amounting to 1,003,630 thousand manat and 646,560 thousand manat, respectively, were held as security against letters of credit issued and other transactions related to contingent obligations.

As at December 31, 2023 and 2022 the Bank had 4 customers whose balances individually exceed 10% of equity. These balances as at December 31, 2023 and 2022 were equal to 15,235,410 thousand manat and 12,486,064 thousand manat, respectively.

15. LOANS RECEIVED

As at December 31, 2023 and 2022 loans received consisted of the following:

	Currency	Date of issue - maturity	December 31, 2023	December 31, 2022
Japan Bank for International Cooperation (JBIC)	USD	17.10.2014-15.06.2028	1,825,569	2,232,771
Japan Bank for International Cooperation (JBIC)	USD	24.10.2014-15.06.2028	1,031,802	1,261,091
Japan Bank for International Cooperation (JBIC)	JPY	24.10.2014-15.06.2028	416,841	547,608
Japan Bank for International Cooperation (JBIC)	USD	12.07.2018-15.08.2029	364,428	393,137
Japan Bank for International Cooperation (JBIC)	EUR	24.10.2014-15.06.2028	297,435	350,607
Japan Bank for International Cooperation (JBIC)	JPY	12.07.2018-15.08.2029	218,047	252,776
Japan Bank for International Cooperation (JBIC)	USD	29.05.2014-15.03.2024	215,956	647,879
Japan Bank for International Cooperation (JBIC)	JPY	12.09.2013-15.06.2026	92,117	138,617
Japan International Cooperation Agency (JICA)	JPY	24.12.1997-20.12.2027	21,599	29,020
Asian Development Bank	USD	15.11.2018-15.05.2043	1,638,235	1,294,813
ING Bnak N.V., Japan	USD	30.12.2021-30.12.2028	140,057	42,495
ING Bnak N.V., Japan	USD	31.08.2023-31.12.2027	10,593	-
ING Bnak N.V., Japan	USD	30.12.2021 - 30.12.2028	70,026	67,942
Exim Bank, Korea	USD	29.05.2014-15.03.2024	541,132	1,613,692
Commerzbank, Frankfurt	EUR	11.08.2019-30.09.2027	298,246	355,907
Commerzbank, Frankfurt	EUR	23.02.2018-30.06.2026	146,542	197,828
Commerzbank, Frankfurt	EUR	08.05.2017-06.10.2025	96,621	138,991
Commerzbank & Credit Suisse, Zurich	USD	15.08.2019-15.082027	425,977	539,639
Deree Credit LPC, USA	USD	15.03.2021 - 15.11.2027	300,594	346,019
Deree Credit LPC, USA	USD	11.09.2019-15.10.2025	173,432	290,127
Deree Credit LPC, USA	USD	20.10.2022 - 08.12.2028	145,099	-
Deree Credit LPC, USA	USD	02.07.2020-15.05.2025	77,267	110,270
Deree Credit LPC, USA	USD	06.02.2020-15.11.2025	42,619	63,905
Deree Credit LPC, USA	USD	17.03.2017-05.06.2023	-	19,394

Exim Bank, China	CNY	13.12.2009-21.09.2029	74,435	88,941
Exim Bank, China	CNY	23.12.2009-21.09.2029	70,068	83,722
Exim Bank, China	CNY	23.12.2009-21.03.2030	62,333	73,661
Exim Bank, China	CNY	23.11.2011-21.03.2032	49,344	56,483
Exim Bank, China	CNY	01.03.2007-21.03.2027	30,650	40,360
Exim Bank, China	CNY	01.03.2007-21.03.2027	20,438	26,912
Exim Bank, China	CNY	13.12.2006-13.12.2026	20,162	26,630
Exim Bank, China	CNY	18.05.2006-21.03.2026	15,717	22,537
Abu Dhabi Development Fund	AED	10.06.2021 - 10.12.2035	57,607	-
Abu Dhabi Development Fund	AED	10.06.2021 - 10.12.2035	6,571	-
OPEC International Development Fund	USD	01.05.2020-11.09.2025	14,440	22,688
China Development Bank	CNY	16.07.2005-31.12.2024	2,461	5,041
Intesa Sanpaolo S.p.A.	EUR	14.03.2022 - 24.03.2028	40,935	-
Banca Monte dei Paschi di Siena S.p.A., Italy	EUR	18.03.2022-18.03.2029	38,860	1,045
Accrued commission expenses			526	480
Unamortized portion of front-end commission on loans received			(127,650)	(227,268)
			8,967,130	11,155,760

As at December 31, 2023 and 2022 accrued interest included in loans received from banks and other financial institutions amounted to 78,903 thousand manat and 96,869 thousand manat, respectively.

As at December 31, 2023 and 2022, the Bank had to comply with financial covenants set by agent agreement for the amount of 10,000 thousand USD with Islamic Corporation for the Development of the Private Sector and the loan agreement for the amount of 10,000 thousand USD with the OPEC Fund for International Development.

The Bank regularly reports to Islamic Corporation for the Development of the Private Sector and the OPEC Fund for International Development. As of December 31, 2023 and 2022 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.

Movements in the loans received is presented as follows:

	Loans received
as at December 31, 2021	12,921,390
Proceeds	1,549,291
Accrual of interest	656,175
Principal payments	(3,081,850)
Interest payments	(566,999)
Foreign exchange difference	(322,247)
as at December 31, 2022	11,155,760
Proceeds	858,983
Accrual of interest	710,294
Principal payments	(3,089,288)
Interest payments	(598,749)
Foreign exchange difference	(69,870)
as at December 31, 2023	8,967,130

16. SHARE CAPITAL

As at December 31, 2023 and 2022, 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, 2023 and 2022, share capital amounts to 1,134,956 thousand manat and 1,014,457 thousand manat, respectively, and the distribution of profit to equity is 120,499 and 115,290 thousand manat, respectively.

17. CONTINGENT LIABILITIES

Credit related commitments

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, 2023 and 2022 was as follows:

	December 31, 2023	December 31, 2022
Unused part of credit lines	1,084,008	1,936,859
Letters of credit	1,588,714	938,044
	2,672,722	2,874,903

Commitments under operating leases agreement

As at December 31, 2023 and 2022 the Bank had no active agreements under operating lease.

Capital expenditure commitments

As at December 31, 2023 and 2022 the Bank had no capital expenditure commitments.

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 frequent 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, 2023 the Bank's financial assets amounted to 31,319,337 thousand manats (28,205,961 thousand manats as at December 31, 2022). The recoverability of these financial assets highly depends on the effectiveness of fiscal and other measures taken in various countries to achieve economic stability, i.e. 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. Based on the existing circumstances and available information, the Bank's management believes that there is no need at the moment to create additional provisions for financial assets.

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.

The statement of financial position as at December 31, 2023 and 2022 includes the following amounts arising from transactions with related parties:

	December 31, 2023			December 31, 2022		
	Related party transactions	**Weighted average rate**	**Total category as per the financial statements caption**	**Related party transactions**	**Weighted average rate**	**Total category as per the financial statements caption**
Assets:						
Loans to customers	115	10.00%	11,666,903	121	10.00%	13,832,947

The statement of profit or loss and other comprehensive income for the years ended December 31, 2023 and 2022 includes the following amounts arising from transactions with related parties:

	For the year ended December 31, 2023		For the year ended December 31, 2022	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Operating expenses: remuneration to key management personnel	1,339	20,865	1,123	20,438

Nature of related parties is presented as follows:

STATEMENT OF FINANCIAL POSITION	Counterparty	Nature of related parties
Loans to customers	Individuals	Management of the Bank

STATEMENT PF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME	Counterparty	Nature of related parties
Remuneration to key management personnel	Individuals	Management of the Bank

19. CAPITAL RISK MANAGEMENT

The Bank carries out capital management in order to ensure the continuation of its activities, maximizing profit by optimizing the ratio of borrowed funds and equity.

The Management reviews the capital structure on a regular basis. As a part of this review, the Management considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the management, the Bank corrects the capital structure by additional capitalization of retained earnings, attraction of additional borrowings or payments on existing borrowings.

20. 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, 2023	For the year ended December 31, 2022
Movement in capital		
At the beginning of the year	1,756,612	1,547,873
Net profit for the year	239,254	208,739
At the end of the year	1,995,866	1,756,612

	December 31, 2023	December 31, 2022
Composition of regulatory capital:		
Tier 1 capital:		
Bank's own equity	1,134,956	1,014,457
Retained earnings	844,125	724,515
Less: Net book value of intangible assets	(171,348)	(159,379)
Tier 2 capital:		
Revaluation reserve	16,785	17,640
Total regulatory capital	1,824,518	1,597,233
Risk-weighted assets (RWA)	4,147,504	2,830,149

Bank's capital amount and ratios of adequacy are presented below:

Capital amounts and ratios	Actual amount	For Capital Adequacy purposes	Ratio for Capital Adequacy purposes	Minimum Required Ratio
As at December 31, 2023				
Total capital	1,995,866	1,824,518	44.0%	10%
Tier 1 capital	1,979,081	1,807,733	43.6%	7%
Tier 2 capital	16,785	16,785		
As at December 31, 2022				
Total capital	1,756,612	1,597,233	56.4%	10%
Tier 1 capital	1,738,972	1,579,593	55.8%	7%
Tier 2 capital	17,640	17,640		

As of December 31, 2023 and 2022, the total capital determined for the purposes of calculating capital adequacy consisted of Tier 1 capital.

21. RISK MANAGEMENT POLICIES

Risk management plays an important role in the Bank's activities. The main risks inherent in the Bank's activities include:

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

In order to ensure an effective and efficient risk management policy, the Bank has defined the basic principles of risk management, the main purpose of which is to protect the Bank from existing risks and allow it to achieve the planned indicators. These principles are used by the Bank in managing the following risks:

Credit Risk

The Bank is exposed to credit risk, i.e. the risk that one party to a financial instrument will default on its obligations and, as a result, the other party will incur a financial loss.

Risk management and monitoring is carried out by the Bank's Management. All recommendations on credit processes (restrictions set for borrowers, or amendments to the loan agreement, etc.) are reviewed and approved by the Management. The daily work on risk management is carried out by the loans administration division.

The Bank has developed policies and procedures for credit risk management, including matters on limiting the concentration of the loan portfolio and performing of credit risk monitoring. The Bank's credit policy is reviewed and approved by the Chairman of the Management Board. The Bank grades the levels of credit risk by setting limits to the amount of risk taken in relation to one borrower or a group of borrowers, as well as by sector of the economy. The actual risks are monitored on a daily basis in relation to the established limits.

Exposure to credit risk is monitored on the basis of regular analysis of the ability of borrowers and potential borrowers to meet obligations related to the payment of interest and principal, as well as by changing these credit limits when necessary. Exposure to credit risk is also managed through the receipt of collateral, as well as guarantees issued by legal entities and individuals. Such risks are constantly monitored and analyzed with a frequency of at least once a quarter.

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.

Net exposure after offset and collateral

The Bank’s maximum exposure to credit risk may vary significantly depending on the individual risks inherent in specific financial assets and general market risks.

The following table presents the maximum exposure to credit risk for financial assets and contingent liabilities. For financial assets, the maximum exposure is equal to the book value of these assets, excluding the amount of offset and collateral. For financial guarantees and other contingent liabilities, the maximum exposure of credit risk is the maximum amount that the Bank would have to pay if it required to pay under the guarantee or in case of demand disbursements within existing credit lines.

The value of the collateral is determined on the basis of the fair value on the date of loan issuance and is limited by the amount of debt of a certain loan at the reporting date.

	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral**	**2023 Net exposure after offset and collateral**
Cash and cash equivalents	3,343,989	-	3,343,989	-	3,343,989
Due from banks	16,176,662	-	16,176,662	-	16,176,662
Loans to customers	11,666,903	-	11,666,903	(11,666,903)	-
Investments	193,765	-	193,765	-	193,765
Other assets	67,975	-	67,975	-	67,975

	Maximum exposure	Offset	Net exposure after offset	Collateral	2022 Net exposure after offset and collateral
Cash and cash equivalents	3,906,755	-	4,146,257	-	4,146,257
Due from banks	10,152,479	-	10,152,479	-	10,152,479
Loans to customers	13,832,947	-	13,832,947	(13,832,947)	-
Investments	177,310	-	177,310	-	177,310
Other assets	54,533	-	54,533	-	54,533

In case of non-fulfillment or improper fulfillment by the borrower of credit obligations, the Bank has the right to ensure the fulfillment of these obligations by:

1. joint sale of the pledged assets;
2. acceptance of collateral property into ownership in accordance with the procedure established by law;
3. exercising of the charge on pledged assets through judicial procedures.

When the collateral is sold jointly, the Bank uses the option of concluding a tripartite agreement with the borrower and the buyer. In accordance with this agreement, the buyer's obligations include the repayment of the seller's debt to the Bank; the seller's obligations include the transfer of rights to the property to the buyer; and the Bank's obligations include the acceptance of funds on account of the borrower's debt repayment and the removal of encumbrances from the property.

The Bank exercises the charge on pledged assets through judicial procedures mainly in cases of impossibility or inexpediency of using alternative methods, or in the case when the seizure of the pledged property is necessary in order to protect the rights and interests of the Bank.

Financial assets are classified based on current credit ratings assigned by internationally recognized rating agencies. The highest possible rating is AAA. The investment level of financial assets corresponds to ratings from AAA to BBB. Financial assets with a rating below BBB are classified as speculative level.

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

	AAA	AA	A	BBB	<BBB	Credit rating not assigned	December 31, 2023 Total
Cash and cash equivalents	-	-	-	-	-	3,383,566	3,383,566
Due from banks	-	18,975	15,092,453	37,059	-	1,028,175	16,176,662
Loans to customers	-	-	-	-	-	11,666,903	11,666,903
Investments	-	22,359	-	-	-	171,406	193,765
Other assets	-	-	-	-	-	67,975	67,975

	AAA	AA	A	BBB	<BBB	Credit rating not assigned	December 31, 2022 Total
Cash and cash equivalents	-	-	-	-	-	4,146,257	4,146,257
Due from banks	-	-	5,678,394	-	2,907,417	1,566,668	10,152,479
Loans to customers	-	-	-	-	-	13,832,947	13,832,947
Investments	-	17,873	-	-	-	159,437	177,310
Other assets	-	-	-	-	-	54,533	54,533

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 sector as a whole is exposed to credit risk arising from loans to customers and interbank deposits. Main credit risk exposure of the Bank is concentrated within Turkmenistan. The degree of exposure is constantly monitored in order to ensure compliance with credit limits and credit worthiness in accordance with the risk management policy approved by the Bank.

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 possible losses from changes in the investment climate in Turkmenistan.

Information on the geographical concentration of financial assets and liabilities are presented in the following tables:

	Turkmenistan	OECD countries	Other	December 31, 2023 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	3,383,566	-	-	3,383,566
Due from banks	1,672,904	14,448,657	55,101	16,176,662
Loans to customers	11,666,903	-	-	11,666,903
Investments	171,406	22,359	-	193,765
Other assets	67,975	-	-	67,975
TOTAL FINANCIAL ASSETS	16,962,754	14,471,016	55,101	31,488,871
FINANCIAL LIABILITIES:				
Due to banks	464,775	-	23,792	488,567
Customer accounts	20,228,582	-	-	20,228,582
Loans received	14,440	6,969,034	1,983,656	8,967,130
Other liabilities	3,823	-	-	3,823
TOTAL FINANCIAL LIABILITIES	20,711,620	6,969,034	2,007,448	29,688,102
NET POSITION	(3,748,866)	7,501,982	(1,952,347)	

	Turkmenistan	OECD countries	Other	December 31, 2022 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	4,146,257	-	-	4,146,257
Due from banks	1,637,651	8,493,875	20,953	10,152,479
Loans to customers	13,832,947	-	-	13,832,947
Investments	159,437	17,873	-	177,310
Other assets	54,533	-	-	54,533
TOTAL FINANCIAL ASSETS	19,830,825	8,511,748	20,953	28,363,526
FINANCIAL LIABILITIES:				
Due to banks	352,802	-	23,785	376,587
Customer accounts	15,298,287	-	-	15,298,287
Loans received	-	10,717,692	438,068	11,155,760
Other liabilities	6,987	-	-	6,987
TOTAL FINANCIAL LIABILITIES	15,658,076	10,717,692	461,853	26,837,621
NET POSITION	4,172,749	(2,205,944)	(440,900)	

Liquidity risk

Liquidity risk is the risk of difficulties in obtaining funds to repay obligations upon the actual due date of their payment and meeting the need for funds in the process of lending to customers.

Management controls this type of risk through maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the finance division, which maintains current liquidity at a level sufficient to minimize liquidity risk.

The table below provides an analysis of the 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, 2023 Total
FINANCIAL ASSETS:								
Due from banks	5.3%	7,477,507	2,100,000	-	530,730	519,290		10,627,527
Loans to customers	5.4%	404,731	770,475	303,984	6,362,991	3,824,722		11,666,903
Investments		45	-	-	-	-	-	45
Total financial assets, interest bearing		7,882,283	2,870,475	303,984	6,893,721	4,344,012	-	22,294,475
Cash and cash equivalents		3,383,566	-	-	-	-	-	3,383,566
Due from banks		5,549,135	-	-	-	-	-	5,549,135
Investments		-	-	-	-	-	193,720	193,720
Other assets		10	6,109	30,379	31,477	-	-	67,975
TOTAL FINANCIAL ASSETS		16,814,994	2,876,584	334,363	6,925,198	4,344,012	193,720	31,488,871
FINANCIAL LIABILITIES:								
Due to banks	1.6%	29,243	88,421	204,702	-	-	-	322,366
Customer accounts	4.8%	111,385	148	23,126	762	148,991		284,412
Loans received	5.5%	77,277	1,291,331	1,291,851	4,967,056	1,339,615	-	8,967,130
Total financial liabilities, interest bearing		217,905	1,379,900	1,519,679	4,967,818	1,488,606	-	9,573,908
Due to banks		166,201	-	-	-	-	-	166,201
Customer accounts		19,944,170	-	-	-	-	-	19,944,170
Other liabilities		3,264	472	-	87	-	-	3,823
TOTAL FINANCIAL LIABILITIES		20,331,540	1,380,372	1,519,679	4,967,905	1,488,606	-	29,688,102
Difference between interest bearing financial assets and liabilities		7,664,378	1,490,575	(1,215,695)	1,925,903	2,855,406	-	
Difference between financial assets and liabilities		(3,516,546)	1,496,212	(1,185,316)	1,957,293	2,855,406	193,720	

	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, 2022 Total
FINANCIAL ASSETS:								
Due from banks	2.3%	3,221,414	4,089,716	44,567	726,871	237,027	-	8,319,595
Loans to customers	3.6%	678,543	20	40,295	5,112,501	8,001,588	-	13,832,947
Investments		45	-	-	-	-	-	45
Total financial assets, interest bearing		3,900,002	4,089,736	84,862	5,839,372	8,238,615	-	22,152,587
Cash and cash equivalents		4,146,257	-	-	-	-	-	4,146,257
Due from banks		1,832,884	-	-	-	-	-	1,832,884
Investments		-	-	-	-	-	177,265	177,265
Other assets		2,075	-	25,400	27,058	-	-	54,533
TOTAL FINANCIAL ASSETS		9,881,218	4,089,736	110,262	5,866,430	8,238,615	177,265	28,363,526
FINANCIAL LIABILITIES:								
Due to banks	0.1%	7,003	-	-	317,525	-	-	324,528
Customer accounts	4.3%	135,689	46	59,254	157,095	369	-	352,453
Loans received	4.5%	104,435	-	-	4,455,698	6,595,627	-	11,155,760
Total financial liabilities, interest bearing		247,127	46	59,254	4,930,318	6,595,996	-	11,832,741
Due to banks		52,059	-	-	-	-	-	52,059
Customer accounts		14,945,834	-	-	-	-	-	14,945,834
Other liabilities		2,250	310	4,418	9	-	-	6,987
TOTAL FINANCIAL LIABILITIES		15,247,270	356	63,672	4,930,327	6,595,996	-	26,837,621
Difference between interest bearing financial assets and liabilities		3,652,875	4,089,690	25,608	909,054	1,642,619	-	
Difference between financial assets and liabilities		(5,366,052)	4,089,380	46,590	936,103	1,642,619	177,265	

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.

Further analysis of liquidity risk and interest rate risk 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, 2023 and 2022 for contractual undiscounted cash outflows:

	Weighted average rate	Less than 1 month	1 – 3 months	3 months-1 year	1 year-5 years	Over 5 years	December 31, 2023 Total
FINANCIAL LIABILITIES:							
Due to banks	1.6%	177,030	89,288	208,148	19,516	-	493,982
Customer accounts	4.8%	20,056,484	1,514	29,214	30,722	149,192	20,267,126
Loans received	5.5%	103,905	1,342,870	1,490,459	5,705,570	1,496,386	10,139,190
Other liabilities		3,264	472	-	87	-	3,823
TOTAL FINANCIAL LIABILITIES		20,340,683	1,434,144	1,727,821	5,755,895	1,645,578	30,904,121

	Weighted average rate	Less than 1 month	1 – 3 months	3 months-1 year	1 year-5 years	Over 5 years	December 31, 2022 Total
FINANCIAL LIABILITIES:							
Due to banks	0.06%	55,333	892	9,061	326,479	-	391,765
Customer accounts	4.29%	15,054,643	1,551	65,801	164,217	525	15,286,737
Loans received	4.50%	168,293	102,749	478,920	5,787,151	7,925,176	14,462,289
Other liabilities		2,250	310	4,418	9	-	6,987
TOTAL FINANCIAL LIABILITIES		15,280,519	105,502	558,200	6,277,856	7,925,701	30,147,778

Market risk

Market risk includes interest rate risk, currency risk and other price risks to which the Bank is exposed. In 2023, there were no changes in the composition of these risks and the methods of assessing and managing these 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 the risks of interest rate changes by periodically assessing potential losses that may arise as a result of 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 the interest rate and its influence on the Bank's profitability.

Currency risk is the risk of changes in 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 the exchange rate of national and foreign currencies.

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

	Manat	USD	Euro	Japan Yen	Chinese Yuan	Other	December 31, 2023 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	1,246,400	2,074,735	58,282	2	6	4,141	3,383,566
Due from banks	881,748	14,929,939	308,769	259		55,947	16,176,662
Loans to customers	2,793,817	6,690,545	1,076,215	735,593	370,733	-	11,666,903
Investments	171,406	22,359	-	-		-	193,765
Other assets	18,004	49,080	12	11	-	868	67,975
TOTAL FINANCIAL ASSETS	5,111,375	23,766,658	1,443,278	735,865	370,739	60,956	31,488,871
FINANCIAL LIABILITIES:							
Due to banks	224,653	83,324	170,581	-	-	10,009	488,567
Customer accounts	3,588,210	16,292,187	347,170	-	-	1,015	20,228,582
Loans received	-	6,936,238	873,347	747,874	345,401	64,270	8,967,130
Other liabilities	3,230	593	-	-	-	-	3,823
TOTAL FINANCIAL LIABILITIES	3,816,093	23,312,342	1,391,098	747,874	345,401	75,294	29,688,102
NET POSITION	1,295,282	454,316	52,180	(12,009)	25,338	(14,338)	1,800,769

	Manat	USD	Euro	Japan Yen	Chinese Yuan	Other	December 31, 2022 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	958,069	3,142,153	42,040	2	8	3,985	4,146,257
Due from banks	535,737	9,440,472	164,328	419	-	11,523	10,152,479
Loans to customers	2,294,000	9,033,057	1,114,578	963,067	428,245	-	13,832,947
Investments	159,437	17,873	-	-	-	-	177,310
Other assets	8,893	44,833	15	656	136	-	54,533
TOTAL FINANCIAL ASSETS	3,956,136	21,678,388	1,320,961	964,144	428,389	15,508	28,363,526
FINANCIAL LIABILITIES:							
Due to banks	217,283	12,486	134,152	-	-	12,666	376,587
Customer accounts	2,950,325	12,155,476	192,068	-	-	418	15,298,287
Loans received from banks and other financial institutions	-	8,795,283	973,311	963,118	424,048	-	11,155,760
Other liabilities	2,232	339	4,415	1	-	-	6,987
TOTAL FINANCIAL LIABILITIES	3,169,840	20,963,584	1,303,946	963,119	424,048	13,084	26,837,621
NET POSITION	786,296	714,804	17,015	1,025	4,341	2,424	

Accounting classification and fair values

The table below shows the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2023:

	Measured at amortized cost	Measured at fair value through profit or loss (FVTPL)	Measured at fair value through other comprehensive income (FVTOCI)	Total carrying amount	Fair value
FINANCIAL ASSETS:					
Cash and cash equivalents	3,383,566	-	-	3,383,566	3,383,566
Due from banks	16,176,662	-	-	16,176,662	16,176,662
Loans to customers	11,666,903	-	-	11,666,903	11,666,903
Investments	-	22,359	171,406	193,765	193,765
Other assets	67,975	-	-	67,975	67,975
TOTAL FINANCIAL ASSETS	31,295,106	22,359	171,406	31,488,871	31,488,871
FINANCIAL LIABILITIES:					
Due to banks	488,567	-	-	488,567	488,567
Customer accounts	20,228,582	-	-	20,228,582	20,228,582
Loans received	8,967,130	-	-	8,967,130	8,967,130
Other liabilities	3,823	-	-	3,823	3,823
TOTAL FINANCIAL LIABILITIES	29,688,102	-	-	29,688,102	29,688,102

The table below shows the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2022:

	Measured at amortized cost	Measured at fair value through profit or loss (FVTPL)	Measured at fair value through other comprehensive income (FVTOCI)	Total carrying amount	Fair value
FINANCIAL ASSETS:					
Cash and cash equivalents	4,146,257	-	-	4,146,257	4,146,257
Due from banks	10,152,479	-	-	10,152,479	10,152,479
Loans to customers	13,832,947	-	-	13,832,947	13,832,947
Investments	-	17,873	159,437	177,310	177,310
Other assets	54,533	-	-	54,533	54,533
TOTAL FINANCIAL ASSETS	28,186,216	17,873	159,437	28,363,526	28,363,526

FINANCIAL LIABILITIES:					
Due to banks	376,587	-	-	376,587	376,587
Customer accounts	15,298,287	-	-	15,298,287	15,298,287
Loans received	11,155,760	-	-	11,155,760	11,155,760
Other liabilities	6,987	-	-	6,987	6,987
TOTAL FINANCIAL LIABILITIES	26,837,621	-	-	26,837,621	26,837,621

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 have been received upon the sale of an asset or paid upon the transfer of a liability in an ordinary transaction in the primary (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, it is necessary to apply judgment to determine the fair value, given the current economic situation and the specific risks that characterize the instrument.

As at December 31, 2023 and 2022, 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 - the current value approximately corresponds to the fair value of these financial instruments, since the allowance for doubtful debts is an acceptable estimate of the required discount to reflect credit risk.

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

Long-term liabilities - the present value approximately corresponds to the fair value, since the interest rate of long-term liabilities approximately corresponds to the market rate, with reference to loans with similar credit risk and maturity at the reporting date.

Fair value is determined primarily using market quotations or standard pricing models based on available market inputs, if available, and represent expected future gross cash inflows/outflows. The Bank classifies the fair value of financial instruments in a three-level hierarchy based on the degree of source and observability of the initial data used to assess the fair value of a financial asset or liability as follows:

Level 1	The initial data of Level 1 are quoted prices (uncorrected) in active markets for identical assets or liabilities that the Bank can access at the valuation date.
Level 2	The initial data of Level 2 are inputs that are not quoted prices included in Level 1 and that are directly or indirectly observable for an asset or liability.
Level 3	The initial data of Level 3 are unobservable inputs for an asset or liability.

The initial data of the first level primarily includes financial assets and financial liabilities traded on the stock exchange, while the classification of the second level primarily includes financial assets and financial liabilities, the fair value of which is determined mainly from currency quotations and easily observable quotations. The third-level classification primarily includes financial assets and financial liabilities, the fair value of which results primarily from models that use appropriate market valuations, quality and credit differentials. In an environment where the Bank cannot confirm the fair value using observable market inputs (level three fair value), it is possible that a different valuation model may lead to significantly different estimates of fair value.

In accordance with the Bank's policy, transactions related to trading in financial instruments are executed within the framework of general netting agreements or other fixed-term agreements on the possibility of offsetting balances to/from counterparties in the event of their insolvency or bankruptcy.

The following tables show the fair value of financial assets and financial liabilities as at December 31, 2023 and 2022. 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, 2023**
FINANCIAL ASSETS:				
Cash and cash equivalents	3,383,566	-	-	3,383,566
Due from banks	-	16,176,662	-	16,176,662
Loans to customers	-	11,666,903	-	11,666,903
Investments	22,359	-	171,406	193,765
Other assets	-	-	67,975	67,975
TOTAL FINANCIAL ASSETS	3,405,925	27,843,565	239,381	31,488,871
FINANCIAL LIABILITIES:				
Due to banks	-	488,567	-	488,567
Customer accounts	-	20,228,582	-	20,228,582
Loans received	-	8,967,130	-	8,967,130
Other liabilities	-	-	3,823	3,823
TOTAL FINANCIAL LIABILITIES	-	29,684,279	3,823	29,688,102

	Level 1	**Level 2**	**Level 3**	**December 31, 2022**
FINANCIAL ASSETS:				
Cash and cash equivalents	4,146,257	-	-	4,146,257
Due from banks	-	10,152,479	-	10,152,479
Loans to customers	-	13,832,947	-	13,832,947
Investments	17,873	-	159,437	177,310
Other assets	-	-	54,533	54,533
TOTAL FINANCIAL ASSETS	4,164,130	23,985,426	213,970	28,363,526
FINANCIAL LIABILITIES:				
Due to banks	-	376,587	-	376,587
Customer accounts	-	15,298,287	-	15,298,287
Loans received	-	11,155,760	-	11,155,760
Other liabilities	-	-	6,987	6,987
TOTAL FINANCIAL LIABILITIES	-	26,830,634	6,987	26,837,621

Currency rate sensitivity

The following table presents a sensitivity analysis of the Bank to 10% increase and decrease of exchange rate in respect to manat in 2023 and 2022. Based on the current economic environment in Turkmenistan, management of the Bank believes that 10% increase and decrease in exchange rate is a realistic change. 10% - a level of sensitivity, which is used internally by the Banks when reporting foreign currency risk internally to key management personnel of the Bank and represents an estimate by the

Bank's management of a possible change in exchange rates. The sensitivity analysis includes only the amounts in foreign currency available at the end of the period, where the exchange rate has changed by 10% compared to the original exchange rates.

The impact on net income based on the nominal value of a financial asset as at December 31, 2023 and 2022 is presented below:

	December 31, 2023		December 31, 2022	
	Official exchange rate, +10%	Official exchange rate, -10%	Official exchange rate, +10%	Official exchange rate, -10%
Effect on profit or loss	(6,799)	6,799	2,481	(2,481)

Limitations of sensitivity analysis

The tables above reflect the effect of a change based on the main assumption, while the other assumptions remain unchanged. In fact, there is a connection between assumptions and other factors. It should also be noted that the sensitivity is non-linear, so no interpolation or extrapolation of the results obtained should be carried out.

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 case of sharp negative fluctuations in prices on the securities market, management may apply measures such as selling investments, changing the composition of the 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 sensitivity analysis above include the use of hypothetical market movements in order to disclose potential risk, which represent only the Bank's forecast of upcoming market changes that cannot be predicted with any degree of confidence.

22. SEGMENT REPORTING

The Bank's activities relate exclusively to commercial lending and other banking operations, and are concentrated in Turkmenistan.

23. EVENTS AFTER THE REPORTING DATE

As of the date of issue of these financial statements, no significant events or transactions that should be disclosed in accordance with IAS 10 “Events after the reporting period” have occurred.

Baker Tilly Bishkek LLC trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

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