STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

Financial Statements
and Independent Auditor's Report
for the Year Ended 31 December 2014

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 31 DECEMBER 2014

Management of State Bank for Foreign Economic Affairs of Turkmenistan ("the Bank") is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2014, the financial results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the separate financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate 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 of Turkmenistan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended 31 December 2014 were authorized for issue on 29 May 2015 by the Management Board.

On behalf of the Management Board:

Jepbarov R.J.	**Khangeldyev Zh.**
Chairman of the Board	**Chief Accountant**
29 May 2015	29 May 2015
Ashkhabad, Turkmenistan	Ashkhabad, Turkmenistan

Döwlet daşary ykdysady iş banky * Türkmenistanyň * State Bank for foreign economic affairs of Turkmenistan
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GENERAL ADMINISTRATION

Deloitte.

Deloitte, LLP
36 Al Farabi Ave.,
Almaty, 050059,
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of State Bank for Foreign Economic Affairs of Turkmenistan ("the Bank"), which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As stated in Notes 14 and 15 to the accompanying financial statements, the property revaluation reserve is carried at TMT 26,087 thousand in the statement of financial position and the statement of changes in equity as at 31 December 2014. Management conducted a revaluation of property, plant and equipment in 2012 in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data. We were unable to obtain sufficient appropriate audit evidence about the property revaluation methodology's compliance with the requirements of International Accounting Standard 16 "Property, Plant and Equipment". Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of State Bank for Foreign Economic Affairs of Turkmenistan as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of State Bank for Foreign Economic Affairs of Turkmenistan for the year ended 31 December 2013 were audited by another auditor who expressed a qualified opinion on those statements on 24 June 2014 due to their inability to obtain sufficient appropriate audit evidence on the property revaluation methodology in accordance with the requirements of International Accounting Standard 16 "Property, Plant and Equipment".

DELOITTE, LLP

29 May 2015
Almaty, Kazakhstan

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

(in Turkmen manat and in thousands)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	5, 23	151,207	148,143
Interest expense	5, 23	(80,701)	(88,817)
NET INTEREST INCOME		70,506	59,326
Net gain on foreign exchange operations	7	13,123	12,224
Fee and commission income	8, 23	66,666	24,620
Fee and commission expense	8	(44,910)	(3,645)
Recovery of provision for impairment losses	6	-	17,821
Other expense, net		(805)	(5,816)
NET NON-INTEREST INCOME		34,074	45,204
OPERATING INCOME		104,580	104,530
OPERATING EXPENSES	9	(14,644)	(19,431)
PROFIT BEFORE INCOME TAX		89,936	85,099
Income tax expense	10	(21,343)	(19,115)
NET PROFIT		68,593	65,984
TOTAL COMPREHENSIVE INCOME		68,593	65,984

On behalf of the Management Board:

Türkmenistanyň Döwlet daşary ykdysady iş banky * The State Bank for foreign economic affairs of Turkmenistan
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Jepbarov R.J.
Chairman of the Board

29 May 2015
Ashkhabad, Turkmenistan

Khangeldyev Zh.
Chief Accountant

29 May 2015
Ashkhabad, Turkmenistan

The notes on pages 9-46 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(in Turkmen manat and in thousands)

	Notes	31 December 2014	31 December 2013
ASSETS:			
Cash and balances with the Central Bank of Turkmenistan	11, 23	688,411	1,175,268
Due from banks	12	9,569,990	7,073,027
Loans to customers	13, 23	3,322,690	2,659,820
Investments available-for-sale		2,854	2,566
Investments in associates		16,825	16,825
Investment property		12,795	13,066
Assets held for sale		23,124	15,836
Property, equipment and intangible assets	14	63,388	62,399
Premises built under a state program	15	13,162	757
Other assets	16	542,179	8,401
TOTAL ASSETS		14,255,418	11,027,965
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	17, 23	211,278	166,801
Customer accounts	18, 23	11,197,158	8,290,881
Other borrowed funds	19	1,806,444	2,124,400
Current tax liabilities		6,102	6,607
Deferred tax liabilities		425	232
Other liabilities	10	533,152	6,778
Total liabilities		13,754,559	10,595,699
EQUITY:			
Share capital	21	376,747	342,255
Property revaluation reserve		26,087	26,087
Retained earnings		98,025	63,924
Total equity		500,859	432,266
TOTAL LIABILITIES AND EQUITY		14,255,418	11,027,965

On behalf of the Management Board:

Jepbarov R.J.	**Khangeldyev Zh.**
Chairman of the Board	**Chief Accountant**
29 May 2015	29 May 2015
Ashkhabad, Turkmenistan	Ashkhabad, Turkmenistan

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STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

(in Turkmen manat and in thousands)

	Note	Share capital	Property revaluation reserve	Retained earnings	Total equity
As at 31 December 2012		143,653	26,087	196,542	366,282
Issue of ordinary share capital	21	198,602	-	(198,602)	-
Total comprehensive income		-	-	65,984	65,984
As at 31 December 2013		342,255	26,087	63,924	432,266
Issue of ordinary share capital	21	34,492	-	(34,492)	-
Total comprehensive income		-	-	68,593	68,593
As at 31 December 2014		376,747	26,087	98,025	500,859

On behalf of the Management Board:

Jepbarov R.J.
Chairman of the Board

29 May 2015
Ashkhabad, Turkmenistan

Khangeldyev Zh.
Chief Accountant

29 May 2015
Ashkhabad, Turkmenistan

The notes on pages 9-46 form an integral part of these financial statements.

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(in Turkmen manat and in thousands)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		89,936	85,099
Adjustment for:			
Depreciation and amortization	9	3,389	2,537
Recovery of provision for impairment losses	6	-	(17,821)
Loss on write off of property and equipment		1,301	7
Gain on foreign exchange operations	7	(8,251)	(111)
Change in interest accruals, net		11,746	(8,295)
Cash inflow from operating activity before changes in operating assets and liabilities		98,121	61,416
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the CBT		1,762	(2,986)
Due from banks		(11,948)	(17,737)
Loans to customers		(864,151)	(70,368)
Assets held for sale		(7,288)	16,901
Other assets		(526,664)	8,258
Increase/(decrease) in operating liabilities:			
Due to banks		44,477	61,551
Customer accounts		2,904,219	2,111,586
Other liabilities		526,374	(3,528)
Cash inflow from operating activities before taxation		2,164,902	2,165,093
Income tax paid		(21,655)	(14,548)
Net cash inflow from operating activities		2,143,247	2,150,545
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments available-for-sale		(288)	(273)
Proceeds for investment property		271	-
Purchase of investment property		-	(794)
Purchase of assets held for sale		-	(842)
Purchase of property, equipment and intangible assets	14	(5,679)	(2,488)
Payments for premises built under a state program		(14,771)	(2,450)
Proceeds on disposal of premises built under a state program		3,504	1,693
Net cash outflow from investing activities		(16,964)	(5,154)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)
(in Turkmen manat and in thousands)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of other borrowed funds		(243,780)	(256,364)
Receipt of other borrowed funds		117,743	192,795
Net cash ouflow from financing activities		(126,037)	(63,569)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,000,246	2,081,822
CASH AND CASH EQUIVALENTS, beginning of year	11	7,986,935	5,905,113
CASH AND CASH EQUIVALENTS, end of year	11	9,987,181	7,986,935

Interest paid and received by the Bank during the year ended 31 December 2014 amounted to TMT 68,586 thousand and TMT 154,913 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2013 amounted to TMT 91,694 thousand and TMT 142,725 thousand, respectively.

On behalf of the Management Board:

Döwlet daşary ykdysady iş banky Türkmenistanyň foreign economic affairs of Turkmenistan The State Bank for
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GENERAL ADMINISTRATION

Jepbarov R.J.
Chairman of the Board

29 May 2015
Ashkhabad, Turkmenistan

Khangeldyev Zh.
Chief Accountant

29 May 2015
Ashkhabad, Turkmenistan

The notes on pages 9-46 form an integral part of these financial statements.

1. ORGANIZATION

The State Bank for Foreign Economic Affairs of Turkmenistan ("the Bank") was established on 27 January 1992 in Turkmenistan as a state commercial bank by the Decree of the President of Turkmenistan. The Bank operates under general banking licence #97 and licence #32 for operations in foreign currencies. 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, Ashkhabad, Turkmenistan, 744000.

As at 31 December 2014 and 2013, the Bank has two branches and one branch, respectively.

The Bank is entirely owned by the Government of Turkmenistan.

These financial statements were authorized for issue on 29 May 2015 by the Management Board of the Bank.

2. BASIS OF PRESENTATION

Statement of complience

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

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements have been prepared under the historical cost convention.

Key assumptions

These financial statements have been prepared according to the Turkmenistan statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

The preparation of the financial statements in accordance with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the Bank's management as of the date of the financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the allowance for doubtful accounts and provisions for impairment losses.

Functional currency

Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that Bank ("the functional currency"). The functional currency of these financial statements is the Turkmen manat ("TMT").

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Cash and balances with the Central Bank of Turkmenistan

Cash and cash equivalents consist of cash on hand and unrestricted balances on correspondent accounts with the Central Bank of Turkmenistan ("the CBT"). For the purposes of determining cash flows, correspondent accounts with other banks with an original maturity within three months are included to cash and cash equivalents and minimum reserve deposit with the CBT is not considered to be a cash equivalent due to the restrictions on its usage.

Due from banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from credit institutions are carried net of allowance for impairment losses, if any.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and receivables

Loans and receivables are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Allowance for impairment losses

The Bank accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the statement of financial position are reduced by the amount of the impairment. The factors the Bank evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

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

Investments available-for-sale

Investments available-for-sale are represented by equity investments that are intended to be held for an indefinite period of time. Non-marketable equity securities are stated at cost less impairment losses, if any, unless the fair value can be reliably measured.

Investment in associate

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. The financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds the Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

Investment property

Investment property is property held to earn rental income or for capital appreciation or for both, but not for sale in the normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost.

Assets held for sale

Assets held for sale are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation. Management conducted a revaluation of property, plant and equipment in 2012 in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data. Further details of property revaluation reserve are disclosed in Note 14. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and intangible assets is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	2-5%
Furniture and equipment	5-50%
Vehicles	10-20%
Intangible assets	10-50%

The carrying amounts of property and equipment 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 property and equipment 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

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 state program are measured initially at cost, including transaction costs. Subsequent to initial recognition, premises built under state program is 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. Management conducted a revaluation of property, plant and equipment in 2012 in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data. Further details of the property revaluation reserve are disclosed in Note 15.

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

The Bank is subject to income tax per local requirements and also subject to municipal charges and contributions to agricultural development, which are computed based on net income.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date 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 calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to statement of profit or loss and other comprehensive income, in which case the deferred tax is also dealt with in statement of profit or loss and other comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Turkmenistan where the Bank operates also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of profit or loss and other comprehensive income.

Due to banks, customer accounts and other borrowed funds

Due to banks, customer accounts and other borrowed funds are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the statement of profit and loss and other comprehensive income over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Recorded amounts as of the reporting date represent the Bank's best estimate of the expenditure required to settle the liability.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Bank provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed 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

Contributions to share capital made before 1 January 2009 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2009 are recognized at cost.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

Foreign currency translation

The financial statements of the Bank are presented in the currency of the primary economic environment in which the Bank operates. In preparing the financial statements monetary assets and liabilities denominated in currencies other than the Bank's functional currency (foreign currencies) are translated at the appropriate spot rates of exchange rates prevailing at the reporting date. Transactions in currencies other than the functional currenc are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates at year end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2014	**31 December 2013**
TMT/1 US Dollar	2.8500	2.8500
TMT/1 Euro	3.4670	3.9162
TMT/1 Japan Yen	0.0238	0.0271
TMT/1 Chinese Yuan	0.4596	0.4696

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Allowance for impairment of loans

The Bank regularly reviews its loans to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans. The Bank considers accounting estimates related to allowance for impairment of loans a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in country and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Bank has adopted all new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ended on 31 December 2014. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets; and
- IFRIC 21 Levies.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

These amendments do not have any effect on the Bank's financial statements as the Bank is not an investment entity.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognised or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

IFRIC 21 Levies

The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12 and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognised progressively over specific period or in full at a specific date.

The Bank did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

New and revised IFRSs in issue but not yet effective

Amendments to IFRSs affecting amounts reported in the financial statements.

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- *Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities;*
- *Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets;*

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities.

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

There is no effect of these amendments on the financial statements as the Bank does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

These amendments affect disclosures only and do not have any impact on financial statements of the Bank as no impairment loss was recognized or reversed during the reporting period.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Annual Improvements to IFRSs 2010-2012 Cycle[1];
- Annual Improvements to IFRSs 2011-2013 Cycle[1];
- Annual Improvements to IFRSs 2012-2014 Cycle[2];
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation[2];
- IFRS 15 Revenue from Contracts with Customers[3];
- IFRS 9 Financial Instruments[4].

[1] *Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.*
[2] *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*
[3] *Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.*
[4] *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Management of the Bank does not anticipate that the application of these amendments will have a significant effect on the financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The Management of the Bank does not anticipate that the application of these amendments will have a significant effect on the financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Management of the Bank does not anticipate that the application of these amendments will have a significant effect on the financial statements.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Bank uses straight-line method for depreciation and amortization of its property and equipment and intangible assets, respectively. The management of the Bank does not anticipate that the application of these amendments will have a material impact on the Bank's financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The Management of the Bank anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 9 Financial Instruments.

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment**. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Bank anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

4. RECLASSIFICATION

Certain reclassifications have been made to the financial statements as at 31 December 2013 and for the year then ended to conform to the presentation as at 31 December 2014 and for the year then ended as current year presentation provides a better view of the financial position of the Bank.

For the purpose of better presentation, the Management has decided to reclassify other assets to the premises built under a state program and investments available-for-sale.

For the purpose of better presentation, the Management decided to present correspondent accounts with the maturity within three months from cash and cash equivalents among due from banks.

	As previously reported 31 December 2013	Reclassification	As reclassified 31 December 2013
STATEMENT OF FINANCIAL POSITION			
ASSETS:			
Cash and cash equivalents	7,987,570	(7,987,570)	-
Cash and balances with the Central Bank of Turkmenistan	-	1,175,268	1,175,268
Due from banks	260,725	6,812,302	7,073,027
Other assets	11,724	(3,323)	8,401
Investments available for sale	-	2,566	2,566
Premises built under a state program	-	757	757
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	22,238	144,563	166,801
Customer accounts	8,290,911	(30)	8,290,881
Other borrowed funds	2,268,933	(144,533)	2,124,400

	As previously reported 31 December 2013	Reclassification	As reclassified 31 December 2013
STATEMENT OF CASH FLOWS			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in interest accruals, net	-	(8,295)	(8,295)
Interest income	(148,143)	148,143	-
Interest expense	88,817	(88,817)	-
Loans to customers	68,258	(138,626)	(70,368)
Other assets	4,425	3,833	8,258
Due to banks	(82,901)	144,452	61,551
Customer accounts	2,111,651	(65)	2,111,586
Other liabilities	(836)	(2,692)	(3,528)
Interest received	145,721	(145,721)	-
Interest paid	(91,695)	91,695	-
Net cash inflow from operating activities	**2,147,273**	**3,907**	**2,150,545**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments for-sale	-	(273)	(273)
Proceeds on disposal of premises built under a state program	-	(2,450)	(2,450)
Payments for premises built under a state program	-	1,693	1,693
Net cash outflow from investing activities	**(4,124)**	**(1,030)**	**(5,154)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of other borrowed funds	(253,487)	(2,877)	(256,364)
Net cash outflow from financing activities	**(60,692)**	**(2,877)**	**(63,569)**

5. NET INTEREST INCOME

	Year endsed 31 December 2014	Year ended 31 December 2013
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest income on unimpaired financial assets	151,207	148,143
Total interest income	151,207	148,143
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	128,202	126,863
Interest income on due from banks	23,005	21,280
Total interest income on financial assets recorded at amortized cost	151,207	148,143
Total interest income	151,207	148,143
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	(80,701)	(88,817)
Total interest expense	(80,701)	(88,817)
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest expense on other borrowed funds	(70,222)	(83,076)
Interest expense on customer accounts	(5,465)	(3,964)
Interest expense on due to banks	(5,014)	(1,777)
Total interest expense on financial liabilities recorded at amortized cost	(80,701)	(88,817)
Net interest income	70,506	59,326

6. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Loans to customers	Other assets	Total
As at 31 December 2012	17,776	107	17,883
Recovery of provisions	(17,776)	(45)	(17,821)
Recovery of assets previously written off	-	45	45
As at 31 December 2013	-	107	107
As at 31 December 2014	-	107	107

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2014	Year ended 31 December 2013
Dealing, net	4,872	12,113
Translation differences, net	8,251	111
Total net gain on foreign exchange operations	13,123	12,224

8. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2014	Year ended 31 December 2013
Fee and commission income:		
Commission for unused credit lines	36,799	-
Settlements	16,116	11,372
Cash operations	10,029	9,711
Plastic cards operations	3,053	2,526
Encashment operations	233	207
Guarantees	184	624
Other	252	180
Total fee and commission income	66,666	24,620
Fee and commission expense:		
Commission for unused credit lines	(36,653)	-
Plastic cards services	(4,315)	(1,262)
Settlements	(3,467)	(2,037)
Other	(475)	(346)
Total fee and commission expense	(44,910)	(3,645)

9. OPERATING EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Staff costs	5,237	11,081
Depreciation and amortization	3,389	2,537
Communication expenses	1,350	1,119
Unified social tax	972	1,238
Taxes	700	693
Security expenses	532	479
Property and equipment maintenance	373	372
Payments to deposit insurance fund	326	271
Professional services	265	247
Stationery	77	118
Other	1,423	1,276
Total operating expenses	14,644	19,431

10. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Turkmenistan where the Bank operates, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

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 31 December 2014 and 2013 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book base differences for certain assets.

Temporary differences as at 31 December 2014 and 2013 comprise:

	31 December 2014	31 December 2013
Deductible temporary differences:		
Loans to customers	17,053	26,487
Other assets	507,886	-
Total deductible temporary differences	524,939	26,487
Taxable temporary differences:		
Other borrowed funds	(7,936)	(27,434)
Other liabilities	(518,738)	-
Total taxable temporary differences	(526,674)	(27,434)
Net deferred deductible temporary differences	(1,735)	(947)
Net deferred tax liability at the statutory tax rate (24.5%)	(425)	(232)
Net deferred income tax liability	(425)	(232)

Relationships between tax expenses and accounting profit for the years ended 31 December 2014 and 2013 are explained as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before income tax	89,936	85,099
Tax at the statutory tax rate (24.5%)	22,034	20,849
Other non-deductible expenses	(2,164)	(6,741)
Tax effect of permanent differences	1,473	5,007
Income tax expense	21,343	19,115
Current income tax expense	21,150	18,463
Deferred tax expense related to the origination and reversal of temporary differences	193	652
Income tax expense	21,343	19,115

Deferred income tax asset/(liabilities)	**2014**	**2013**
Beginning of the year	(232)	420
Change in deferred tax liability recognized in profit or loss	(193)	(652)
End of the year	(425)	(232)

11. CASH AND BALANCES WITH THE CENTRAL BANK OF TURKMENISTAN

	31 December 2014	**31 December 2013**
Cash	249,223	23,135
Balances with the CBT	439,188	1,152,133
Total cash and balances with the CBT	688,411	1,175,268

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2014	**31 December 2013**
Cash and balances with CBT	688,411	1,175,268
Unrestricted due from banks with original maturity of up to 90 days	9,316,441	6,831,100
Less: Minimum reserve deposits with the CBT	(17,671)	(19,433)
Total cash and cash equivalents	9,987,181	7,986,935

12. DUE FROM BANKS

	31 December 2014	**31 December 2013**
Correspondent accounts with other banks	4,756,441	6,916,286
Time deposits with other banks	4,613,223	76,741
Due from banks	200,326	80,000
Total due from banks	9,569,990	7,037,027

As at 31 December 2014 and 2013, accrued interest included in due from banks amounted to TMT 326 thousand and TMT nil, respectively.

As at 31 December 2014 and 2013, the restricted balances in time deposits with other banks amounted to TMT 24,723 thousand and TMT 76,741 thousand, respectively.

As at 31 December 2014 and 2013, the Bank had amounts due from 4 and 7 banks which individually exceeded 10% of the Bank's equity, respectively. The gross value of these balances as at 31 December 2014 and 2013 is TMT 9,318,054 thousand and TMT 7,022,507 thousand, respectively.

13. LOANS TO CUSTOMERS

	31 December 2014	31 December 2013
Loans to corporate customers	3,249,437	2,628,399
Loans to retail customers		
Small business loans	62,664	24,980
Retail loans	10,589	6,441
Total loans to retail customers	73,253	31,421
Total loans to customers	3,322,690	2,659,820

Movement in the loan impairment allowances by classes of loans to customers for the years ended 31 December 2013 is as follows:

	Loans to corporate customers	Loans to retails customers	Total
Balance at the beginning of the year	17,776	-	17,776
Recovery	(17,776)	-	(17,776)
Balance at the end of the year	-	-	-

For the year ended 31 December 2014 no impairment was accrued or recognized by the Bank.

As at 31 December 2014, and 2013 the Bank has not got past due or impaired loans to customers.

As at 31 December 2014, and 2013 as part of loans to corporate and retail customers, there are no loans whose terms have been renegotiated and that would otherwise be past due or impaired.

Key assumptions and judgments for estimating the loan impairment

The Bank estimates loan impairment for loans to corporate and retail customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

Analysis of collateral

Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

	31 December 2014	31 December 2013
Loans collaterised by government guarantees	3,244,785	2,623,647
Loans collaterised by real estate	4,652	4,752
	3,249,437	**2,628,399**

The Bank has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

Loans to retail customers

The following tables provide information on collateral securing loans to retail customers, net of impairment:

	31 December 2014	**31 December 2013**
Loans collaterised by guarantees	55,792	18,013
Loans collaterised by real estate	8,682	7,677
Loans collaterised by vehicles	5,539	3,688
Loans collaterised by money on current accounts	3,240	2,043
	73,253	**31,421**

The fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Repossessed collateral

During the years ended 31 December 2014 and 2013, the Bank did not obtain assets by taking possession of collateral for loans to customers.

Industry and geographical analysis of the loan portfolio

Loans to customers are issued to customers located within Turkmenistan who operate in the following economic sectors:

	31 December 2014	**31 December 2013**
Oil and gas	1,373,077	512,307
Chemicals	792,677	984,931
Transport	638,933	653,802
Communication	409,132	438,226
Construction	51,333	17,965
Textiles	29,414	34,295
Individuals	14,482	6,441
Other	13,642	11,853
	3,322,690	**2,659,820**

Significant credit exposures

As at 31 December 2014 and 2013, the Bank had 7 and 9 borrowers, whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2014 and 2013 is TMT 2,205,777 thousand and TMT 2,499,318 thousand, respectively.

14. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate	Furniture and equipment	Vehicles	Intangible assets	Total
At initial/revalued cost					
31 December 2012	55,333	27,023	1,852	6,939	91,147
Additions	1,370	870	248	-	2,488
Disposals	-	(970)	-	-	(970)
31 December 2013	56,703	26,923	2,100	6,939	92,665
Additions	-	4,869	283	527	5,679
Disposals	-	(2,917)	(1,016)	-	(3,933)
31 December 2014	56,703	28,875	1,367	7,466	94,411
Accumulated depreciation					
31 December 2012	(7,141)	(18,091)	(997)	(2,463)	(28,692)
Charge for the year	(1,117)	(1,156)	(94)	(170)	(2,537)
Eliminated on disposals	-	963	-	-	963
31 December 2013	(8,258)	(18,284)	(1,091)	(2,633)	(30,266)
Charge for the year	(1,127)	(2,011)	(82)	(169)	(3,389)
Eliminated on disposals	-	2,105	527	-	2,632
31 December 2014	(9,385)	(18,190)	(646)	(2,802)	(31,023)
Net book value					
As at 31 December 2014	47,318	10,685	721	4,664	63,388
As at 31 December 2013	48,445	8,639	1,009	4,306	62,399

The carrying value of property and equipment as at 31 December 2014 and 2013, if the property and equipment had not been revalued, would have been TMT 40,064 thousand and TMT 37,240 thousand, respectively.

As at 31 December 2012, the element of property revaluation reserve attributable to property, equipment and intangible assets is carried at TMT 25,979 thousand. As at 31 December 2012, the Management conducted a revaluation of property and equipment in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data.

15. PREMISES BUILT UNDER A STATE PROGRAM

As at 31 December 2014 and 2013, premises built under a state program represented in the amount of TMT 13,162 thousand and TMT 757 thousand, respectively, and included a residential buildings. As a state organisation the Bank undertakes construction of social objects under the general plan of architectural development of Ashkhabad, approved by the President of Turkmenistan.

As at 31 December 2014 and 2013, fair value of premises built under a state program approximates their carrying amount, as it is mostly represented by incomplete construction carried at cost of construction. As at 31 December 2014 and 2013, there were no impairment indicators identified.

As at 31 December 2012, the element of property revaluation reserve attributable to premises built under the state program is carried at TMT 108 thousand. Management conducted a revaluation of property, plant and equipment as at 31 December 2012 in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data.

16. OTHER ASSETS

	31 December 2014	31 December 2013
Other financial assets:		
Commission for unused credit lines	518,337	-
Accrued commission	15,387	3,680
Total other financial assets	533,724	3,680
Other non-financial assets:		
Advances paid and taxes prepaid	4,679	1,133
Inventory	2,821	2,839
Prepaid expenses	401	435
Other	661	421
Less: Provision for impairment losses on other operations (Note 6)	(107)	(107)
Total other non-financial assets	8,455	4,721
Total other assets	542,179	8,401

As at 31 December 2014, commission for unused credit lines include prepaid commission and insurance expenses on borrowed from Export-Import Bank of Korea (Korea Eximbank) funds in the amount of TMT 415,251 thousand.

17. DUE TO BANKS

	31 December 2014	31 December 2013
Loans from banks and other financial institutions	181,879	144,563
Correspondent accounts of other banks	29,399	22,238
Total due to banks	211,278	166,801

18. CUSTOMER ACCOUNTS

	31 December 2014	31 December 2013
Demand deposits	10,101,937	7,977,788
Term deposits	1,095,221	313,093
Total customer accounts	11,197,158	8,290,881

As at 31 December 2014 and 2013, customer accounts amounting to TMT 41,921 thousand and TMT 175,573 thousand, respectively, were held as security against letters of credit issued and other transactions related to contingent obligations.

As at 31 December 2014 and 2013, the Bank has two and five customers, whose balances exceed 10% of equity. These balances as at 31 December 2014 and 2013, are TMT 10,645,167 thousand and TMT 7,708,755 thousand, respectively.

19. OTHER BORROWED FUNDS

	Origination-maturity date	Interest rate	31 December 2014	31 December 2013
Exim Bank, China	17/12/2001-21/03/2032	2.50%-3.00%	849,387	912,483
Japan Bank for International Cooperation	19/03/2010-15/06/2022	3.91%	793,218	983,779
Japan International Cooperation Agency	24/12/1997-20/12/2027	2.70%	67,767	82,954
Deutsche Bank AG	01/11/2002-15/09/2015	EURIBOR +1.20%	44,913	101,511
China Development Bank	16/07/2005-31/12/2024	0%	40,445	43,673
Exim Bank, Korea	29/05/2014-15/03/2024	LIBOR+4,5%, LIBOR+2,6%	10,714	-
Total other borrowed funds			1,806,444	2,124,400

As at 31 December 2014 and 2013, the Bank did not have to comply with any financial covenants on other borrowed funds in terms of loan agreements with the above mentioned financial institutions.

20. OTHER LIABILITIES

	31 December 2014	31 December 2013
Other financial liabilities:		
Commission for unused credit lines	518,337	-
Creditors on capital expenses	9,444	658
Other financial liabilities	15	15
Total other financial liabilities	527,796	673
Other non-financial liabilities:		
Deferred income	5,356	6,105
Total other non-financial liabilities	5,356	6,105
Total other liabilities	533,152	6,778

As at 31 December 2014 commission for unused credit lines includes prepaid commission and insurance expenses repaid by the Bank on borrowed from Export-Import Bank of Korea (Korea Eximbank) funds and further reimbursed under agreement of loan granted to State Company Turkmengaz in the amount of TMT 415,251 thousand.

21. SHARE CAPITAL

As at 31 December 2014 and 2013, 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 Board of Directors of the Bank. As at 31 December 2014 and 2013, share capital amounts to TMT 376,747 thousand and TMT 342,255 thousand, respectively, and the distribution of profit to share capital is TMT 34,492 thousand and TMT 198,602 thousand, respectively.

22. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for operations accounted for in the statement of financial position.

As at 31 December 2014 and 2013, contingent liabilities comprise:

	31 December 2014	31 December 2013
Contingent liabilities and credit commitments		
Letters of credit	2,472,764	204,669
Unused credit lines	436,917	619,712
Guarantees issued	3,676	6,934
Total contingent liabilities and credit commitments	2,913,357	831,315

The extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

As at 31 December 2014 and 2013, the Bank had no significant capital commitments.

As at 31 December 2014 and 2013, the Bank had no operating lease commitments.

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material un-accrued losses will be incurred and, accordingly, no provision has been made in these financial statements. During the reporting period there were no received claims against the Bank.

Taxation

Commercial legislation of Turkmenistan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit.

The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

Operating environment

The Bank's principal business activities are within Turkmenistan. Emerging markets such as Turkmenistan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Turkmenistan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Turkmenistan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Economic activity of Turkmenistan is held in conditions that are typical for developing countries. These financial statements reflects Management's estimate of influence of economic conditions on the financial position of the Bank. Future economic environment can differ from this estimate.

23. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", are represented in the table below.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and related parties are disclosed below:

	31 December 2014		31 December 2013	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Assets				
Cash and balances with Central Bank of Turkmenistan	439,188	688,411	1,152,133	1,175,268
Loans to customers before allowance for impairment losses	3,033,095	3,322,690	2,616,516	2,659,820
- other related party	3,033,095		2,616,396	
- key management personnel	-		120	
Due from banks	200,000	9,569,990	80,000	7,073,027
- other related party	200,000		80,000	
Liabilities				
Customer accounts	9,756,849	11,197,158	7,891,166	8,290,881
- other related party	9,756,674		7,890,621	
- key management personnel	175		545	
Due to banks	1,297	211,278	-	166,801
- other related party	1,297		-	
Off balance sheet items	2,899,106	2,913,357	661,052	831,315
Undrawn loan commitment	2,899,106		661,052	

The remuneration of directors and other members of key management was as follows:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	438	5,237	457	11,081

Included in the statement of profit and loss and other comprehensive income for the years ended 31 December 2014 and 2013 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	123,735	151,207	121,541	148,143
- *other related party*	123,731		121,534	
- *key management personnel*	4		7	
Interest expense	(8,617)	(80,701)	(1,926)	(88,817)
- *other related party*	(8,596)		(1,861)	
- *key management personnel*	(21)		(65)	
Fee and commission income	46,138	66,666	7,258	24,620
- *other related party*	46,138		7,258	

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on recurring basis

Financial instruments are measured at fair value on recurring basis, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 1 year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

Due from and due to banks

As due from and due to banks are short-term, the book value are estimated to be equal to fair value.

Loans to customers

Loans to customers are made both at variable and at fixed rates. As there is no active secondary market in Turkmenistan for such loans, there is no reliable market value available for this portfolio.

- Floating rate – Management believes that carrying rate may be assumed to be fair value; and
- Fixed rate – Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the reporting date for similar loans of maturity equal to the remaining fixed period. As these loans have a short term maturity, it is assumed that the carrying amounts approximate to their fair value.

As at 31 December 2014 and 2013, the fair value of loans to customers with a carrying value of TMT 3,322,690 thousand and TMT 2,659,820 thousand, respectively, customer accounts with carrying value of TMT 11,197,158 thousand and TMT 8,290,881 thousand, respectively, and other borrowed funds with carrying value of TMT 1,806,444 thousand and TMT 2,124,400 thousand, respectively, cannot be reliably measured. Fair value information of these financial instruments has not been disclosed, as the market is not active in Turkmenistan and it is not practicable to estimate their fair value.

Investments available-for-sale are recorded at cost due to the absence of an active secondary market. The Bank does not carry any investments at fair value and as such does not disclose financial instruments by Levels of hierarchy of fair value in accordance with IFRS 13.

25. REGULATORY MATTERS

The Bank is required to maintain certain minimum capital levels in accordance with the legislation of Turkmenistan. These requirements include Tier 1 and Tier 2 capital calculated based on the following risk weights:

Estimate	Description of position
0%	Cash and balances with the CBT
0%	State debt securities and debt securities of OECD countries
0%	Loans collateralized by government guarantees or gold
20%	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
50%	Mortgage loans
100%	Loans to customers
100%	Other assets

As at 31 December 2014 and 2013, the Bank was in compliance with all the requirements, set by the Central bank of Turkmenistan.

26. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit exposures;
- Liquidity risk; and
- Market risk.

The management of the Bank recognizes that it is essential for the Bank to have efficient risk management processes in place. To enable this, the Bank has established a risk management system, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives.

Credit risk

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

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

The Bank manages credit risk by observing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers set in prudential norms of the regulating authorities. Actual exposures against limits are regularly monitored.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as the probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank mitigates such risk by setting fees and charges for unused portions of credit or advance repayment on loan agreements.

Maximum exposure

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

The following table presents the maximum exposure to credit risk of statement of financial position and off balance sheet financial assets. For financial assets in the statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on. Collateral pledged is determined based on its estimated fair value on the day of origination of the loan limited to the outstanding balance of each loan as at reporting date.

As at 31 December 2014:

	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral pledged**	**Net exposure after offset and collateral**
Cash and balances with the CBT	688,411	-	688,411	-	688,411
Due from banks	9,569,990	-	9,569,990	-	9,569,990
Loans to customers	3,322,690	-	3,322,690	3,322,690	-
Investments available-for-sale	2,854	-	-	-	2,854
Other financial assets	533,724	-	533,724	-	533,724

As at 31 December 2013:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and balances with the CBT	1,175,268	-	1,175,268	-	1,175,268
Due from banks	7,073,027	-	7,073,027	-	7,073,027
Loans to customers	2,659,820	-	2,659,820	2,659,820	-
Investments available-for-sale	2,566	-	-	-	2,566
Other financial assets	3,680	-	3,680	-	3,680

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

The following table details the credit ratings of financial assets held by the Bank.

	A	BBB	<BBB	Not rated	Total as at 31 December 2014
Cash and balances with the CBT	-	-	-	688,411	688,411
Due from banks	9,368,721	-	1,234	200,035	9,569,990
Loans to customers	-	-	-	3,322,690	3,322,690
Investments available-for-sale	-	-	-	2,854	2,854
Other financial assets	-	-	-	533,724	533,724

	A	BBB	<BBB	Not rated	Total at 31 December 2013
Cash and balances with the CBT	-	-	-	1,175,268	1,175,268
Due from banks	6,905,108	2,625	68	165,226	7,073,027
Loans to customers	-	-	-	2,659,820	2,659,820
Investments available-for-sale	-	-	-	2,566	2,566
Other financial assets	-	-	-	3,680	3,680

Rating model

The Bank has developed an internal rating model, based on the principles and methods used by international rating agencies for the assessment of credit risk of corporate borrowers. The rating of a corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and the borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Bank revises the model when deficiencies are identified.

Scoring models

The Bank uses scoring models as a statistical tool to assess the future creditworthiness of new and existing borrowers of the Bank. Scoring models are applied for assessment of the credit risk of individuals and small business enterprises.

The scoring models interpret socio-demographic and financial indicators, behavioural variables, the credit history of borrowers and historic data from external sources. Each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower.

The scoring models standardize and automate the process of decision making and decrease the operating expenses and operational risks of the Bank. The scoring model is also used in the internal management decision making process as it permits the forecasting of profits and losses of the credit departments. The scoring model is assessed on a continual basis for its effectiveness and validity.

The Bank applies internal rating and scoring methodologies to specific corporate loans and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan.

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

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

		Financial assets past due but not impaired					
	Neither past due nor impaired	**0-3 months**	**3-6 months**	**6 months to 1 year**	**Greater than one year**	**Financial assets that have been impaired**	**Total as at 31 December 2014**
Cash and balances with the CBT	688,411	-	-	-	-	-	688,411
Due from banks	9,569,990	-	-	-	-	-	9,569,990
Loans to customers	3,318,038	-	-	-	4,652	-	3,322,690
Investments available-for-sale	2,854	-	-	-	-	-	2,854
Other financial assets	533,724	-	-	-	-	-	533,724

		Financial assets past due but not impaired					
	Neither past due nor impaired	**0-3 months**	**3-6 months**	**6 months to 1 year**	**Greater than one year**	**Financial assets that have been impaired**	**Total as at 31 December 2013**
Cash and balances with the CBT	1,175,268	-	-	-	-	-	1,175,268
Due from banks	7,073,027	-	-	-	-	-	7,073,027
Loans to customers	2,655,068	-	-	-	4,752	-	2,659,820
Investments available-for-sale	2,566	-	-	-	-	-	2,566
Other financial assets	3,680	-	-	-	-	-	3,680

Geographical concentration

The Bank holds its financial assets mostly in Turkmenistan. The Bank exercises control over the risk in the legislation and regulatory arena in all countries where its assets are held and assesses possible effects on the Bank's activity. In particular, the Bank monitors sovereign credit risk assigned by international rating agencies. On a regular basis the Risk Manager reviews financial and political news in international mass-media to anticipate a possible negative influence on the Bank's risk exposure. This approach allows the Bank to minimize potential losses from investment climate fluctuations in countries where its assets are held.

The geographical concentration of assets and liabilities is set out below:

	Turkmenistan	Other non-OECD countries	OECD countries	31 December 2014 Total
FINANCIAL ASSETS				
Cash and balances with the CBT	688,411	-	-	688,411
Due from banks	200,000	2,277	9,367,713	9,569,990
Loans to customers	3,322,690	-	-	3,322,690
Investments available-for-sale	2,854	-	-	2,854
Other financial assets	15,387	-	518,337	533,724
TOTAL FINANCIAL ASSETS	4,229,342	2,277	9,886,050	14,117,669
FINANCIAL LIABILITIES				
Due to banks	202,467	8,811	-	211,278
Customer accounts	11,197,158	-	-	11,197,158
Other borrowed funds	-	889,832	916,612	1,806,444
Other financial liabilities	527,796	-	-	527,796
TOTAL FINANCIAL LIABILITIES	11,927,421	898,643	916,612	13,742,676
NET POSITION	(7,698,079)	(896,366)	8,969,438	374,993

	Turkmenistan	Other non-OECD countries	OECD countries	31 December 2013 Total
FINANCIAL ASSETS				
Cash and balances with the CBT	1,175,268	-	-	1,175,268
Due from banks	80,000	1,185	6,991,842	7,073,027
Loans to customers	2,659,820	-	-	2,659,820
Investments available-for-sale	2,566	-	-	2,566
Other financial assets	3,680	-	-	3,680
TOTAL FINANCIAL ASSETS	3,921,334	1,185	6,991,842	10,914,361
FINANCIAL LIABILITIES				
Due to banks	163,618	3,183	-	166,801
Customer accounts	8,290,881	-	-	8,290,881
Other borrowed funds	-	956,156	1,168,244	2,124,400
Other financial liabilities	673	-	-	673
TOTAL FINANCIAL LIABILITIES	8,455,172	959,339	1,168,244	10,582,755
NET POSITION	(4,533,838)	(958,154)	5,823,598	331,606

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee (“ALMC”) and the Risk Manager control these types of risks by means of maturity analysis, determining the Bank’s strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients’ and banking operations, which is a part of assets/liabilities management process. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity and interest rate risks is presented in the following table:

	Weigh-ted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity uniden-tified	31 December 2014 Total
FINANCIAL ASSETS								
Due from banks	0.20%	4,560,000	60,000	192,033	-	-	-	4,812,033
Loans to customers	3.91%	6,418	2,296	1,134,699	244,490	1,934,787	-	3,322,690
Total interest bearing financial assets		4,566,418	62,296	1,326,732	244,490	1,934,787	-	8,134,723
Cash and balances with the CBT		688,411	-	-	-	-	-	688,411
Due from banks		4,757,957	-	-	-	-	-	4,757,957
Investments available-for-sale		-	-	-	-	-	2,854	2,854
Other financial assets		5,058	25,503	40,463	286,592	176,108	-	533,724
Total financial assets		10,017,844	87,799	1,367,195	531,082	2,110,895	2,854	14,117,669
FINANCIAL LIABILITIES								
Due to banks	3.00%	-	4,663	13,991	74,617	88,608	-	181,879
Customer accounts	0.90%	11,773	5,578	1,075,419	315	-	-	1,093,085
Other borrowed funds	3.27%	2,356	76,925	175,845	702,820	848,498	-	1,806,444
Total interest bearing financial liabilities		14,129	87,166	1,265,255	777,752	937,106	-	3,081,408
Due to banks		29,399	-	-	-	-	-	29,399
Customer		10,104,073	-	-	-	-	-	10,104,073
Other financial liabilities		14,517	10,116	40,463	286,592	176,108	-	527,796
Total financial liabilities		10,162,118	97,282	1,305,718	1,064,344	1,113,214	-	13,742,676
Liquidity gap		(144,274)	(9,483)	61,477	(533,262)	997,681	2,854	
Interest sensitivity gap		4,552,289	(24,870)	61,477	(533,262)	997,681	-	
Cumulative interest sensitivity gap		4,552,289	4,527,419	4,588,896	4,055,634	5,053.315		
Cumulative interest sensitivity gap as a percentage of total financial assets		32.24%	32.07%	32.50%	28.73%	35.79%		

The negative liquidity gap above between financial assets and liabilities up to 1 month is caused by demand deposits of customers. The management regularly assesses the stability of its customer accounts funding base based on past performance and analysis of the events subsequent to the reporting date. The management believes that the clients intend to hold their demand deposits with the Bank, and that this source of funding will remain at a similar level for the foreseeable future.

	Weigh-ted ave-rage inte-rest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity unidenti-fied**	**31 December 2013 Total**
FINANCIAL ASSETS								
Due from banks	0.05%	-	-	80,000	76,106	-	-	156,106
Loans to customers	4.32%	24,152	95,599	349,312	1,073,122	1,117,635	-	2,659,820
Total interest bearing financial assets		24,152	95,599	429,312	1,149,228	1,117,635	-	2,815,926
Cash and balances with the CBT		1,175,268	-	-	-	-	-	1,175,268
Due from banks		6,916,921	-	-	-	-	-	6,916,921
Investments available-for-sale		-	-	-	-	-	2,566	2,566
Other financial assets		-	3,680	-	-	-	-	3,680
Total financial assets		8,116,341	99,279	429,312	1,149,228	1,117,635	2,566	10,914,361
FINANCIAL LIABILITIES								
Due to banks	3.00%	-	3,376	10,128	54,016	77,013	-	144,533
Customer accounts	3.22%	10,599	34,269	111,984	155,929	-	-	312,781
Other borrowed funds	3.27%	4,226	74,803	181,061	735,460	1,128,850	-	2,124,400
Total interest bearing financial liabilities		14,825	112,448	303,173	945,405	1,205,863	-	2,581,714
Due to banks		22,268	-	-	-	-	-	22,268
Customer		7,978,100	-	-	-	-	-	7,978,100
Other financial liabilities		673	-	-	-	-	-	673
Total financial liabilities		8,015,866	112,448	303,173	945,405	1,205,863	-	10.582,755
Liquidity gap		100,475	(13,169)	126,139	203,823	(88,228)	2,566	
Interest		9,327	(16,849)	126,139	203,823	(88,228)	-	
Cumulative interest sensitivity gap		9,327	(7,522)	118,617	322,440	234,212		
Cumulative interest sensitivity gap as a percentage of total financial assets		0.09%	(0.07%)	1.09%	2.95%	2.15%		

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded in 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.

	Weighted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2014 Total
FINANCIAL LIABILITIES							
Due to banks	3.00%	29,399	5,561	17,821	89,727	94,943	237,451
Customer accounts	0.48%	10,116,795	6,721	1,077,162	315	-	11,200,993
Other borrowed funds	3.27%	2,356	86,745	217,327	863,280	938,891	2,108,599
Other financial liabilities	0.00%	14,517	10,116	40,463	286,592	176,108	527,796
Total financial liabilities		10,163,067	109,143	1,352,773	1,239,914	1,209,942	14,074,839

	Weighted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
FINANCIAL LIABILITIES							
Due to banks	3.00%	22,238	4,090	13,190	66,499	83,691	189,708
Customer accounts	3.22%	7,989,033	34,269	111,984	155,929	-	8,291,215
Other borrowed funds	3.27%	4,226	86,398	230,513	937,019	1,255,824	2,513,980
Other financial liabilities	0.00%	673	-	-	-	-	673
Total financial liabilities		8,016,170	124,757	355,687	1,159,447	1,339,515	10,995,576

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the Bank's future cash flows and value of the Bank's financial instruments.

The ALMC manages the interest rate risk by monitoring and analyzing sensitivity reports, as well as interest rate margin reports. This helps the Bank mitigate interest rate risks and maintain a positive interest margin. The Risk Manager monitors the Bank's financial performance, regularly assessing the Bank's sensitivity to changes in interest rates and its effect on profitability.

All of the Bank's interest bearing financial assets and liabilities are fixed rate agreements and hence, interest rate sensitivity has no impact on net profit.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by managing the open currency position on the estimated basis of macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations towards its national currency. The Treasury Department and the Risk Manager perform daily monitoring of the Bank's open currency position with the aim to match the state requirements.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	TMT	USD USD 1= TMT 2.85	EUR EUR 1= TMT 3.47	JPY JPY 1= TMT 0.02	CHY CHY 1= TMT 0.46	Other currency	31 December 2014 Total
FINANCIAL ASSETS							
Cash and balances with the CBT	55,472	627,615	3,811	5	72	1,436	688,411
Due from banks	200,473	9,326,087	41,320	1	-	2,109	9,569,990
Loans to customers	1,318,460	39,649	226,792	860,466	877,323	-	3,322,690
Investments available-for-sale	2,854	-	-	-	-	-	2,854
Other financial assets	-	483,453	45,840	31	4,400	-	533,724
Total financial assets	1,577,259	10,476,804	317,763	860,503	881,795	3,545	14,117,669
FINANCIAL LIABILITIES							
Due to banks	735	23,778	186,755	-	-	10	211,278
Customer accounts	218,219	10,936,720	39,768	-	-	2,451	11,197,158
Other borrowed funds	-	11,940	44,913	859,759	889,832	-	1,806,444
Other financial liabilities	9,415	468,520	-	45,459	4,401	1	527,796
Total financial liabilities	228,369	11,440,958	271,436	905,218	894,233	2,462	13,742,676
OPEN BALANCE SHEET POSITION	1,348,890	(964,154)	46,327	(44,715)	(12,438)	1,083	374,993

	TMT	USD USD 1= TMT 2.85	EUR EUR 1= TMT 3.92	JPY JPY 1= TMT 0.03	CHY CHY 1= TMT 0.47	Other currency	31 December 2013 Total
FINANCIAL ASSETS							
Cash and balances with the CBT	167,952	992,572	11,518	-	-	3,226	1,175,268
Due from banks	80,000	6,930,911	57,941	12	-	4,163	7,073,027
Loans to customers	324,577	65,633	244,840	1,068,078	956,692	-	2,659,820
Investments available-for-sale	2,566	-	-	-	-	-	2,566
Other financial assets	-	3,459	-	173	48	-	3,680
Total financial assets	575,095	7,992,575	314,299	1,068,263	956,740	7,389	10,914,361
FINANCIAL LIABILITIES							
Due to banks	744	19,146	146,685	-	-	226	166,801
Customer accounts	300,863	7,932,906	54,211	-	-	2,901	8,290,881
Other borrowed funds	-	-	101,511	1,066,733	956,156	-	2,124,400
Other financial liabilities	673	-	-	-	-	-	673
Total financial liabilities	302,280	7,952,052	302,407	1,066,733	956,156	3,127	10,582,755
OPEN BALANCE SHEET POSITION	272,815	40,523	11,892	1,530	584	4,262	331,606

Currency risk sensitivity

The following table details the Bank's sensitivity to a 25% increase and 25% decrease (2014 and 2013: 25% increase and decrease) in USD against TMT. These are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 25% increase and 25% decrease (2014 and 2013: 25% increase and decrease) in foreign currency rates. The sensitivity analysis includes loans where the denomination of the loan is in a currency other than the functional currency of the Bank.

Impact on net profit before tax and equity based on asset values as at 31 December 2014 and 2013:

	31 December 2014		31 December 2013	
	TMT/CCY +25%	TMT/CCY -25%	TMT/USD +25%	TMT/CCY -25%
25% increase in USD against TMT	(241,039)	241,039	10,131	(10,131)
25% increase in CHY against TMT	(3,110)	3,110	146	(146)
25% increase in EUR against TMT	11,582	(11,582)	2,973	(2,973)
25% increase in JPY against TMT	(11,179)	11,179	383	(383)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations.

27. SUBSEQUENT EVENTS

On 1 January 2015 the Central Bank of Turkmenistan has established a new official exchange rate of the national currency of 3.50 manats per 1 USD. Therefore, devaluation of the manat, amounted to 22 percent. Management believes that all necessary measures to support the sustainability of the Bank in this situation were adopted.